
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, 1987

Commission File Number 1-3224

KOPPERS COMPANY, INC.

A Delaware Corporation
IRS Employer Identification No. 25-0904665

Koppers Building
Pittsburgh, Pennsylvania 15219

(412) 227-2000

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

Common Stock
\$1.25 Par Value

Registered:
New York Stock Exchange
Midwest Stock Exchange
Pacific Stock Exchange

Cumulative Preferred Stock
4% Series, \$100 Par Value

Registered:
New York Stock Exchange

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

None

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, and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of February 29, 1988, 28,122,361 shares of common stock were outstanding, and the aggregate market value of the shares of Koppers common stock (based upon the closing price of these shares on the New York Stock Exchange/composite tape) held by nonaffiliates was approximately \$1,123 million. For this computation, Koppers has excluded the market value of all common stock beneficially owned by officers and directors of Koppers and their associates as a group. Such exclusion is not to signify in any way that any of such persons are "affiliates" of Koppers.

**KOPPERS COMPANY, INC.
AND CONSOLIDATED SUBSIDIARIES**

As used in this report, the terms “Koppers,” “Company,” and “Registrant” mean Koppers Company, Inc. and its consolidated subsidiaries, taken as a whole, unless the context indicates otherwise.

TABLE OF CONTENTS

	<u>Page</u>
Part I	
Item 1. Business	3
Item 2. Properties	6
Item 3. Legal Proceedings	6
Item 4. Submission of Matters to a Vote of Security Holders	7
Part II	
Item 5. Market for the Registrant’s Common Stock and Related Stockholder Matters	7
Item 6. Selected Financial Data	8
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	9
Item 8. Financial Statements and Supplementary Data	16
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Part III	
Item 10. Directors and Executive Officers of the Registrant	29
Item 11. Executive Compensation	33
Item 12. Security Ownership of Certain Beneficial Owners and Management	37
Item 13. Certain Relationships and Related Transactions	38
Part IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	38
Signatures	40

Part I

Item 1. Description of Koppers Business

General Development of Koppers Business

Koppers Company, Inc. was incorporated on September 30, 1944. It succeeded by merger to the properties and business of four predecessor companies. Those companies grew logically out of Koppers original business, established in 1907 to design and build chemical-recovery coke plants for the American steel industry.

Prior to 1965, Koppers was highly dependent upon its original steel plant construction business for earnings growth. This was a cyclical business that had a disconcerting roller-coaster effect on the Company's prospects for growth.

In 1965, the Company began to diversify a manufacturing organization. In 1966, Koppers organized its road materials business, building it into today's rapidly growing Construction Materials and Services segment.

The Company's steel plant construction business was sold at the start of 1984. In December 1985, Koppers announced plans to divest itself of several manufacturing businesses and certain other operations in order to concentrate upon Construction Materials and Services, and Chemical and Allied Products, which were its strongest units.

Koppers total invested capital was \$631.7 million on December 31, 1987, with approximately 73% attributed to Construction Materials and Services and the balance to Chemical and Allied Products.

Construction Materials and Services

The Business

This unit consists of operating subsidiaries, in regional markets, producing crushed stone, sand, gravel and bituminous and ready-mix concrete, and providing engineering and construction services. Related products include steel culvert pipe, welded wire fabric and certain specialty products used in highway, bridge and other civil construction. A coatings product line includes marine and swimming pool paints, structural steel coatings, and Wolman Wood Protection Products for use on outdoor treated wood.

Sales of aggregates and construction services are divided between publicly funded projects, such as road maintenance and new construction, and privately financed construction projects. Transportation is a major factor in total product cost. The delivered price doubles when crushed stone is transported 20 to 30 miles. In order to compete effectively, aggregate sources must be close to their markets.

Construction Materials and Services operates more than 190 domestic facilities. These serve markets in 20 states extending from New York through Pennsylvania and Ohio and into the Southeast and West Coast. About 40% of sales are

in the West, 30% in the Southeast, and 30% in the Northeast.

Through Koppers 50% ownership in a joint venture with Redland USA Holdings, Inc., operations also include activities in Colorado, Kansas, New Mexico and Wyoming.

Operations were expanded significantly during 1987. For details, see the Capital Expenditures discussion later in this report.

Raw Materials and Fuel

Aggregate raw materials consist of sand and gravel, granite, limestone, traprock and sandstone, which come from quarries and mines. Most of Koppers quarries are on land either owned by the Company or held under long-term leases. It is estimated that, over all, Koppers present reserves of aggregates will be sufficient for more than 30 years at current consumption rates. In those areas where reserves are being rapidly depleted, Koppers has a continuing program to develop new reserves. However, the operations of Koppers in certain instances could be adversely affected if such new reserves are not available to it or are not available upon economically satisfactory terms. Other major raw materials include asphalt, cement, and steel rod and sheet, which are purchased from oil companies and cement and steel producers. Adequate supplies of raw materials and fuel are expected to continue.

Fuel oil satisfies nearly half of the energy requirements; natural gas and diesel fuel provide about 20% each; the remainder comes from gasoline, kerosene, propane and coal.

Competitive and Seasonal Conditions

Construction Materials and Services operations are geographically diversified, with vertical integration in certain regional markets. Because mineral reserves are limited within those regions, the Company usually holds a high share of those markets in which it competes.

Principal factors in competition are location, price and service. Prices for aggregates are determined by local conditions and are not affected substantially by nationwide demand, supply and capacity factors. Increasingly, this business has become service-oriented, calling for on-time delivery from a guaranteed source of supply.

Business is seasonal, with more than 70% of sales occurring during the peak construction period from May 1 to November 30.

Product inventories are controlled at volumes that reflect a balance between the most efficient production level and supplying peak demand. Inventories normally grow substantially during spring months in anticipation of high summer demand. It is not customary, however, to carry inventories or to provide financing for customers.

Backlog

Combined backlog at the end of 1987 was \$211.9 million, versus \$177.4 million a year earlier. The normal tendency is for this backlog to increase during the first six months of the year and to decline thereafter. Orders in the backlog are considered firm, and more than 95% of the year-end backlog is expected to result in 1988 sales.

Construction Materials and Services

Combined 1987 Sales by Major

Economic Sectors	(\$ Millions)	%
Nonbuilding Construction	\$729.1	80.9%
Architectural Construction	128.0	14.2
Industrial Production	44.0	4.9
	\$901.1	100%

Chemical and Allied Products

The Business

Three operating sectors compose Chemical and Allied Products. Most of its businesses market worldwide products and services associated with either the manufacture and use of products derived from coal tar or the production of chemically treated wood and wood-treating chemicals. Other lines serve specialty markets.

Building Products Sector supplies materials for coal tar bitumen built-up roofing systems, phenolic foam insulation board and a range of high-quality maintenance materials. This sector licenses proprietary processes and products using specialty chemicals under such trademarks as Dricon® and Wolman® to wood-treating companies throughout the U.S. and in foreign countries.

Chemical Systems Sector is a major supplier of resorcinol, used primarily to produce adhesives for rubber tires and laminated wood and as a precursor for a group of intermediate chemicals; general purpose polyester thermoset resins for reinforced plastics; vinylester thermoset resins for parts requiring corrosion resistance; high performance polyester thermoset resins for high strength applications; binder resins and fire-retardant resins; premium resins sold under the Dion® and Atlac® trademarks; binder systems and refractory coatings for foundries; adhesives and industrial sealants primarily for O.E.M. automotive markets; and a group of intermediate chemicals.

Tar and Wood Products Sector produces coal tar derivatives, such as pitches used by the aluminum and commercial carbon industries as binders in the manufacture of electrodes; creosote, a complex mixture of chemicals, used primarily as a wood preservative; naphthalene, used to produce phthalic anhydride and other chemical intermediates; and phthalic anhydride, used in production of alkyd and polyester resins and plasticizers for plastics.

This sector also sells treated wood products, which include chemically pressure-treated railroad crossties; utility,

transmission, distribution and lighting poles and accessory equipment; building poles and timbers; foundation and marine piling; and construction lumber and plywood. Wood pressure treatments for these products use creosote, pentachlorophenol and waterborne preservatives. Koppers also provides contract wood-treating services for industrial and commercial customers.

Raw Materials and Fuel

Primary raw materials for Chemical and Allied Products operations include coal and tar products, hardwood and softwood timber, and preservative raw materials and petrochemicals such as benzene, styrene and phenol. Most coal tar processed is purchased through contracts with steel producers. Purchasing agreements cover such other raw materials as coal and benzene. For wood-treating operations, the major requirements are for Eastern and Southern hardwood; and softwood timber, primarily Southern yellow pine and West Coast species.

Energy is supplied by natural gas, fuel oil, coal and wood waste. Certain plants also operate electrical cogeneration systems; two of them sell excess power to local utilities. No major disruption of business in 1988 is expected from shortages of raw materials or energy.

Competitive and Seasonal Conditions

Chemical and Allied Products goods and services are sold in highly competitive markets. Except for certain proprietary items, there are suppliers of identical products in all business areas, as well as competition from alternative materials performing the same functions. The principal factors in competition are price, quality and service.

Most businesses are affected to differing degrees by seasonal variations. For example, winter weather reduces volumes in roofing and other construction industry products.

Products are marketed worldwide through the group sales organizations, through independent distributors and agents, and through joint ventures and licensing agreements. Substantial inventories are maintained in many product categories to ensure prompt, dependable service.

Backlog

Chemical and Allied Products 1987 year-end backlog was \$162.4 million, versus \$125.5 million a year earlier. The total backlog is expected to be shipped during 1988, although most unfilled orders are subject to cancellation at the buyer's option.

Chemical and Allied Products Combined 1987 Sales by Major Economic Sectors

	(\$ Millions)	%
Industrial Production	\$366.8	60.5%
Nonbuilding Construction	161.5	26.6
Architectural Construction	77.9	12.9
	\$606.2	100%

Miscellaneous

Keystone Environmental Resources, Inc.

During the past 15 years, Koppers has developed the technology and technical expertise necessary for the resolution of any likely environmental and health issues that may arise in its operations in the next decade. This capability was organized in 1986 into Keystone Environmental Resources, Inc., a wholly owned subsidiary of Koppers. Keystone sells its services outside of Koppers and is responsible for an extensive ongoing program of environmental management of Koppers facilities. The program is aimed at developing proactive, cost-effective plans for resolution of current and future environmental problems. Koppers management believes this environmental program serves to enhance the Company's competitive position.

Venture Capital

Kopvenco, a wholly owned venture capital subsidiary, was formed in 1980. Its primary mission is threefold:

- Identify and develop new core-business opportunities.
- Gain access to emerging technologies and facilitate application within Koppers.
- Maintain profitability of the Company's investment portfolio.

A strategic focus on "seed" and early start-up investments has proved valuable in technological and economic terms. Koppers investments include the following:

Advanced Materials—Ceramatec, Inc. develops and manufactures high-performance ceramic products, including structural and technical ceramics, specialty ceramic electronic packages, and beta alumina for sodium-sulfur batteries. Advanced Refractory Technologies, Inc. manufactures high-quality, high-purity advanced ceramic powders. Metcal, Inc. has unique self-regulating, temperature-source heating technology with applications in the manufacture of electronic, mechanical and electrical interconnections, industrial process heating and medical devices.

Life Sciences—DNA Plant Technology Corporation is a venture in agricultural biotechnology to develop superior commercial crop strains. This company is working with Koppers to produce plant-disease diagnostic kits.

Ecogen, Inc. employs advanced molecular genetic techniques in biological pesticide development as alternatives to current chemical controls.

Software and Productivity—American Cimflex Corporation (formerly American Robot Corporation) is a leading manufacturer of electric-drive, high-precision robot systems with unique electronic vision capabilities and major applications in the automation of industrial plants. In separate agreements with Ford Motor Company and BMW of West Germany, American Cimflex is developing computer communications networks for manufacturing and industrial vision

systems. Formtek, Inc. produces software products for the management of technical information, which includes drawings, technical data, text and related documents.

Other Corporate Matters

Employment

The average number of persons employed in continuing operations by the Company was 10,753 in 1987, compared with 10,944 in 1986.

Approximately 4,000 of the Company's employees are covered by 120 different collective bargaining agreements. There were 45 labor contract negotiations successfully completed during the course of 1987.

Patents and Licensing

Koppers owns nearly 400 existing United States patents and a large number of foreign patents covering many products and processes. Some of the patents and technology are licensed to other companies. The Company makes few of its products under licenses from other companies with respect to patents they own or technology they have supplied. No single patent or license is considered material in relation to the Company's overall performance.

Research and Development

The Company conducts research activities and supporting pilot plant operations at two locations in suburban Pittsburgh. Additional activities include sponsored external research by high-technology research and development companies in which Koppers has an equity interest.

Koppers researchers explore advanced technologies, develop new products, improve manufacturing processes and monitor new areas of technology.

Special services provided to all operations include environmental management, occupational health and safety, and analytical sciences and engineering support.

Development laboratories at several locations support each of the Company's business segments with applied research, including customer and technical service.

The amount spent on research and development activities was approximately \$15.8 million in 1987, \$16.7 million in 1986 and \$16.3 million in 1985.

Environmental, Occupational Health and Safety Regulations

Koppers, in common with many other enterprises, is subject to a multitude of federal, state and local laws and regulations governing environmental as well as occupational health and safety matters. Included are increasingly stringent regulations concerning the handling of many of the chemicals the Company uses, purchases or sells.

Many of Koppers plants are, or will become, subject to environmental permit conditions and regulations which will

require investigations and remedial activities, as well as the closure of various Resource Conservation and Recovery Act ("RCRA") units, and/or capital expenditures for pollution control devices.

Koppers facilities, for many years, have shipped waste products to third party landfills for disposal. As a result of these practices, Koppers is currently involved in proceedings involving the investigation and/or remediation of approximately 37 different such sites under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or comparable state laws.

These proceedings are in various stages ranging from initial inquiries to active settlement negotiations. In one case, the Company is negotiating a settlement which would require payment by the Company of approximately \$2.3 million. In other cases, it is not possible to estimate the potential impact on the Company because cleanup costs, and/or the Company's share of those costs, are not known.

Koppers facilities may have sent wastes to other sites in addition to these 37 and it is possible that Koppers may be involved in future CERCLA and comparable state law investigations and cleanups. Koppers share of the costs of investigating and remedying these sites, in the aggregate, is not currently expected to have a material impact on the financial condition of the Company.

In addition, in the past, Koppers owned and/or operated a number of facilities which are no longer owned or operated by it. Some of these facilities are, or may become, subject to investigations and cleanups under CERCLA or comparable state laws. To date, approximately 32 of these formerly owned/operated plant sites are subject to such investigations and/or cleanups. In addition, during the recent past, the Company has sold a number of facilities in various businesses to third parties. In many of these transactions, the Company agreed to indemnify the purchaser against pre-closing environmental liabilities.

In order to manage effectively the impact of Koppers involvement in the off-site landfills mentioned above, as well as these formerly owned/operated properties, Koppers has established a Previously Operated Properties ("POP") group. The POP group, in conjunction with the Koppers Legal Services Group, Finance Department and other support groups, negotiates with the government and third parties, develops strategies for each proceeding and investigates technologies to address each site in a manner which is cost-effective to Koppers.

Environmental and health and safety laws and regulations have not curtailed the Company's operations significantly; however, compliance with such laws and regulations has had and will continue to have a substantial adverse effect on the Company's financial performance. The eventual effect of the laws and regulations and their potential costs is not determinable at this time.

Item 2. Properties

The Company has 252 operating locations in 30 states in the United States, and in Canada and Australia. They include Chemical and Allied Products, 49; and Construction Materials and Services, 192. Principal operations are predominantly located in California, the Carolinas, Florida, Georgia, Indiana, New York, Ohio, and Pennsylvania.

In the opinion of management, the production capacities in Koppers various business segments are adequate to operate at a significantly higher volume than in 1987.

Item 3. Legal Proceedings

On August 7, 1981, Inland Steel Corporation filed an action against Koppers in Lake Superior Court, East Chicago, Ind., alleging that negligence, fraud and breach of contract in construction of a coke oven battery and blast furnace by Koppers at Inland's Indiana Harbor Works had caused Inland damages in the amount of \$100 million. Koppers counterclaimed to recover \$17 million still unpaid by Inland on the contract for construction of the coke oven battery and blast furnace. A verdict was rendered on February 21, 1984 for Inland on its claims in the amount of \$74 million and for Koppers on its counterclaim in the amount of \$10 million, for a net verdict in favor of Inland in the amount of \$64 million, plus post judgment interest. The judgment was affirmed by the Court of Appeals of Indiana, and the Supreme Court of Indiana refused to review the affirmance. The Inland claim was settled in the fourth quarter of 1987 for cash and an agreement to supply coke in 1988.

Koppers is involved in environmental administrative proceedings and litigation with respect to certain of its operating plants, former plants and waste disposal sites. Where the costs likely to arise from these proceedings and litigation are determinable, appropriate reserves have been established. As of December 31, 1987, Koppers had established in excess of \$60 million in environmental reserves on its balance sheet. Since January 1, 1983, Koppers has spent approximately \$110 million on compliance with environmental laws and regulations at its operating plants and approximately \$25 million on investigations and remedial activities at its formerly operated properties.

In 1987, the United States filed a civil action against Koppers in the United States District Court for the Northern District of Ohio alleging that, beginning in July 1985, the Company's former Toledo, Ohio coke plant violated the federal Clean Water Act's pretreatment standards for three constituents contained in the plant's effluent. The United States claims statutory civil penalties of up to \$10,000 per day per violation (and up to \$25,000 per day per violation alleged to have occurred after the effective date of the 1987 amendments to the Clean Water Act). In addition, in 1987 the State of Alabama, together with the Jefferson County, Alabama Health Department, filed several civil actions

against Koppers alleging that its Woodward, Alabama coke and tar plants have not been in compliance with applicable air pollution and water pollution control regulations. Negotiations directed toward settlement of these matters are ongoing and Koppers does not believe that resolution of these matters will have a material adverse effect on its results of operations.

Koppers settled two lawsuits in 1987 involving the Commonwealth of Pennsylvania and several public interest groups and one claim by a city alleging various environmental violations, including violations of the Pennsylvania Clean Streams Act and the federal Clean Water Act. Settlements of these cases involve payment of civil penalties of approximately \$730,000 to the Commonwealth of Pennsylvania or a political subdivision of Pennsylvania.

During 1987 the Company received notices from the EPA and various states or state environmental agencies that Koppers was considered to be one of a number of parties potentially responsible under CERCLA or comparable state laws for the disposal of waste at approximately 17 sites. In the instances where Koppers believes it may have generated

hazardous substances disposed at the site, Koppers has responded that it intends to cooperate with other potentially responsible parties in order to resolve the matter.

Koppers and its subsidiaries are parties to a number of claims and lawsuits arising out of the normal course of business involving product liability claims; government regulations, including environmental matters; antitrust claims; toxic tort claims and other actions. Certain of these actions purport to be class actions, involve multiple plaintiffs and seek damages in very large amounts. All such claims are being contested. The amounts of ultimate liability thereunder are indeterminable at present, but in the opinion of management, resolution of these matters will not materially affect the consolidated financial position or results of operations of Koppers and its subsidiaries.

Item 4. Submission of Matters to a Vote of Security Holders

Koppers has not submitted any matters to a vote of security holders since the last Annual Meeting of Stockholders, April 27, 1987.

Part II

Item 5. Market for Koppers Common Stock and Related Stockholder Matters

Koppers common stock, \$1.25 par value, is traded principally on the New York Stock Exchange and is listed also on the Midwest and Pacific Stock Exchanges. The tables on these pages present its high and low market prices and dividend information. Cash dividends have been paid on these shares every year since 1944, the year the Company was incorporated.

Long-term debt agreements and the terms of Koppers cumulative preferred stock, \$100 par value, 4% Series, include certain restrictive covenants. These, among other things, prohibit certain aggregate amounts of the Company's dividends and distributions on its stock from exceeding specified levels. The most restrictive provision, contained in a long-term debt agreement that began to mature in 1987, permitted \$21,900,000 of consolidated earnings retained in the business to be available for cash dividends at January 1, 1988.

Participation in Dividend Reinvestment Plan

A total of 17% of Koppers shareowners participated in the Company's cost-free Dividend Reinvestment/Cash Payment Plan in 1987. The number of participants declined by 1% during the year, to 2,117. Participating shareholders

invested \$449,721 to purchase 12,167 additional shares during 1987. The plan enables the Company's shareholders, on a cost-free basis, to:

- Elect to invest common and/or preferred dividends in shares of Koppers common stock; and/or
- Purchase additional Koppers common stock by making voluntary cash payments of \$25 to \$1,000 in any month.

Shareholders may obtain further information on these plans by writing to Mellon Bank N.A., Stock Transfer Section, P.O. Box 444, Pittsburgh, Pennsylvania 15230.

Cumulative Preferred Stock

The outstanding shares of cumulative preferred stock, \$100 par value, 4% Series, may be redeemed at the option of the Company, as a whole or in part, at any time upon not less than 30, nor more than 60, days' notice, at \$107.75 per share, together with accrued and unpaid dividends to the date fixed for redemption.

Common Stock Repurchase Plan

Koppers Board of Directors has approved the repurchase of up to 4,500,000 shares of outstanding common stock. A total of 938,282 shares were purchased in 1987 for a total to date of 1,740,418 shares.

Common Stock Annual Price Ranges and Volumes

	1987	1986	1985	1984	1983
Common stock price ranges on NYSE/Composite:					
High	\$50 ³ / ₈	\$30 ¹ / ₂	\$21 ¹ / ₄	\$23 ⁵ / ₈	\$21 ⁷ / ₈
Low	26 ⁷ / ₈	20	15 ¹ / ₂	17 ¹ / ₈	15 ³ / ₄
Close	31 ¹ / ₂	29 ³ / ₈	21	18	21 ³ / ₄
Volume traded (in thousands)	27,007	27,879	18,207	16,415	12,890
% of shares outstanding	96%	96%	64%	57%	46%

Quarterly Common Stock Price Ranges and Dividends

Quarter	1987			1986		
	High	Low	Dividend	High	Low	Dividend
1st	\$38 ¹ / ₄	\$29 ⁵ / ₈	\$0.20	\$28 ¹ / ₂	\$20	\$0.20
2nd	41 ³ / ₈	33 ¹ / ₄	0.20	30 ³ / ₈	24 ¹ / ₄	0.20
3rd	50 ³ / ₈	40 ¹ / ₄	0.30	29 ¹ / ₄	22 ⁷ / ₈	0.20
4th	49 ³ / ₄	26 ⁷ / ₈	0.30	30 ¹ / ₂	22 ³ / ₄	0.20

Equity Security Holders

Title of Class	Number of Shareholders of Record on February 29, 1988
Common Stock, \$1.25 Par Value	10,706
Cumulative Preferred Stock, \$100 Par Value	897

Item 6. Selected Financial Data

Selected Financial Data (from continuing operations)

(\$ Millions, except per share data)	1987	1986**	1985	1984	1983
Operating results:					
Net sales	\$1,515.7	\$1,396.4	\$1,400.2	\$1,388.7	\$1,183.6
Income (loss) from continuing operations	\$ 70.2	\$ 63.2	\$ (30.0)	\$ 24.0	\$ 24.1
Income (loss) from continuing operations—per common share	\$ 2.44	\$ 2.09*	\$ (1.23)	\$ 0.62	\$ 0.59*
At year end:					
Total assets	\$1,074.9	\$1,067.2	\$1,066.1	\$1,154.7	\$1,175.4
Long-term debt	\$ 172.4	\$ 117.7	\$ 215.5	\$ 219.8	\$ 232.9
Redeemable convertible preference stock	\$ —	\$ —	\$ 43.9	\$ 46.5	\$ 69.4
Total long-term debt and redeemable preference stock	\$ 172.4	\$ 117.7	\$ 259.4	\$ 266.3	\$ 302.3
Cash dividends declared per common share	\$ 1.00	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80

*Per share figure excludes extraordinary gain of \$0.50 and \$0.21 in 1986 and 1983, respectively.

**Restated to conform with 1987 classifications.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results From Continuing Operations

This section covers, for the period 1985-1987, the performance of Koppers business segments, other factors in the Consolidated Statement of Operations that materially influenced the financial results, changes in liquidity and the use of capital resources that affected Koppers financial condition at the close of 1987.

Net Sales and Income

After remaining virtually identical in 1985 and 1986, sales increased 8% in 1987. Construction Materials and Services sales have increased at a rate of 8% over the three-year period. Chemical and Allied Products, after experiencing a decline in sales during 1985 and 1986, showed a 3% increase in 1987. Traditionally, Koppers sales are lowest in the first quarter of any year and reach their peak during the second and third quarters, then begin to fall in the fourth quarter because seasonal demand declines in most construction markets. Excluding nonoperating items, the Company's income also normally follows this pattern. The Company posted a profit from continuing operations in the fourth quarter of 1987 that was 4% higher than 1986's, compared with a loss in the same 1985 period.

Construction Materials and Services (CMS)

(\$ Millions)	1987	1986	1985
Sales	\$901.1	\$804.1	\$777.4
Operating Income	\$117.5	\$105.3	\$ 71.5

Review

Operating income rose 22% in 1987 (excluding nonoperating items: a \$2.2 million charge in 1987; a \$7.5 million gain in 1986). All geographic regions contributed to the 12% sales increase. Greater highway maintenance and construction activity was stimulated by the release of federal highway funds in the second quarter; private nonbuilding construction work also rose. Eastern operations had a major gain from strong markets and important contributions from 1986 expansions. Southern markets improved. The West gained despite certain weak markets and a weather-shortened season. Total aggregate volume grew 7%, to 78 million tons; prices improved moderately. Bituminous concrete was up by 11% and construction services by 5%. Late 1987 acquisitions established Koppers in the Pacific Northwest market and extended Georgia operations into new areas. Combined, these add seven aggregate operations, four ready-mix and seven bituminous concrete plants and four construction units, with \$50 million potential annual sales. Coatings sales increased nearly 30%, to \$44 million. The concrete-reinforcing steel product business improved performance in a weak construction market.

Near-Term Outlook

Year-end 1987 backlog was 19% greater than a year earlier.

Performance in 1988 will benefit from high levels of capital investment in the two previous years, from turnarounds in certain Southern operations and in a Colorado joint venture as a depressed market begins to recover, and from a greater federal funding commitment to the nation's infrastructure. The overall business outlook is favorably influenced by the continuing shift in the highway market to greater emphasis on maintenance work, a segment in which Koppers has positioned itself through forward integration. CMS is positioned in 15 of the 20 states with the largest roadbuilding programs. States have responsibility for maintenance of the federal highway system as well as state roads. Funding sources continue to grow: 19 states increased gasoline taxes in 1987; numerous others will present similar bills to legislatures in 1988; tolls and private financing also are expected to grow as a funding source, offsetting a slight drop in commitments from the Federal Highway Trust Fund.

Chemical and Allied Products (CAP)

(\$ Millions)	1987	1986	1985
Sales	\$606.2	\$588.9	\$618.6
Operating Income	\$ 31.3	\$ 39.5	\$(61.6)

Review

Operating income continued the turnaround begun in 1986, rising by more than 10% (excluding nonoperating items: \$18 million charge in 1987; \$5.1 million charge in 1986; \$65.3 million charge in 1985). Nonoperating charges were associated with previously operated properties, environmental reserves and additional product warranty reserves.

Tar and Wood Products—(44% CAP sales, 39% CAP operating income, before charges)—Improved production efficiencies, continued cost reductions and a dramatic turnaround in phthalic anhydride helped to offset declines in the creosote and wood-treating businesses. Phthalic volume gained 24%; prices improved. Carbon binder pitch improved steadily during the year as volume about equaled the 1986 level, but only a portion of an early 1987 price cut was recovered. Creosote volume fell by 11% and crossties by 18% in a weak railroad market. Utility poles and other treated-wood products also were significantly lower.

Chemical Systems—(36% CAP sales, 60% CAP operating income, before charges)—Income improved as resorcinol products volume grew by more than 10%, helped by a weakened U.S. dollar, plant production efficiencies and a strong world tire market. Polyester resins had a modest gain on a 35% sales growth; volatile raw material prices cut margins. Thiem foundry products had a strong year, but did not offset declines in auto-related products. Actions were taken to strengthen our competitive position in the auto market.

Building Products—(20% CAP sales, 1% CAP operating income, before charges)—The unit had a \$9 million turnaround in 1987. Improvement in phenolic foam insula-

tion was the major factor. Foam board sales grew 42%; strategic joint ventures were established with Manville Corporation (U.S.) and Domtar Ltd. (Canada) to accelerate distribution of this superior insulation material. Wolman wood-treating chemicals volume grew by 15%, aiding the sector's improved profitability. Roofing business remained weak; operations were streamlined and new strategy was initiated.

Near-Term Outlook

Continued strength in U.S. industrial production and relatively stable interest rates will provide favorable market conditions for further improvement in our chemical businesses. Actions in each sector are aimed at providing growth in 1988 and beyond.

Continued improvement in phthalic anhydride is expected to come from high-volume sales aided by strong export demand and added plant efficiencies. Binder pitch should benefit from higher domestic aluminum production and expansions in Europe and the Far East. Crosstie sales will improve on market share expansion, aided by the start-up of an electric cogeneration plant that solves the problem railroads have in disposing of used crossties.

Resorcinol demand will remain high, based on strong world tire markets. Price restorations in early 1988 should help polyester resins recover raw material cost increases; volume levels will depend on stability in consumer markets. Thiem expanded its U.S. auto-manufacturing customer base; a joint venture with Cemedine (Japan) will add volume among Asian auto producers in the U.S.; and a strong domestic industrial sector will maintain high demand for foundry products.

Phenolic foam insulation performance will begin to feel the benefits from our U.S. and Canadian joint ventures by the end of 1988 as two additional plants are started up. New products and new strategies are expected to begin to turn around roofing products by 1989. Our Wolman chemical business should continue its rapid growth based on strong trends in the home improvement market and new product introductions.

Miscellaneous			
(\$ Millions)	1987	1986	1985
Sales	\$8.3	\$3.4	\$ 4.2
Operating Income	\$1.1	\$7.6	\$(5.2)

Review

Sales grew as Company subsidiary Keystone Environmental Resources increased the level of work done for outside customers. This added to income, but the 1987 total fell because interest income was significantly lower than in 1986, when Koppers had a high level of cash from the sale of discontinued businesses. Also, 1987 income was penalized by losses from an investment write-down by Kopvenco, Koppers venture capital subsidiary.

Near-Term Outlook

Continued growth of the environmental subsidiary should increase 1988 sales and income. Periodic sale of assets from the venture capital investment portfolio could produce capital gains in future years. Interest income will remain low.

Total Koppers			
(\$ Millions)	1987	1986	1985
Sales	\$1,515.7	\$1,396.4	\$1,400.2
Operating Income	\$ 149.9	\$ 152.4	\$ 4.7
General Corporate Overhead	\$ 24.9	\$ 28.7	\$ 28.7
Income (Loss) Before Interest Expense and Income Taxes	\$ 125.0	\$ 123.7	\$(24.0)

Results and Outlook by Markets

Nonbuilding Construction			
(\$ Millions)	1987	1986	1985
Sales	\$890.7	\$838.5	\$859.8
% Total	58.8	60.0	61.4

Review

Delayed disbursements from the Federal Highway Trust Fund in early 1987 led to deferred projects and held spending for new highway and bridge construction to about the same level as in the previous year. The trend toward higher maintenance expenditures continued, with 19 states passing motor fuel tax increases. Spending for water and sewerage systems rose 7%, while dams, harbors and other conservation-related projects recorded an even stronger 12% gain. Both electric utilities and major railroads reduced maintenance programs moderately.

Near-Term Outlook

Passage of the Highway Transportation Act, Water Resources Development Act and Safe Drinking Water Act assures a high level of spending for infrastructure projects on a sustained basis, even with the threat from deficit-reduction programs. With state and local matching funds added, public works projects are likely to exceed \$40 billion per year. More than 20 states will probably consider additional motor vehicle fuel tax increases during 1988, supporting highway and bridge maintenance programs. Record levels of freight shipments and improved earnings may prevent further erosion in railroad maintenance.

Architectural Construction			
(\$ Millions)	1987	1986	1985
Sales	\$205.9	\$244.3	\$230.4
% Total	13.6	17.5	16.5

Review

New single-family housing exceeded one million units for the fifth consecutive year, but multifamily starts dropped by 160,000 units to the lowest level since 1982. Remodeling and repair continued to surge. Lumber use increased 5% from

the housing mix, remodeling gains and a trend to larger homes. Nonresidential building construction fell by 3% as a consequence of overbuilding in the previous boom period and of tax reform. The major declines were in office structures—nearly 10%, and industrial plants—down 5%. Educational and health-related facilities were in a rising trend.

Near-Term Outlook

Single-family home construction should hold up well despite volatile interest rates and the stock market decline, but high vacancy rates will lead to a further drop in rental units. Home-improvement expenditures are expected to grow moderately as the aftermath of strong sales of new and existing homes in recent years. Rising production rates and capacity utilization should stimulate industrial construction, but office and retail building will remain weak as a result of the overhang of unused space, the loss of tax benefits and a slower pace of consumer spending.

Industrial Production			
(\$ Millions)	1987	1986	1985
Sales	\$419.1	\$313.6	\$310.0
% Total	27.6	22.5	22.1

Review

Industrial production expanded by 3.6%, outpacing the rest of the economy. Chemicals, plastics, tires, aluminum, steel and paper all showed growing strength in output, spurred by rising export markets and reduced import competition as a result of the dollar's fall. Higher capacity utilization rates led to firmer prices for many industrial commodities. Domestic auto sales fell by more than one million units, but light truck deliveries increased by about 100,000 units.

Near-Term Outlook

A gain of 3% or more in industry output, faster than for other economic sectors, is anticipated as a result of the narrowing gap in the import/export balance. Consumer spending for major durable goods will slow, with domestic auto and light truck production expected to drop by another several hundred thousand units. Reduced demand for new vehicle tires should be more than offset by strong replacement needs and an improving foreign trade balance. Both prices and volumes for aluminum, pulp and paper, chemicals and plastics should maintain strength.

Financial Results

Operating Expenses

Koppers operating income was greatly influenced by various nonoperating charges and gains.

The profitability underlying Koppers operations is best demonstrated in the relationship between Sales and Cost of sales, shown as part of the Operating expenses in the Consolidated Statement of Operations.

While Cost of sales rose 7.8%, it remained constant as a percentage of sales compared with last year. The increase resulted from a combination of several factors, including higher environmental, maintenance and raw material costs, which were partially offset by a significant reduction in pension expense associated with the implementation of FAS 87, "Employers' Accounting for Pensions" in 1987. (See Note 3.)

Depreciation, depletion and amortization rose moderately because of high capital spending during the past three years, as well as from the addition of assets from 1986 acquisitions. Also, Taxes other than income taxes rose slightly because of increased payroll and real estate taxes in 1987.

Selling, research, general and administrative expenses declined primarily because of the previously mentioned effect of FAS 87 on pension expense, which resulted in a decrease of \$8.9 million in this category. Research expense fell by 19%, mostly from the incorporation of Koppers environmental management subsidiary, Keystone Environmental Resources, Inc. These reductions were partially offset by increased employee, insurance and advertising costs.

General corporate overhead costs were reduced in 1987 largely as a result of lower costs related to retirement and employee compensation plans. The absence of 1986 severance and external research expenses also contributed to the decrease in overhead.

The Company realized gains from operations disposed of or closed in 1987 primarily from the sale of a Pennsylvania timber mill operation. This gain was slightly reduced by costs associated with various plant closings. The previous year's gain reflected the sale of certain paving and quarry operations to Western-Mobile, Inc., a 50% joint venture formed in late 1986.

Other Income

In 1987, nonoperating charges from continuing operations were responsible for a loss in Other income of \$13.9 million. Nonoperating income contributed to the \$15.0 million of Other income in 1986. The 1985 loss also was caused by significant nonoperating items.

Additional environmental charges of \$5.8 million were recorded in 1987 to cover the cleanup costs of previously operated locations. The 1985 provision of \$28.6 million resulted from actions taken by the Company to identify and quantify the costs of future environmental remedies. Also in 1987, the Company recorded provisions for warranty reserves totaling \$12 million.

Profits on the sale of capital assets resulted from the sale of certain Canadian properties in 1987. The sale of timberlands in 1985 accounted for \$15.2 million of the profits recorded in that year. Koppers realized a loss on the sale of investments in 1987 due to the \$1.8 million write-off of a venture

capital investment, Engenics, Inc., coupled with the absence of significant 1986 gains from the sale of stock in DNA Plant Technology and Genex.

Interest income fell sharply in 1987 primarily because of reduced investment. The previous year's income of \$10.1 million was realized on the high level of cash generated by the Company's sale of certain discontinued operations in 1986.

Other income benefited from equity earnings of \$1.5 million in 1987. The income resulted primarily from the Company's investment in Koppers Australia Pty. and the formation of the Tarconord joint venture in Denmark. The absence of notable 1986 equity income from Western-Mobile, Inc. accounted for most of the decrease from the previous year. (See Note 2.)

Interest Expense

Interest expense declined by nearly 50% from the previous year. The prepayment of \$95.5 million of 11.25% notes at year-end 1986 was solely responsible for the decrease. Koppers effective interest rate on average debt in 1987 was 7.99%, down from the 1986 rate of 9.59%. (See Note 4.)

Income Taxes

The 1987 income tax provision for continuing operations of \$43.6 million compared with a 1986 provision of \$39.1 million. The effective tax rate of 38.3% in 1987 nearly matched the 1986 rate of 38.2%. (See Note 8.)

The effect of losses realized from Discontinued Operations in late 1987 negated the Company's recognition of a tax benefit in 1987 similar to the 1986 utilization of net operating loss carryforwards (treated as an extraordinary item).

Financial Condition Remained Strong

Koppers improved performance of \$70.2 million after-tax profit from continuing operations provided the funds to continue a level of capital expenditures necessary for continued growth and profitability, to increase the common stock dividend by 50% and to continue repurchasing Koppers common stock under the program initiated in December 1986. The Company's financial condition remained strong despite the after-tax charge of \$59.4 million against income from discontinued operations in the fourth quarter of 1987, primarily due to the payment of a damage award won by Inland Steel Corporation.

Liquidity Favorable

Cash from continuing operations, working capital, debt ratio and borrowing capacity all remained favorable.

Cash Decreased			
(\$ Millions)	1987	1986	1985
Cash provided from (used in):			
Operations	\$ 67.4	\$ 306.5	\$ 124.5
Investment activities	\$(112.2)	\$(121.2)	\$(104.5)
Financing activities	\$ (7.6)	\$(170.6)	\$ (29.1)
Increase/(decrease) in cash	\$ (52.3)	\$ 14.7	\$ (9.2)
Beginning cash balance	\$ 72.5	\$ 57.8	\$ 67.0
Ending cash balance	\$ 20.2	\$ 72.5	\$ 57.8

The decrease in total cash on hand at the close of 1987 resulted from the previously mentioned items: 1) capital expenditures for future growth and profitability, 2) dividend payments and 3) the repurchase of Koppers common stock, all of which were initiated to enhance shareholder value. The Consolidated Statement of Cash Flows was prepared in accordance with Financial Accounting Standard (FAS) 95 and provides a detailed accounting of the primary components of cash flow broken down into the three major categories required by FAS 95—cash provided from/ (used in) Operations, Investment activities and Financing activities.

Working Capital Decreased			
(\$ Millions)	1987	1986*	1985
Working Capital	\$212.4	\$223.7	\$303.9

*Restated to conform with 1987 classifications.

Koppers management has continued to concentrate its efforts on controlling the Company's working capital investment, which is an important factor in maintaining Koppers strong financial position and good liquidity. (Working capital is the surplus of current assets over current liabilities and indicates the financial flexibility to meet day-to-day obligations, withstand adversity and pay dividends.)

The \$11.3 million decline in working capital shown in the table above resulted from a \$32.8 million decrease in current assets, mostly offset by a \$21.5 million decline in current liabilities. The decrease in current assets was caused primarily by the reduced level of cash on hand at year end, which resulted from continued capital spending, increased dividend payments and the unfavorable settlement of the Inland Steel suit, partially offset by increases in accounts receivables and inventories due to higher sales and production levels. Current liabilities declined primarily because of reduced pension accruals associated with the implementation of FAS 87, previously discussed, and were unaffected by the settlement of the Inland Steel suit, which produced a tax benefit that was essentially offset by an increase in amounts owed on contracts. Overall, working capital, at the close of 1987, was at a very acceptable level, resulting in a current ratio (current assets divided by current liabilities) of 1.81-to-1.

Debt Higher

During 1987, long-term debt was increased \$54.6 million, while debt-due-in-one-year was reduced by \$1.2 million. The increase in long-term debt was due primarily to the Inland Steel settlement. Additional borrowings of \$56 million were secured to provide the necessary funds required as a result of this settlement. (See Note 4.)

The existing revolving credit agreement, which provides up to \$200 million in revolving credit loans (substantial capacity to fund major expenditures), was not in use at the end of the year. At the close of 1987, total debt was 29.4% of the Company's total capitalization, up from 21.1% at the close of 1986. The Company's debt level has averaged approximately 29% of capitalization over the past 10 years.

Capital Expenditures Lower

Capital expenditures were lower, but the 1986 level was especially high to fund four large Construction Materials and Services acquisitions. As in prior years, internally generated sources provided all of the 1987 funding.

Nearly one-half of 1987's capital investment was concentrated on upgrading and expanding production facilities as well as acquisitions. The remaining capital expenditures were for improving plant efficiencies and competitive positions in the Company's core businesses.

Capital expenditures by business segment are shown in Note 10. Major expenditures or acquisitions completed in the past three years are summarized as follows:

In 1987, Chemical and Allied Products started construction on a tar still and drumming facility in addition to a cogeneration plant to convert old crossties into electricity. A joint venture formed in Denmark will expand Koppers position in the international market as a supplier of tar. Environmental improvements were made on various plants, which will conform to new government regulations.

Construction Materials and Services largest expenditure was for the DHH Investments, Inc. acquisition. The new company will expand materials operations into the states of Washington, Idaho, Oregon, Montana, Nevada, Utah and Arizona by adding seven aggregate plants, four ready-mix plants, four bituminous concrete plants, three construction units and significant aggregate reserves.

Construction Materials and Services also added capabilities in Georgia and North Carolina consisting of nine bituminous concrete plants, one aggregate plant, three construction units and additional aggregate reserves. Koppers Coatings Division expanded its business with the acquisition of a company that markets a gasoline additive nationally through a network of marine warehouse distributors. The additive will conform to the current EPA-mandated lead ban.

Additional investments in emerging technologies relevant to

Koppers strategic plans are continuing through the Company's venture capital program.

In 1986, expenditures covered the acquisition of a domestic specialty polyester resin business, the formation of Western-Mobile, Inc.—a Construction Materials and Services joint venture with Redland USA Holdings, Inc.—and construction materials acquisitions in Ohio, Pennsylvania and Indiana.

In 1985, expenditures were largely for chemical plant modernizations and additions to aggregate reserves.

Recent Developments

Tender Offer

On March 3, 1988, BNS Inc., a Delaware corporation ("BNS"), filed a Tender Offer Statement on Schedule 14D-1 relating to a tender offer (the "BNS Offer") for all outstanding shares of Common Stock, including the associated Preferred Stock Purchase Rights (the "Rights") if not redeemed or invalidated, at \$45.00 per share of Common Stock and associated Right, and all outstanding shares of Preferred Stock at \$107.75 per share, in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated March 3, 1988. According to the BNS Offer to Purchase, the stockholders of BNS are (i) Bright Aggregates Inc., a Delaware corporation and a wholly owned indirect subsidiary of Beazer PLC, an English public limited company, (ii) SL-Merger, Inc., a Delaware corporation and a wholly owned indirect subsidiary of Shearson Lehman Brothers Holding Inc., a Delaware corporation, and (iii) Speedward Limited, an English company and a wholly owned subsidiary of NatWest Investment Bank Limited, a wholly owned subsidiary of National Westminster Bank PLC, an English banking corporation.

According to the Offer to Purchase, the purpose of the BNS Offer is to acquire control of, and the entire equity interest in, the Company. Bright Aggregates Inc. and a partnership consisting of Bright Aggregates Inc., Speedward Limited, and SL-Merger, Inc. (the "Partnership") have disclosed that they beneficially own, in the aggregate, approximately 7.8% of the outstanding shares of Common Stock.

According to the Offer to Purchase, as soon as practicable after completion of the BNS Offer, BNS intends to seek maximum representation on the Company's Board of Directors and to have the Company consummate a merger (the "Merger") with BNS pursuant to which each outstanding share of Common Stock (other than shares of Common Stock held in the treasury of the Company, and shares of Common Stock held by stockholders who properly exercise their appraisal rights under Delaware law) would be converted into the right to receive an amount in cash equal to the price per share of Common Stock paid pursuant to the BNS Offer. According to the Offer to Purchase, prior to the Merger, BNS intends to cause the Company to redeem all

Preferred Stock not purchased pursuant to the BNS Offer for \$107.75 per share (plus accrued and unpaid dividends). The BNS Offer was originally scheduled to expire on March 31, 1988. On March 21, 1988, BNS increased the price offered per share of Common Stock to \$56.00 and extended the offer to April 1, 1988. On March 25, 1988, BNS increased the price offered per share of Common Stock to \$60.00 and extended the offer to April 7, 1988.

The BNS Offer is conditioned upon, among other things, BNS' obtaining sufficient financing to consummate the purchase of all the shares being sought and to pay related fees and expenses; BNS' being satisfied that the restrictions contained in Section 203 of the Delaware General Corporation Law on certain business combinations are invalid, unenforceable, or otherwise inapplicable; the non-management directors of Koppers approving the BNS Offer for purposes of the Rights or BNS' otherwise being satisfied that the Rights are invalid or inapplicable to the BNS Offer and the Merger; the tendering (and non-withdrawal) of a number of shares of Common Stock such that, upon purchasing such shares pursuant to the BNS offer, BNS, Bright Aggregates Inc., and the Partnership will beneficially own in the aggregate at least a majority of the shares of Common Stock; and BNS' being satisfied that the Merger can be consummated without the need for a supermajority vote of Koppers stockholders pursuant to Article EIGHTH of Koppers Certificate of Incorporation.

The Company has commenced litigation against BNS and its stockholders and other entities affiliated with BNS or its stockholders, seeking, among other things, to enjoin the BNS Offer on the grounds of illegality and non-disclosure of material facts. The Company also has intervened in litigation between BNS and the United States Justice Department with respect to certain anti-trust issues arising out of the BNS Offer, and has obtained a temporary restraining order against taking actions designed or intended to advance the consummation of the BNS Offer until April 4, 1988, in order to provide an opportunity for judicial review of a proposed settlement between BNS and the Justice Department. BNS has commenced separate litigation against the Company and its directors, seeking to invalidate, or to cause the directors to redeem, the Rights and to declare unconstitutional Section 203 of the Delaware General Corporation Law. BNS has also filed counterclaims in the action brought by the Company.

In connection with the BNS Offer, the Company's Board of Directors has considered the possibility of a number of transactions, including the implementation of a plan of recapitalization where the Company would remain indepen-

dent that would involve a sale of Common Stock to an employee stock ownership plan and a substantial distribution or dividend to holders of Common Stock. If any such recapitalization plan is implemented, the Company's financial condition could be changed significantly, as a result of substantial borrowings or a sale of an equity interest in all or a portion of the Company's construction materials and services business or a percentage of certain portions of that business. The Company has also commenced discussions with third parties concerning the possible sale of the entire Company.

The foregoing discussion of recent developments regarding the BNS tender offer is as of March 28, 1988.

Quarterly Financial Data (from continuing operations)—unaudited

(\$ Millions, except per share data)	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986
Net sales	\$271.7	\$257.0	\$389.1	\$370.9	\$434.6	\$400.7	\$420.4	\$367.8	\$1,515.7	\$1,396.4
Gross profit*	34.1	33.7	92.0	73.5	96.0	84.6	82.0	79.5	304.1	271.3
Income (loss)	(3.0)	(0.6)	24.0	17.8	33.1	30.6	16.1***	15.4	70.2***	63.2
Earnings (loss) per common share**	\$(0.11)	\$(0.07)	\$ 0.84	\$ 0.57	\$ 1.16	\$ 1.05	\$ 0.56***	\$ 0.53	\$ 2.44***	\$ 2.09

*Net sales less Cost of sales (including allocable portion of Depreciation, depletion and amortization and Taxes, other than income taxes).

**Sum of quarterly earnings (loss) per common share does not equal total, since shares outstanding fluctuated during 1987 and 1986.

***Does not include loss from discontinued operations of \$59.4 million (\$2.08 per share).

Total Capitalization

December 31,	1987		1986		1985	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Total Debt						
11.25% Promissory notes	\$ —	—%	\$ —	—%	\$ 93.5	13.1%
Industrial development bonds and notes	67.5	10.7	69.9	11.2	71.9	10.1
6% Notes	14.0	2.2	17.0	2.7	20.0	2.8
8.95% Notes	10.0	1.6	14.0	2.2	18.0	2.5
Commercial paper and bank loans	56.0	8.9	—	—	—	—
Other	24.9	3.9	16.9	2.7	12.0	1.7
Debt due within one year	13.4	2.1	14.6	2.3	19.3	2.7
Total	\$185.8	29.4%	\$132.4	21.1%	\$234.7	32.9%
Equity						
Common	\$430.9	68.2%	\$479.1	76.5%	\$420.1	58.9%
Preference*	—	—	—	—	43.9	6.2
Preferred	15.0	2.4	15.0	2.4	15.0	2.1
Total	\$445.9	70.6%	\$494.1	78.9%	\$479.0	67.1%
Total Capitalization	\$631.7	100.0%	\$626.5	100.0%	\$713.7	100.0%

*Debt ratios shown with redeemable preference stock included in debt for 1985 would be 39.0% of total capitalization, with equity being 61.0%.

Item 8. Consolidated Financial Statements and Supplementary Data

This section includes:

Statement of accounting policies

Consolidated statement of operations for the years ended December 31, 1987, 1986 and 1985

Consolidated balance sheet at December 31, 1987 and 1986

For the years ended December 31, 1987, 1986 and 1985:

Consolidated statement of cash flows

Consolidated statement of shareholders' equity

Notes to financial statements

Report of Certified Public Accountants

Statement of Accounting Policies

Koppers Company, Inc. and Subsidiaries

The major accounting policies of the Company are set forth below. The word "Company" as used herein includes consolidated entities as well as Koppers Company, Inc.

Principles of Consolidation—The consolidated statements include the accounts of the Company and all of its subsidiaries. All intercompany transactions have been eliminated.

Inventories—Inventories are valued at the lower of cost or market. Cost for approximately 56% and 58% of inventories for 1987 and 1986, respectively, is determined by the LIFO (last-in, first-out) method. Cost for the remainder of the inventories represents average costs or standard costs, which approximate actual on the FIFO (first-in, first-out) basis. Market is replacement cost for raw materials and net realizable value for work in process and finished goods.

Fixed Assets—Buildings, machinery and equipment are depreciated on the straight-line method over their useful lives. Timber and mineral properties are depleted on the basis of units produced.

When land, standing timber or property units are sold, the difference between selling price and cost, after recognition of accumulated depreciation and depletion, is reflected as Other Income.

Long-Term Contracts—Revenue on long-term construction contracts is accounted for on the percentage-of-completion basis; losses are recognized as soon as they are determined.

Pension Plans—The Company has pension plans covering substantially all employees. The Company contributes amounts into trust funds in accordance with ERISA requirements.

Investments—Companies owned 50% or less but more than 20% are accounted for by the equity method.

Earnings (Loss) Per Share—Earnings (loss) per share have been computed on the basis of the average number of common shares outstanding.

Consolidated Statement of Operations

Koppers Company, Inc. and Subsidiaries	Years ended December 31,		
	1987	1986	1985
	(\$ Thousands, except per share figures)		
Net sales	\$1,515,723	\$1,396,401	\$1,400,166
Operating expenses:			
Cost of sales	1,109,628	1,029,008	1,125,011
Depreciation, depletion and amortization	76,251	70,526	66,373
Taxes, other than income taxes	43,903	40,176	39,630
Selling, research, general and administrative expenses	150,340	152,758	149,879
(Profit) loss on operations disposed of or closed (Notes 2 and 7)	(3,234)	(4,764)	32,564
Total operating expenses	1,376,888	1,287,704	1,413,457
Operating profit (loss)	138,835	108,697	(13,291)
Other income (expense):			
Provision for environmental and warranty expenses (Note 7)	(17,752)	(3,644)	(28,620)
Profit on sales of capital assets, primarily timberlands	411	1,138	17,482
Profit (loss) on sale of investments (Note 2)	(550)	3,103	2,798
Equity in earnings (losses) of affiliates (dividends received: 1987—\$2,007; 1986—\$2,072; 1985—\$4,590)	1,537	4,539	(438)
Interest income	3,198	10,097	2,288
Miscellaneous	(699)	(249)	(4,242)
Total other income (expense)	(13,855)	14,984	(10,732)
Income (loss) before interest expense and provision (benefit) for income taxes	124,980	123,681	(24,023)
Interest expense	11,175	21,402	23,673
Income (loss) from continuing operations before provision (benefit) for income taxes	113,805	102,279	(47,696)
Provision (benefit) for income taxes (Note 8)	43,587	39,059	(17,693)
Income (loss) from continuing operations	\$ 70,218	\$ 63,220	\$ (30,003)
Discontinued operations (Notes 7 and 11):			
Income (loss) from discontinued operations [less applicable income tax provision (benefit): 1987—\$(39,615); 1985—\$1,085]	(59,388)	—	(2,460)
Loss on disposal of discontinued operations (less applicable income tax provision: 1985—\$4,000)	—	—	(68,608)
Income (loss) before extraordinary items	10,830	63,220	(101,071)
Extraordinary items:			
Prepayment premium on retirement of 11.25% promissory notes (Note 4)	—	(6,807)	—
Utilization of operating loss carryforward (Note 8)	—	21,067	—
Net income (loss) for the year	\$ 10,830	\$ 77,480	\$ (101,071)
Dividends on:			
Redeemable convertible preference stock	—	2,744	4,577
Cumulative preferred stock	600	600	600
Net income (loss) applicable to common stock	\$ 10,230	\$ 74,136	\$ (106,248)
Average number of shares of common stock outstanding during year (in thousands)	28,567	28,606	28,574
Earnings (loss) per share of common stock:			
From continuing operations before extraordinary gain	\$ 2.44	\$ 2.09	\$ (1.23)
From discontinued operations	\$ (2.08)	\$ —	\$ (2.49)
Extraordinary gain	\$ —	\$ 0.50	\$ —
Net earnings (loss)	\$ 0.36	\$ 2.59	\$ (3.72)

See accompanying statement of accounting policies and notes to financial statements.)

Consolidated Balance Sheet

Assets

Koppers Company, Inc. and Subsidiaries	December 31,	
	1987	1986*
	(\$ Thousands)	
Current assets:		
Cash, including short-term investments of \$10,543 in 1987 and \$61,819 in 1986	\$ 20,217	\$ 72,540
Accounts receivable, principally trade, less allowance for doubtful accounts of \$8,682 in 1987 and \$8,220 in 1986	189,340	183,845
Refundable federal income taxes	13,968	—
Inventories (Note 1):		
At cost—FIFO (first-in, first-out) basis:		
Product	89,252	93,130
Work in process	2,781	4,106
Raw materials and supplies	70,218	63,544
Total FIFO inventories	162,251	160,780
Less LIFO (last-in, first-out) reserve	(41,772)	(44,217)
Total LIFO inventories	120,479	116,563
Prepaid expenses, including deferred tax benefits of \$37,907 in 1987 and \$69,701 in 1986	44,072	67,920
Net assets of discontinued operations (Note 7)	85,364	65,389
Total current assets	473,440	506,257
Investments (Note 2):		
Affiliated companies, at equity	66,684	57,335
Others at cost	9,847	10,501
Total investments	76,531	67,836
Fixed assets, at cost:		
Buildings	102,402	100,286
Machinery and equipment	943,533	900,515
Gross buildings, machinery and equipment	1,045,935	1,000,801
Less accumulated depreciation and amortization	(653,701)	(626,821)
Net buildings, machinery and equipment	392,234	373,980
Depletable properties, less accumulated depletion of \$12,202 in 1987 and \$11,666 in 1986	41,127	43,817
Land	43,183	36,833
Net fixed assets	476,544	454,630
Other assets	48,371	38,499
Total assets	\$1,074,886	\$1,067,222

*Restated to conform with 1987 classifications.

(See accompanying statement of accounting policies and notes to financial statements.)

Consolidated Balance Sheet**Liabilities**

Koppers Company, Inc. and Subsidiaries	December 31,	
	1987	1986*
	(\$ Thousands)	
Current liabilities:		
Accounts payable, principally trade	\$ 76,148	\$ 70,550
Accrued liabilities:		
Income taxes	4,997	23,992
Pensions (Note 3)	2,313	24,076
Insurance	19,867	20,295
Payroll and other compensation costs	42,283	42,871
Warranty reserves	7,342	11,832
Environmental reserves	23,790	23,954
Other accruals	42,693	45,354
Advance payments and amounts owed on contracts	28,124	4,963
Term debt due within one year (Note 4)	13,430	14,625
Total current liabilities	260,987	282,512
Term debt due after one year (Note 4)	172,409	117,737
Deferred compensation (Note 6)	20,012	17,551
Deferred income taxes	30,781	41,797
Long-term environmental reserves	36,000	37,152
Long-term benefit reserves	68,371	47,057
Other long-term liabilities	40,452	29,267
Total Liabilities	629,012	573,073
Shareholders' Equity		
Cumulative preferred stock (not subject to mandatory redemption), \$100 par value: authorized 300,000 shares; issued and outstanding 150,000 shares, 4% series	15,000	15,000
Common stock, \$1.25 par value: authorized 60,000,000 shares; issued 29,887,583 and outstanding 28,090,139 shares in 1987; issued 29,887,510 and outstanding 29,020,746 shares in 1986	37,359	37,359
Less cost of treasury stock: 1,797,444 shares in 1987 and 866,764 shares in 1986 (Note 5)	(56,430)	(24,677)
Capital in excess of par value	176,514	176,631
Earnings retained in the business (Note 4)	273,431	289,836
Common shareholders' equity (Note 5)	430,874	479,149
Total shareholders' equity	445,874	494,149
Total liabilities and shareholders' equity	\$1,074,886	\$1,067,222

* Restated to conform with 1987 classifications.

(See accompanying statement of accounting policies and notes to financial statements.)

Consolidated Statement of Cash Flows

Koppers Company, Inc. and Subsidiaries	1987	Years ended December 31, 1986*	1985*
		(\$ Thousands)	
Cash provided from (used in)			
Operations:			
Income (loss) from continuing operations before extraordinary items	\$ 70,218	\$ 63,220	\$ (30,003)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	76,251	70,526	66,373
Deferred income taxes	(11,016)	4,508	597
Other noncurrent liabilities	337	(1,213)	25,101
Provision for operations disposed of or closed and decline in value of investments	—	4,558	23,712
Equity in income (losses) of affiliated companies, less dividends received	(397)	(1,636)	4,475
Other cash from operations	591	(901)	282
(Increase) decrease in working capital excluding cash and other financing activities:			
Accounts receivable	(5,495)	3,288	(38,671)
Refundable federal income taxes	(13,968)	—	10,347
Inventories	(3,916)	(3,899)	4,224
Prepaid expenses	23,848	(26,640)	(22,988)
Accounts payable	5,598	12,165	9,712
Accrued liabilities	(49,088)	22,754	83,614
Advance payments and amounts owed on contracts	23,161	(598)	6,172
	116,124	146,132	142,947
Utilization of net operating loss carryforward	—	21,067	—
Cash provided from continuing operations	116,124	167,199	142,947
Income (loss) from discontinued operations	(59,388)	—	(71,068)
Adjustments to reconcile net income to net cash provided by discontinued operations:			
Depreciation, depletion and amortization	5,725	11,414	16,189
Other deferred expenses	—	—	36,385
Net assets of discontinued operations	4,969	127,904	—
Cash provided (absorbed) from discontinued operations	(48,694)	139,318	(18,494)
Cash provided from operations	67,430	306,517	124,453
Investment activities:			
Capital investments	(123,967)	(190,726)	(110,569)
Book value of fixed assets and other noncurrent assets disposed of or sold	24,907	44,962	10,353
(Issuance) retirements of notes and other assets due after one year	(17,232)	22,244	4,843
Cash held for capital investments	4,091	2,316	(9,165)
Cash used in investment activities	(112,201)	(121,204)	(104,538)
Financing activities:			
Term debt issued (retired)	53,477	(109,179)	1,574
Common stock issued	2	34,104	—
Treasury stock issued (acquired)	(31,872)	(23,849)	92
Preference stock purchased	—	(45,127)	(2,575)
Dividends paid	(29,126)	(26,219)	(28,036)
Other financing activities	(33)	(280)	(198)
Cash used in financing activities	(7,552)	(170,550)	(29,143)
Increase (decrease) in cash	\$ (52,323)	\$ 14,763	\$ (9,228)
Beginning cash balance	\$ 72,540	\$ 57,777	\$ 67,005
Ending cash balance	\$ 20,217	\$ 72,540	\$ 57,777
Supplemental disclosure of cash flow information:			
Cash paid (refunded) during the year for:			
Interest	\$ 10,996	\$ 24,050	\$ 24,308
Income taxes	23,807	18,806	(1,349)

*Restated to conform with 1987 classifications, which are in accordance with Financial Accounting Standard (FAS) 95, Statement of Cash Flows. (See accompanying statement of accounting policies and notes to financial statements.)

Consolidated Statement of Shareholders' Equity

Koppers Company, Inc. and Subsidiaries

(Amounts in thousands, except shares and per share figures)

	Cumulative Preferred Stock	Common Stock	Treasury Stock	Capital in Excess of Par Value	Foreign Currency Translation Adjustment	Earnings Retained in the Business	Total
Balance at December 31, 1984	\$15,000	\$35,764	\$ (916)	\$145,320	\$ (4,199)	\$375,866	\$566,835
Net loss for the year 1985	—	—	—	—	—	(101,071)	(101,071)
Cash dividends paid:							
On preference stock, \$10.00 per share	—	—	—	—	—	(4,577)	(4,577)
On preferred stock, \$4.00 per share	—	—	—	—	—	(600)	(600)
On common stock, \$0.80 per share	—	—	—	—	—	(22,859)	(22,859)
Common stock issued from treasury to Employee Savings and Profit Sharing Plan	—	—	88	4	—	—	92
Redemption of 26,100 shares of preference stock (Note 5)	—	—	—	35	—	—	35
Foreign currency translation (Net of \$189 in related income tax benefits)	—	—	—	—	(2,799)	—	(2,799)
Balance at December 31, 1985	\$15,000	\$35,764	\$ (828)	\$145,359	\$ (6,998)	\$246,759	\$435,056
Net income for the year 1986	—	—	—	—	—	77,480	77,480
Cash dividends paid:							
On preference stock, \$10.00 per share	—	—	—	—	—	(2,744)	(2,744)
On preferred stock, \$4.00 per share	—	—	—	—	—	(600)	(600)
On common stock, \$0.80 per share	—	—	—	—	—	(22,875)	(22,875)
Common stock issued from treasury to Employee Savings and Profit Sharing Plan	—	—	8	3	—	—	11
Purchase of common stock for treasury (Note 5)	—	—	(22,973)	—	—	—	(22,973)
Recovery of common stock via escrow claim	—	—	(884)	—	—	—	(884)
Redemption of 430,444 shares of preference stock (Note 5)	—	—	—	(2,152)	—	—	(2,152)
Redemption of 8,456 shares of preference stock for common stock (Note 5)	—	35	—	921	—	—	956
Common stock issued:							
to Employee Savings Plan	—	2	—	35	—	—	37
to acquire MPM, Inc. (Note 2)	—	1,558	—	32,465	—	—	34,023
Foreign currency translation	—	—	—	—	(1,186)	—	(1,186)
Balance at December 31, 1986	\$15,000	\$37,359	\$ (24,677)	\$176,631	\$ (8,184)	\$298,020	\$494,149
Net income for the year 1987	—	—	—	—	—	10,830	10,830
Cash dividends paid:							
On preferred stock, \$4.00 per share	—	—	—	—	—	(600)	(600)
On common stock, \$1.00 per share	—	—	—	—	—	(28,526)	(28,526)
Common stock issued from treasury:							
to Employee Savings and Profit Sharing Plan	—	—	3	1	—	—	4
to Stock Option Plan	—	—	234	(120)	—	—	114
Purchase of common stock for treasury (Note 5)	—	—	(31,990)	—	—	—	(31,990)
Common stock issued to Employee Savings Plan	—	—	—	2	—	—	2
Foreign currency translation	—	—	—	—	1,891	—	1,891
Balance at December 31, 1987	\$15,000	\$37,359	\$ (56,430)	\$176,514	\$ (6,293)	\$279,724	\$445,874

(See accompanying statement of accounting policies and notes to financial statements.)

Notes to Financial Statements

December 31, 1987, 1986 and 1985

1. Inventories

During 1986 and 1985, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of purchases in current years, the effect of which increased net earnings in 1986 and 1985 by approximately \$1,574,000, or \$0.06 per share, and \$277,000, or \$0.01 per share, respectively. There was no LIFO liquidation during 1987.

At December 31, 1987 and 1986, the net assets of discontinued operations included a LIFO reserve of \$2,857,000 and \$2,776,000, respectively.

2. Investments

The following describes activity related to the Company's significant investments.

Tarconord—In 1987, the Company invested \$5,300,000 in exchange for a 50% ownership interest in Tarconord, a joint venture formed in Denmark to process tar and produce related products.

Western-Mobile, Inc. (WMI)—In 1986, the Company issued 1,246,859 shares of common stock, valued at \$34,023,000, for the acquisition of the stock of MPM, Inc. (MPM). The Company contributed the stock of the MPM subsidiaries to WMI in exchange for a 50% ownership interest in WMI. WMI then purchased the stock of certain Construction Materials and Services Group subsidiaries for cash, resulting in a gain of \$20,000,000 (\$10,000,000 of which was recognized in 1986, and \$10,000,000 of which is being deferred and amortized into income over the life of the assets acquired by WMI). The Company recognized equity losses from WMI of \$249,000 in 1987, and income of \$2,402,000 in 1986. The Company's investment in WMI at December 31, 1987, was \$38,251,000.

Koppers Australia Pty. Ltd. (KAP)—The Company recognized equity income during the years ended December 31, 1987, 1986 and 1985 of \$2,371,000, \$3,178,000, and \$3,309,000, respectively, on its 42.5% investment in KAP.

Following are combined financial summaries of the above equity investments for their respective fiscal years ended 1987 and 1986:

(\$ Millions)	1987	1986
Net sales	\$240,213	\$205,182
Gross profit	45,678	44,671
Net income	6,762	11,859
Koppers equity in earnings	\$ 2,952	\$ 5,580
Current assets	\$ 91,800	\$ 77,625
Total assets	251,341	225,255
Current liabilities	50,757	38,742
Net assets	127,965	109,711
Koppers share of net assets	\$ 61,156	\$ 50,683

Genex Corporation—The Company reduced its investment in Genex in 1986 through the sale of 656,000 common shares, resulting in a pretax gain of \$1,382,000, or \$995,000 after tax (\$0.03 per share). The Company now accounts for Genex on the cost basis because of this reduction in the investment. During 1985, the Company sold common shares of Genex resulting in a pretax gain of \$466,000, or \$252,000 after tax (\$0.01 per share). Equity losses during the years ended December 31, 1986 and 1985 were \$154,000 and \$4,836,000, respectively.

Other Investments—In 1987, the Company's venture capital subsidiary, Kopvenco, sold stock in investee companies resulting in a pretax gain of \$1,276,000, or \$842,000 after tax (\$0.03 per share). The write-down of an investment in 1987 produced a pretax loss of \$1,827,000, or \$1,206,000 after tax (\$0.04 per share). Stock sales in 1986 and 1985 resulted in pretax gains of \$1,798,000 and \$2,332,000, or after-tax gains of \$1,295,000 (\$0.05 per share) and \$1,316,000 (\$0.05 per share), respectively.

3. Retirement Plans

Company Plans—The Company implemented the provisions of Financial Accounting Standard (FAS) 87, "Employers' Accounting for Pensions," on January 1, 1987. As a result, 1987 after-tax earnings benefited by approximately \$5,771,000, or \$0.20 per share. Total pension expense in 1987 for continuing operations using an average rate of return of 9%, a 6% assumed level of annual compensation increases and an 8.5% factor to determine the actuarial present value of accumulated plan benefits was composed of the following:

(\$ Thousands)	
Service cost benefits earned during the period	\$ 7,638
Interest cost on projected benefit obligation	29,234
Return on plan assets	(32,861)
Net amortization and deferral	(3,164)
Net periodic pension cost	\$ 847

Pension expense for continuing operations was \$14,294,000 and \$15,880,000 in 1986 and 1985, respectively.

The following table sets forth the plans' funded status and amounts recognized on the Consolidated Balance Sheet at December 31, 1987:

(\$ Thousands)	
Actuarial present value of benefit obligations:	
Vested benefits	\$369,414
Nonvested benefits	34,824
Accumulated benefit obligation	404,238
Effect of future salary increases	51,930
Projected benefit obligation	456,168
Plan assets at fair value	504,919
Plan assets in excess of projected benefit obligation	48,751
Unrecognized net assets at January 1, 1987	(72,685)
Unrecognized prior service cost	13,325
Unrecognized net gain	(8,290)
Accrued pension cost ¹	\$ (18,899)

(1) The current portion is \$2,313,000. The remaining liability is included in long-term benefit reserves.

The Company historically funds the pension accrual in the subsequent year. In 1987, the Company contributed \$20,336,000 to the Master Trust as payment of the 1986 liability. In 1988, the Company expects to contribute \$12,973,000 for the 1987 funding provision.

The December 31, 1986, actuarial present value of accumulated plan benefit obligations, based on a discount rate of 8%, was \$382,280,000 (\$347,857,000 vested).

The net assets available for benefits amounted to \$496,951,000. Unfunded prior service costs were amortized over periods up to 40 years.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health and life insurance benefits for retired employees. These benefits are provided through insurance contracts the premiums of which are based on the benefits paid during the year. The Company paid annual insurance premiums for these benefits totaling \$4,619,000, \$3,320,000 and \$2,961,000 for 1987, 1986 and 1985, respectively.

Multiemployer Plans—In addition to the expense for the Company-sponsored plans, the Company had pension expense for full-time employees of \$7,934,000, \$8,873,000 and \$7,033,000 in 1987, 1986 and 1985, respectively, for contributions to multiemployer plans as determined by various collective bargaining agreements. The relative position of the Company regarding the accumulated plan benefits and plan net assets of multiemployer plans is not determinable by the Company and is not included in the information above.

4. Term Debt

Term debt due after one year is shown below:

(\$ Thousands)	1987	1986
8.95% Promissory notes due \$4,000 annually	\$ 10,000	\$ 14,000
6% Notes due \$3,000 annually	14,000	17,000
Commercial paper and bank loans	56,000	—
Industrial development bonds and notes:		
8.25% Bonds due 1987-2002	27,600	29,500
5.875% Tax-exempt bonds due 1998-2017	16,350	16,350
5.9% and 6% Notes due 1987-1998	8,600	9,105
Variable rate notes due 1996-2010	14,900	14,900
Other	24,959	16,882
Total term debt	\$172,409	\$117,737

Additional Debt Information—As of December 31, 1987, commercial paper and bank loans of \$56 million are reported as long-term debt since Koppers intends to finance that amount on a long-term basis either by refinancing through the existing revolving credit arrangements or by replacing them with other long-term agreements.

The Company has a revolving credit bank loan agreement, which provides for revolving credit loans up to \$200,000,000 until October 24, 1990. Commitment fees of up to ¼ of 1% per annum are required on any unborrowed amounts. The agreement calls for interest at one of three options chosen by the Company, those being the prime rate or the certificate of deposit rate or the Eurorate, with factors up to ½ of 1% added to those rates. There were no borrowings under the revolving credit facility during 1987 or 1986.

During 1986, the 11.25% promissory notes due in 2000 were retired, with the repayment consisting of \$93,500,000 of principal, \$2,629,688 of accrued interest, and a 7.28% prepayment premium of \$6,807,000, which was classified as an extraordinary item on the consolidated statement of operations.

The aggregate term debt maturity in the years 1988 through 1992, respectively, is \$13,430,000, \$17,951,000, \$11,998,000, \$9,417,000 and \$9,311,000.

The Company's term debt agreements contain various restrictions as to dividend payments and incurrence of additional indebtedness. As of December 31, 1987, under the most restrictive provisions, \$21,900,000 of consolidated earnings retained in the business was available for the payment of cash dividends, and the Company could incur additional indebtedness of \$85,133,000.

Rent expense relative to operating leases was \$35,582,000, \$35,163,000 and \$26,597,000 in 1987, 1986 and 1985, respectively.

5. Stock Activity

Redeemable Convertible Preference Stock—During 1986, the Company redeemed the remaining 438,900 outstanding shares of redeemable convertible preference stock for cash.

The Company repurchased 26,100 shares in 1985 as part of a repurchase program approved by the Board of Directors.

Common Stock Repurchase Plan—Late in 1986, the Company's Board of Directors approved the repurchase of up to 4,500,000 shares of outstanding common stock. In 1987 and 1986, 938,282 and 802,136 shares were purchased at a cost of \$31,915,000 and \$22,973,000, respectively, and accounted for as treasury stock.

Shareholder Rights Plan—In February, 1986, the Company's Board of Directors approved a rights plan. Shareholders received as a dividend one individual stock purchase right for each share of the Company's common stock. Each right will entitle shareholders to buy one one-hundredth of a newly issued share of Junior Participating Preference Stock at an exercise price of \$75. The rights will be exercisable only if a person or group either acquires 20% or more of Koppers common stock or commences a tender offer for 30% or more. All rights are redeemable at the Company's discretion upon the occurrence of certain events at \$0.05 per right and are no longer exercisable after March 11, 1995. The Company authorized 350,000 shares of Junior Participating Preference Stock with no par value.

6. Employee Compensation Plans

Deferred Compensation Plan—The Company has a Deferred Compensation Unit Plan for officers and other key employees. Operating expense has been charged with \$5,581,000, \$2,646,000 and \$1,334,000 to provide for benefits accrued during 1987, 1986 and 1985, respectively.

Incentive Plan—The Executive Incentive Plan is based on established target award levels for each participant if certain Company performance and individual goals are met. The charge to operating expense was \$2,466,000 in 1987 and \$2,500,000 in 1986. Because of the Company's insufficient return on investment, there was no charge to operating expense in 1985.

Employee Savings Plan—The Company has an Employee Savings Plan for all eligible employees that conforms to Section 401(k) of the Internal Revenue Code. Under the plan, participating employees can elect to contribute up to 16% of their salaries with a regular Company matching contribution in Koppers common stock equivalent to 25% of the first 2% of the tax-saver contributions. The Company's contributions amounted to \$499,000 in 1987, \$494,000 in 1986 and \$548,000 in 1985. The Company also makes annual supplemental contributions based upon its return on common shareholders' equity. The return on common equity was insufficient in 1987 and 1985; therefore, there was no charge to operating expense in either year. In 1986, the supplemental contribution expense was \$3,400,000. In addition to the above, Koppers may make a discretionary supplemental contribution at the end of each Plan Year subject to Board approval. In 1987, the discretionary supplemental contribution expense was \$1,600,000.

There was no discretionary contribution made in 1986 or 1985.

Stock Option Plan—At the annual meeting held on April 28, 1986, the shareholders ratified the 1986 Stock Option Plan. The Plan provides for the award of stock options with a right to purchase an amount of common stock equal to the options awarded. Additionally, certain options have attached stock appreciation rights that may be exercised in lieu of the stock options, resulting in the holder receiving cash equal to the difference between the current value of the Company's common stock and the exercise price for the stock options established at the date of grant. The options become exercisable in installments commencing one year after the award date and expire if not exercised within 10 years from the date of grant. The compensation cost related to stock appreciation rights charged to operating expense was \$384,000 in 1987, while there was no charge to operating expense in 1986.

The following table summarizes stock option activity:

	Shares	Price
Options outstanding January 1, 1986	—	—
Options granted	277,225	\$23.375
Options canceled	—	—
Options exercised	—	—
Options outstanding December 31, 1986	277,225	23.375
Options granted	179,025	32.375
Options canceled	—	—
Options exercised	14,075	23.375
Options outstanding December 31, 1987	442,175	23.375—32.375

Options available for grant at December 31, 1987 and 1986 were 543,750 and 722,775, respectively.

7. Closed Operations and Disposals

Discontinued Operations—Late in 1987, the Company recognized a \$59,388,000 after-tax loss (\$2.08 per share) primarily due to the unfavorable settlement of the Inland Steel litigation over a construction contract dispute relating to a business sold in 1984. (See Note 11.) In 1986 there were no losses from discontinued operations.

During 1987, the Company concluded agreements for the sale of a significant portion of one of the two remaining business units (a component of Chemical and Allied Products) reserved for in 1985, which is in addition to the eight units sold in 1986. Prior-year agreements for sale included all those units within Engineered Metal Products operations and components of Chemical and Allied Products. In December 1985, net reserve provisions of \$68,608,000 (\$2.40 per share) were made for expected losses on these 10 disposals.

Net sales of the Discontinued Operations were \$75,334,000, \$299,475,000 and \$419,535,000 for 1987, 1986 and 1985, respectively.

Other Operations Closed or Disposed of—In 1987, a loss of

\$602,000, or \$361,000 after tax (\$0.01 per share), was realized by Construction Materials and Services for provisions related to plant closings. Also, a profit of \$3,836,000, or \$2,302,000 after tax (\$0.08 per share), was realized by Chemical and Allied Products for provisions related to plant closings.

In 1986, certain subsidiaries of the Construction Materials and Services Group were sold to WMI. (See Note 2.) Also a loss of \$2,722,000, or \$1,470,000 after tax (\$0.05 per share), was realized by Chemical and Allied Products for provisions related to plant closings.

In 1985, provisions for plant closings in Chemical and Allied Products resulted in a loss of \$29,056,000, or \$15,690,000 after tax (\$0.55 per share). Additionally, \$16,629,000 was provided for environmental expenses at plants currently operating, closed or disposed of in 1985.

In 1987, 1986 and 1985, provisions for environmental expenses at previously operated properties amounted to \$5,752,000, or \$3,451,000 after tax (\$0.12 per share), and \$3,075,000, or \$1,660,000 after tax (\$0.06 per share), and \$28,620,000, or \$15,455,000 after tax (\$0.54 per share), respectively.

The effect on operations and the related profit or loss on operations disposed of or closed is shown in the table below:

Other Operations Closed or Disposed of (\$ Thousands)	1987	1986	1985
Net sales	\$18,470	\$89,532	\$204,558
Recurring operating expenses	19,197	76,617	198,204
Profit (loss) on disposal of net assets	3,234	4,764	(32,564)
Provision for environmental expenses	0	0	(16,629)
Operating profit (loss)	\$ 2,507	\$17,679	\$(42,839)

8. Income Taxes

Income (loss) from continuing operations before provision (benefit) for income taxes and the components of income taxes are as follows:

(\$ Thousands)	1987	1986	1985
Income (loss) from continuing operations before provision (benefit) for income taxes:			
Domestic operations	\$106,372	\$ 96,175	\$(55,797)
Foreign operations*	7,433	6,104	8,101
Total	\$113,805	\$102,279	\$(47,696)
Income tax expense (benefit):			
Continuing operations	\$ 43,587	\$ 39,059	\$(17,693)
Discontinued operations	(39,615)	—	5,085
Total	\$ 3,972	\$ 39,059	\$(12,608)
Current:			
Federal	\$(16,942)	\$ 29,891	\$ 1,893
Foreign	1,455	2,495	1,545
State	4,140	7,212	2,844
	(11,347)	39,598	6,282
Deferred:			
Federal	15,313	(21,606)	(18,816)
Foreign	6	—	(74)
	15,319	(21,606)	(18,890)
Provision in lieu of federal income taxes	—	21,067	—
Total income taxes (benefits)	\$ 3,972	\$ 39,059	\$(12,608)

* Foreign operations income before the provision for income taxes includes equity income from foreign investments of \$3,746, \$5,095 and \$6,249 for 1987, 1986 and 1985, respectively.

The components of deferred tax expense (benefits) and related tax effect are shown below:

(\$ Thousands)	1987	1986	1985
Excess (deficit) of tax over book depreciation	\$ (3,458)	\$ 10,150	\$ 10,709
Difference in book and tax expense recognition:			
—Environmental expenses	3,686	3,997	(9,009)
—Warranty expenses	(932)	2,339	2,224
—Pension funding	4,852	535	(1,057)
—Other	(6,849)	(2,554)	(3,436)
Difference in book and tax income recognition:			
—Construction contracts	(1,421)	(4,125)	5,226
—Inventory timing difference	667	1,030	(1,754)
—Genex basis difference	—	1,069	362
—Installment sales	—	(4,978)	5,949
Benefit of operating loss carryforwards used to reduce deferred tax liability	—	—	(20,350)
Provisions for operations discontinued, disposed of or closed	20,194	(27,521)	(4,239)
Other	(1,420)	(1,548)	(3,515)
Total deferred tax expense (benefit)	\$15,319	\$(21,606)	\$(18,890)

The differences between the statutory and effective income tax (benefit) rates applicable to continuing operations are shown below:

	1987	1986	1985
Statutory tax rate:			
Federal	40.0%	46.0%	(46.0%)
State, net of federal tax benefit	4.6%	3.8%	3.2%
Current year loss carryforward	—	—	17.8%
Investment tax credit	—	(11.8%)	—
Nontaxable earnings of international sales corporations	(0.6%)	(1.1%)	(1.2%)
Effect of percentage over cost depletion	(4.6%)	(5.1%)	(8.6%)
Effect of lower statutory tax rate applicable to capital gains and equity investment transactions	(1.9%)	(3.0%)	—
Minimum tax on tax preference items	—	2.9%	—
Other—net	0.8%	6.5%	(2.3%)
Total tax rate	38.3%	38.2%	(37.1%)

The 1986 provision for income tax has been reduced by investment tax credits in the amount of \$12,100,000. At December 31, 1987, the Company had, for financial reporting purposes, operating loss and tax credit carryovers that will reduce future income tax expense by \$24,300,000. These carryovers will expire between 1992 and 2001.

For tax purposes, the Company has investment and foreign tax credit carryovers of \$1,400,000 and \$900,000, respectively, which are available to reduce future income taxes payable. The investment tax credit carryover will expire in 2002, and the foreign tax credit expires in 1992.

On December 30, 1987, the Financial Accounting Standards Board (FASB) issued FAS No. 96, which supersedes previous standards for accounting for income taxes. The Company must adopt this new standard no later than the year ending December 31, 1989. The effect of this new standard on the Company's consolidated financial statements has not been determined.

9. Acquisitions

In 1987, the Company acquired three companies for \$23,900,000 in cash. In 1986, four companies were acquired for \$66,400,000 in cash. The acquisitions were accounted for using the purchase method of accounting, and results of operations have been included from the respective dates of these acquisitions. The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the Company for the years ending December 31, 1987, 1986 and 1985 with the preacquisition earnings of these acquisitions:

	1987	1986	1985
Net sales	\$1,592,127,000	\$1,551,177,000	\$1,494,471,000
Income (loss) from continuing operations	\$ 72,013,000	\$ 65,960,000	(25,835,000)
Net (loss) income	\$ 12,625,000	\$ 80,220,000	(96,903,000)
Earnings (loss) per share of common stock from continuing operations	\$2.50	\$2.19	(\$1.09)
Net (loss) earnings per share	\$0.42	\$2.69	(\$3.57)

10. Operations by Business Segments

The Company operates principally in two business segments. Financial information about each segment is provided in the table on the following page.

Because of immateriality, intersegment sales along with revenues and identifiable assets from foreign operations are not disclosed.

11. Litigation

On August 7, 1981, Inland Steel Corporation filed an action against the Company in Lake Superior Court, East Chicago, Indiana, alleging that negligence, fraud and breach of contract in construction of a coke oven battery and blast furnace by the Company at Inland's Indiana Harbor Works had caused Inland damages in the amount of \$100 million. The Company counterclaimed to recover \$17 million still unpaid by Inland on the contract for construction of the coke oven battery and blast furnace. A verdict was rendered on February 21, 1984 for Inland on its claims in the amount of \$74 million and for the Company on its counterclaim in the amount of \$10 million, for a net verdict in favor of Inland in the amount of \$64 million, plus post-judgment interest. The judgment was affirmed by the Court of Appeals of Indiana, and the Supreme Court of Indiana refused to review the affirmance. The Inland claim was settled in the fourth quarter of 1987 for cash and an agreement to supply coke in 1988.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Note 10: Operations by Business Segments

(\$ Thousands)

Year ended December 31, 1987:	Construction Materials and Services	Chemical and Allied Products	Misc.	Consolidated
Net sales from continuing operations	\$901,144	\$606,236	\$ 8,343	\$1,515,723
Operating profit (loss) before general corporate overhead	\$113,296	\$ 50,524	\$ (93)	\$ 163,727
Other income (expense)	3,356	(21,548)	2,800	(15,392)
Equity in earnings (loss) of affiliates	800	2,368	(1,631)	1,537
Operating income	\$117,452	\$ 31,344	\$ 1,076	\$ 149,872
General corporate overhead				24,892
Interest expense				11,175
Income from continuing operations before provision for income taxes				\$ 113,805
Identifiable assets as of December 31, 1987	\$533,312	\$336,216	\$31,980	\$ 901,508
General corporate assets				88,014
Net assets of discontinued operations				85,364
Total assets				\$1,074,886
Depreciation, depletion and amortization	\$ 42,699	\$ 29,623	\$ 1,278	\$ 73,600
Depreciation and amortization of general corporate assets				2,651
				\$ 76,251
Capital expenditures	\$ 75,885	\$ 42,085	\$ 5,997	\$ 123,967
Research and development				\$ 15,824
Year ended December 31, 1986:*				
Net sales from continuing operations	\$804,144	\$588,879	\$ 3,378	\$1,396,401
Operating profit (loss) before general corporate overhead	\$ 98,909	\$ 39,646	\$ (1,090)	\$ 137,465
Other income	2,171	(3,174)	11,448	10,445
Equity in earnings (loss) of affiliates	4,240	3,032	(2,733)	4,539
Operating income	\$105,320	\$ 39,504	\$ 7,625	\$ 152,449
General corporate overhead				28,768
Interest expense				21,402
Income from continuing operations before provision for income taxes				\$ 102,279
Identifiable assets as of December 31, 1986	\$508,227	\$341,513	\$33,652	\$ 883,392
General corporate assets				118,441
Net assets of discontinued operations				65,389
Total assets				\$1,067,222
Depreciation, depletion and amortization	\$ 39,295	\$ 28,673	\$ 350	\$ 68,318
Depreciation and amortization of general corporate assets				2,208
				\$ 70,526
Capital expenditures	\$144,968	\$ 33,505	\$12,253	\$ 190,726
Research and Development				\$ 16,747
Year ended December 31, 1985:				
Net sales from continuing operations	\$777,418	\$618,612	\$ 4,136	\$1,400,166
Operating profit (loss) before general corporate overhead	\$ 62,580	\$ (45,085)	\$ (2,038)	\$ 15,457
Other income (expense) (Note 7)	5,736	(19,958)	3,928	(10,294)
Equity in earnings (loss) of affiliates	3,205	3,412	(7,055)	(438)
Operating income (loss)	\$ 71,521	\$ (61,631)	\$ (5,165)	\$ 4,725
General corporate overhead				28,748
Interest expense				23,673
Loss from continuing operations before provision for income taxes				\$ (47,696)
Identifiable assets as of December 31, 1985	\$408,642	\$373,179	\$30,784	\$ 812,605
General corporate assets				99,339
Net assets of discontinued operations				154,109
Total assets				\$1,066,053
Depreciation, depletion and amortization	\$ 35,233	\$ 28,786	\$ —	\$ 64,019
Depreciation and amortization of general corporate assets				2,354
				\$ 66,373
Capital expenditures	\$ 53,729	\$ 33,781	\$ 6,284	\$ 93,794
Research and development				\$ 16,268

*Restated to conform with 1987 classifications.

Report of Certified Public Accountants

Arthur Young & Company
Certified Public Accountants

The Board of Directors and Shareholders
Koppers Company, Inc.:

We have examined the consolidated financial statements of Koppers Company, Inc. and subsidiaries listed in the accompanying Index to Consolidated Financial Statements. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements listed in the accompanying Index to Consolidated Financial Statements present

fairly the consolidated financial position of Koppers Company, Inc. and subsidiaries at December 31, 1987 and 1986, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change, with which we concur, in the method of accounting for pension costs as described in Note 3 to the financial statements.

Arthur Young & Company

2400 Koppers Building
Pittsburgh, Pennsylvania 15219
January 25, 1988

Part III

Item 10. Directors and Executive Officers of the Registrant

Koppers Board of Directors and Executive Officers

As of February 29, 1988.

(Date in parentheses indicates year this person joined Koppers.)

Corporate Officers

Charles R. Pullin 64 (1946)

Chairman of the Board and Chief Executive Officer since 1982; formerly Vice Chairman of the Board since 1981 and President and Chief Operating Officer—Road Materials Group.

Glen C. Tenley 60 (1955)

President and Chief Operating Officer since 1986; formerly Vice President and General Manager—Tar and Wood Products Sector since 1984 and Vice President and General Manager—Foundry and Industrial Supply Division since 1980.

Burnett G. Bartley, Jr. 63 (1949)

Executive Vice President and General Manager—Construction Materials and Services since 1984; formerly Deputy Chairman.

Donald H. Cuzzo 54 (1968)

Vice President—Legal Services Group, General Counsel and Secretary since 1985; formerly Assistant General Counsel since 1985 and Assistant Secretary since 1976.

Lester L. Murray 60 (1975)

Vice President—Technology Services and Business Development, since 1987 and President of Kopvenco since 1986; formerly Vice President and General Manager—Engineered Metal Products Group since 1983.

Thomas M. St. Clair 52 (1958)

Vice President—Financial Services Group and Treasurer and Chief Financial Officer since 1984; formerly Vice President—Finance since 1984, Vice President and Assistant to the Chairman since 1983 and President—Engineered Metal Products Group.

Corporate Staff Officers

J. Roger Beidler 52 (1960)

Vice President—Communications Group since 1985; formerly Vice President—Investor Relations since 1980.

Fitzhugh L. Brown 55 (1962)

Vice President since 1987 and Comptroller since 1978.

Dr. Donald J. McGraw 44 (1982)

Vice President—Science and Technology since 1988; formerly Vice President—Occupational Health and Safety since 1985; formerly Corporate Medical Director since 1982.

Raymond R. Wingard 57 (1952)

Vice President—Administrative Services Group since 1985; formerly Vice President and Manager—Marketing Services and Corporate Growth Planning since 1980.

Construction Materials and Services

Frederick C. Moore 54 (1970)

Vice President and General Manager—Eastern Region since 1983; formerly Vice President—Road Materials Group.

David E. Branch 60 (1954)

Vice President and General Manager—Western Region since 1988; formerly President—South Coast Asphalt Company, a subsidiary of Sully-Miller Contracting Company.

R. Kenneth MacGregor 65 (1978)

Vice President and Chairman and Chief Executive Officer—Sully-Miller Contracting Company since 1988; formerly Vice President and Manager—West Coast Operations since 1982 and President and General Manager—Sully-Miller Contracting Company.

Robert A. Cruise 57 (1973)

President—Koppers International Canada Ltd., a wholly owned subsidiary since 1969.

Chemical and Allied Products

James A. Harris 53 (1965)

Vice President and General Manager—Building Products Sector since 1986; formerly Vice President—Planning Services Group since 1985; formerly Vice President and General Manager—Engineering and Construction Group since 1981.

Dr. Alonzo Wm. Lawrence 50 (1976)

Vice President and General Manager—Chemical Systems Sector since 1984; formerly Vice President—Science and Technology since 1981.

Robert K. Wagner 56 (1953)

Vice President and General Manager—Tar and Wood Products Sector since 1986; formerly Vice President and General Manager—Treated Wood Products Division since 1978.

Brooks C. Wilson 54 (1965)

Managing Director—Koppers Australia Pty. Ltd.

Other Officers

Jay A. Best 54 (1956)

Vice President and Manager—Traffic and Transportation Department since 1978.

Richard C. Hawkins 47 (1971)

Vice President and Manager—Human Resources Department since 1985; formerly with National Intergroup, Inc. from 1980 to 1985; formerly Manager—Selection and Placement for Koppers since 1971.

Dr. Andrew C. Middleton 39 (1978)

President—Keystone Environmental Resources since 1986; formerly Vice President—Environmental Resources since 1986.

Robert R. Moran 63 (1947)

Vice President—Purchasing Department since 1982; formerly Manager—Raw Materials.

In the following tables are set forth as to each of the four nominees for election as Class I directors, and as to each of the continuing Class II and Class III directors, his or her age and principal occupation and business experience, the period during which each has served as a director of Koppers and the number of shares of Koppers Common Stock beneficially owned by each on February 29, 1988.

**NOMINEES FOR ELECTION AS CLASS I DIRECTORS
For Three-Year Terms Expiring in 1991**

<u>Name; Age; Principal Occupation; Principal Business of Employer; Business Experience; and Other Business Affiliations(1)</u>	<u>Served as Director to date from</u>	<u>Common Stock Beneficially Owned Directly or Indirectly on February 29, 1988(2)</u>
Charles F. Barber—71 Retired April 28, 1982 as Chairman and Chief Executive Officer of ASARCO Incorporated (production of nonferrous metals and non-metallic minerals). A director of The Continental Corporation, Unisys Corporation, Min Ven, Inc., The Lehman Corporation, Lehman Investors Fund, Inc., Lehman Capital Fund, Inc., Lehman Management Money Market Funds, Inc., Lehman Management Government Funds, Inc., and Lehman Management Tax Free Funds, Inc.	September 28, 1981	1,000
Fletcher L. Byrom—69 Retired April 26, 1982 as Chairman of the Board of Directors of Koppers. A director of ASARCO Incorporated, The Lehman Corporation, Lehman Investors, Fund, Inc., Lehman Capital Fund, Inc., North American Philips Corp., Ralston Purina Company, Advisory Director of Mellon Bank Corporation, Chemical Bank International Advisory Board, Unilever PLC & N.V. and Director and President of Micasu Corporation.	December 19, 1960	510 (7)
Richard M. Cyert—66 President and Trustee of Carnegie-Mellon University (education). Also, a director of Allegheny International, Inc., American Standard, Inc., Copperweld Corporation, The First Boston Corporation, H.J. Heinz Co., and Strategic Planning Associates.	January 31, 1972	400
William H. Knoell—63 Chairman, Chief Executive Officer and Director of Cyclops Industries (basic and specialty steels and fabricated steel products; industrial and commercial construction). Also, a director of Duquesne Light Company.	April 27, 1981	600

CLASS II DIRECTORS WHOSE TERMS EXPIRE IN 1989

<u>Name; Age; Principal Occupation; Principal Business of Employer; Business Experience; and Other Business Affiliations(1)</u>	<u>Served as Director to date from</u>	<u>Common Stock Beneficially Owned Directly or Indirectly on February 29, 1988(2)</u>
Anthony J. A. Bryan—65 Chairman and Chief Executive Officer of Copperweld Corporation (manufactures welded and seamless tubing, bimetallic rod, wire and strand). From 1977 until 1981, also served as President of Copperweld Corporation. Also, a director of Allegheny International, Inc., Chrysler Corporation, Federal Express Company, Hamilton Oil Company, Imetal, and PNC Financial Corp.	April 30, 1984	2,000
Andrew W. Mathieson—59 Executive Vice President of Richard K. Mellon and Sons (investment management). Also, a director of General Re Corporation, General Reinsurance Corporation (Europe), Mellon Bank, N.A. (5) and Mellon Bank Corporation.	June 28, 1965	1,477 (6)

Romesh Wadhvani—40 Chairman and Chief Executive Officer of American Cimflex Corporation (manufacturer of software-intensive, proprietary products and systems for computer integrated manufacturing). Chairman and Director of Instaplan Corporation and Chairman of Datatrak Systems, Inc.	April 28, 1986	600
Glen C. Tenley—60 President and Chief Operating Officer of Koppers Company, Inc. From 1984 to 1986 Vice President and General Manager—Tar and Wood Products Sector. From 1980 to 1984 Vice President and General Manager—Foundry and Industrial Supply Division.	July 28, 1986	8,052 (4)

CLASS III DIRECTORS WHOSE TERMS EXPIRE IN 1990

<u>Name; Age; Principal Occupation; Principal Business of Employer; Business Experience; and Other Business Affiliations(1)</u>	<u>Served as Director to date from</u>	<u>Common Stock Beneficially Owned Directly or Indirectly on February 29, 1988(2)</u>
Evelyn Berezin—62 Director of CIGNA Corporation, and DNA Plant Technology Corporation. Until September 1987 was President of Greenhouse Management Corporation, a subsidiary of Rand Capital Corp. (venture capital investment). Also, until December 1987 was a Director of ALYX Medical Systems.	April 28, 1980	500
Daniel M. Galbreath—59 President of John W. Galbreath & Co. (real estate development). Also, a director of Churchill Downs Incorporated, Ohio Bell/Ameritech and Borden Chemical and Plastics Limited Partnership. Also, Chairman of the Board of Galbreath-Ruffin Corporation and Member of the Board of Federal Reserve Bank of Cleveland.	April 30, 1984	500
Charles R. Pullin—64 Chairman of the Board of Directors and Chief Executive Officer of Koppers. From 1981 until 1982 Vice Chairman of the Board of Directors of Koppers. From 1978 until 1981 President (Chief Operating Officer) of Koppers Construction Materials and Services Group. Also, a director of Pittsburgh National Bank (3) and PNC Financial Corp.	February 23, 1981	14,226 (4)
Edward Donley—66 A Director and Chairman of the Executive Committee of the Board of Directors of Air Products and Chemicals, Inc. Also, Chairman of the Executive Committee and Director of the U.S. Chamber of Commerce. Director of American Standard Inc., Mellon Bank Corporation, Mellon Bank, N.A., Pennsylvania Power & Light Company and Cooper Tire & Rubber Company.	October 27, 1986	1,000

- (1) In its normal course of business, Koppers is a seller to and a purchaser from several of the companies for which Koppers directors serve as directors and/or executive officers. The annual magnitude of the aggregate transactions varies, but in 1987 was not material to the annual sales of any of the companies with which the above directors are associated. All such sales and purchases were made in the ordinary course of business and at competitive prices and terms.
- (2) The shares shown in the tables as owned by the directors in no case exceed 0.1% of the total outstanding shares of Koppers.
- (3) Pittsburgh National Bank is Trustee for the Employee Savings Plan of Koppers Company, Inc. and Subsidiaries and Koppers was engaged in various other banking transactions with Pittsburgh National Bank in 1987 for which Pittsburgh National Bank received fees. Fees paid to Pittsburgh National Bank are competitive and the terms of such transactions

were comparable to those obtainable from similar institutions. Koppers expects that these or similar arrangements will be continued.

- (4) Includes shares held under Koppers Employee Savings Plan and shares which said directors have the right to acquire beneficial ownership of within 60 days through the exercise of options under Koppers 1986 Stock Option Plan.
- (5) During 1987, Koppers obtained various banking and pension management services from Mellon Bank, N.A. for which Mellon received fees. Fees paid to Mellon are competitive and the terms of such transactions were comparable to those obtainable from similar institutions. Koppers expects that these or similar arrangements will be continued.
- (6) Does not include 81,928 shares (.3%) of Koppers Common Stock held in two trusts of which Mr. Mathieson is a co-trustee with others, including Mellon Bank, N.A. Mr. Mathieson has no direct beneficial interest in such shares although, as a co-trustee, he shares voting and investment power with respect to these shares.
- (7) Does not include 3,975 shares owned by Micasu Corp., a corporation in which Mr. Byrom owns 70% of the voting stock.

Item 11. Executive Compensation

EXECUTIVE COMPENSATION

Cash Compensation

The following table shows the cash compensation of each of the five most highly compensated executive officers of Koppers and the cash compensation of all executive officers as a group for services performed during 1987 in all capacities for Koppers and its subsidiaries.

(A) Name of Individual or Number of Persons in Group	(B) Capacities in Which Served	(C) Cash Compensation(1)
Charles R. Pullin	Chairman of the Board of Directors (Chief Executive Officer)	\$ 582,673
Glen C. Tenley	President	\$ 391,404
Burnett G. Bartley, Jr.	Executive Vice President	\$ 323,370
Thomas M. St. Clair	Vice President, Treasurer and Chief Financial Officer	\$ 237,650
Lester L. Murray	Vice President	\$ 222,454
All executive officers (including the foregoing) as a Group of 18.		\$4,041,095

- (1) Includes payments made to participants in Koppers 1979 Performance Share Plan, described hereafter, pursuant to the dividend equivalents feature of the Plan, payments made pursuant to Koppers 1987 Incentive Plan for certain officers and key employees, and payments accrued pursuant to various bonus plans for executive officers who would not have been eligible for the Incentive Plan in 1987. Bonus plans are adopted yearly by each of Koppers operating groups and are based on the accomplishment of group profit objectives and the achievement of individual performance objectives. The bonus plans are designed to provide incentive and competitive compensation, in addition to salary, to those key employees who contribute to the growth and profitability of Koppers. An Incentive Plan for 1988 will be submitted at the Company's March Board of Directors' meeting to the Directors for their approval. Said Plan will cover certain officers and key employees and awards under the Plan will be subject to the prior review by the Compensation Committee of the Board of Directors of 1988 company-wide operations and the attainment of personal objectives.

Director Compensation

Directors not otherwise employed by Koppers are currently paid an annual fee of \$15,000 and, in addition, \$750 for attendance at each meeting of the Board of Directors and each committee of the Board but not more than \$1,500 for all meetings held in any single day. The Chairman of each committee of the Board is also paid an annual fee of \$1,500. On June 29, 1981 the Board of Directors adopted a deferred compensation plan which allows each director to elect to defer payment of compensation until retirement, at which time payment will be made as elected in a lump sum or in five annual installments.

Employee Savings Plan

Koppers maintains an Employee Savings Plan, available to all eligible employees of Koppers, its participating subsidiaries and eligible employees of the joint venture between Koppers and Redland USA Holdings, Inc. upon the completion of a one year period of employment. The Plan provides a systematic savings program with alternative investment choices which permits a participant to make regular monthly contributions of up to 16% of base compensation in tax deferred savings. Koppers makes regular monthly matching contributions equal to 25% of the first 2% of a Plan participant's tax deferred contribution, and may make annual supplemental contributions which, based on the return on Koppers common stockholders equity, may range from zero to 70% of a participant's first 6% of tax deferred contributions, and may make discretionary supplemental contributions. A discretionary supplemental company contribution for the 1987 Plan Year was made in the amount of \$1,600,000. Participants contributions are delivered to the trustee (currently Pittsburgh National Bank) for investment by the trustee in one or more of the following funds as directed by the participant: (i) a fund composed of Koppers Common Stock; (ii) an index fund designed to closely approximate the composite rate of return of the Standard and Poors composite 500 standard index; (iii) a guaranteed income contract with Metropolitan Life Insurance Company which provides that funds will earn interest at an annual compounded rate of not less than 10.7% for the period ending December 31, 1988; and (iv) towards the purchase of life insurance contracts. Koppers regular matching contributions made to the Plan and earnings thereon, are immediately "vested" when made. Annual supplemental contributions and earnings thereon are not vested until two full years after the end of the year for which they were made. In-service withdrawals of such regular matching contributions and/or vested annual supplemental contributions are not permitted unless the participant is at least age 59½ as of the effective date of the withdrawal or in case of extreme financial hardship. If a participant's employment is terminated due to retirement, disability retirement, death or involuntary termination without cause, all Company contributions would become non-forfeitable and eligible for withdrawal. However, if a participant's employment is terminated for any reason other than those stated above, Koppers' regular contributions would be available for withdrawal. In such case, only those annual supplemental Company contributions that have been in the Plan for two full Plan Years after the Plan Year for which they were made would become non-forfeitable and available for withdrawal. The Plan is intended to encourage employee savings and investment in Koppers Common Stock. The Plan generally provides for voting of Koppers Common Stock by the trustee as directed by participants (to whom proxy materials are distributed). Most executive officers of Koppers are participants in the Plan. Koppers contributions to the Employee Savings Plan with regard to 1987 compensation were as follows: C. R. Pullin—\$7,492; G. C. Tenley—\$5,571; B. G. Bartley, Jr.—\$4,643; T. M. St. Clair—\$3,559; L. L. Murray—\$3,350; all executive officers as a group—\$59,947; and all participants—\$2,098,964. (These amounts include the 1987 discretionary supplemental company contribution earlier described.)

Due to certain restrictive provisions of the Tax Reform Act of 1986, the Plan was amended to eliminate the ability of participants to make after-tax savings to the Plan, effective January 1, 1987.

The Plan was also amended, effective as of January 1, 1983, to enable Koppers to make tax credit contributions to the Plan based on a percentage of all compensation (excluding deferred compensation and other distributions which receive special tax benefits) paid to employees who are eligible to participate in the Plan for the years 1983, 1984, 1985, 1986 and 1987. The Tax Reform Act of 1986 requires Koppers to discontinue tax credit contributions effective at the end of the 1986 Plan Year. Participants accounts are 100% vested and are not eligible for in-service withdrawals. Tax credit contributions are held in Koppers Common Stock by the trustee of the Plan and allocated in an equal amount for each employee who is eligible to participate in the plan and who is employed on the last day of the taxable year for which the contributions are made. Tax credit contributions allocated to plan participants are distributed upon termination of employment in cash, unless an election is made to take the distribution in shares of Koppers Common Stock. With respect to the 1986 Plan Year \$690,270 was allocated to the 5,367 eligible employees with a maximum benefit for any officer equal to \$128. Participants are not allowed to make withdrawals of the tax credit contributions until they retire or otherwise terminate employment with Koppers. Prior to the adoption of the tax credit plan in 1984, Koppers made contributions to an employee stock ownership plan (the "TRASOP") which also provided eligible employees with ownership of Koppers Common Stock. This Plan was merged into the Employee Savings Plan effective October 1, 1985. Participants are not permitted to make withdrawals of the "TRASOP" contributions until they retire or otherwise terminate employment with Koppers.

Pension Plan

All executive officers of Koppers are covered by Koppers non-contributory pension plan for salaried employees. Directors who have not served as employees are not eligible to receive retirement benefits from Koppers. Salaried employees of Koppers, its participating subsidiaries and employees of the joint venture between Koppers and Redland USA Holdings, Inc. who have one year of service are entitled to participate in the plan and to receive certain defined benefits for death or retirement. Annual Normal Retirement benefits are computed at the rate of 1% of Terminal Salary not in excess of \$7,800 (1¼% for years of credited service prior to 1970), plus 1¾% of Terminal Salary in excess of \$7,800 multiplied by the employee's years of

Credited Service prior to January 1, 1983. For service from January 1, 1983 benefits are computed at the rate of 1% of Terminal Salary not in excess of \$16,000 plus 1¾% of Terminal Salary in excess of \$16,000 multiplied by the years of Credited Service from January 1, 1983. A participant's Terminal Salary equals the average annual amount of compensation (which includes basic Annual Salary defined as of each January 1, one-half of the total amount of incentive payments and bonuses, sales commissions paid, and overtime payments) for the five (5) consecutive years in the ten (10) years of Credited Service prior to retirement affording the highest such average or during all years of Credited Service if less than five (5) years. As of December 31, 1987, the number of years of Credited Service for each of the individuals named in the cash compensation table was as follows: C. R. Pullin—33.75; G. C. Tenley—32.5; B. G. Bartley, Jr.—38.42; T. M. St. Clair—29.33; and L. L. Murray—31.75. The following table contains approximate retirement benefits payable to employees in higher salary classifications, including any employee who is an officer or director, assuming retirement at age 65, payments made on the straight-line annuity basis, election of no co-annuitant option and payment by Koppers out of its general funds of any amount which is in excess of the maximum amount permitted to be paid under the Employee Retirement Income Security Act of 1974, as amended, from the pension trust. The Board has adopted a resolution limiting the amount which Koppers may pay out of its general funds to an amount not in excess of 100% of the amount permitted to be paid from the pension trust.

Estimated Annual Retirement Benefits Under the Salaried Pension Plan

Average Annual Earnings Credited for Retirement Benefits	Years of Credited Service at Retirement					
	20	25	30	35	40	45
\$100,000	\$ 33,571	\$ 42,126	\$ 50,681	\$ 59,236	\$ 67,791	\$ 76,346
150,000	51,071	64,001	76,931	89,861	102,791	115,721
200,000	68,571	85,876	103,181	120,486	137,791	155,096
250,000	86,071	107,751	129,431	151,111	172,791	194,471
300,000	103,571	129,626	155,681	181,736	207,791	233,846
350,000	121,071	151,501	181,931	212,361	242,791	273,221
400,000	138,571	173,376	208,181	242,986	277,791	312,596

The information contained in the above table is as of December 31, 1987 and is based on the assumption that the pension plan will be continued in its present form.

Long Term Disability Plan of Koppers Company, Inc. and Subsidiaries for Salaried Employees

Effective January 1, 1985, the Pension Plan was amended by removing the disability retirement provision. In its place, the Company adopted a non-contributory, Long Term Disability Plan for salaried employees. Eligibility for participation is one year of employment. All executive officers of Koppers are covered under the Plan. Directors who have not served as employees are not eligible to participate in the Plan. Eligible salaried employees* who are continuously disabled for five (5) months or more and in receipt of a Primary Social Security Disability Award, will generally receive annual benefits based upon 50% of Terminal Salary* minus 50% of the Primary Social Security Disability Award. If the disability continues until age 65, the recipient would then receive a Normal Retirement* benefit from the Salary Pension Plan. Termination of disability benefits would occur if the recipient is found to be no longer in receipt of a Social Security Disability Award or death, whichever first occurs.

*See definitions in the "Pension Plan" description.

Deferred Compensation Unit Plan

Koppers Deferred Compensation Unit Plan was approved by the stockholders on March 26, 1956 and is designed to improve long-term returns to Koppers stockholders by enabling Koppers to attract and retain employees of outstanding competence and by promoting the stockholder point of view among key employees. Under this plan deferred compensation units not exceeding 1,000,000 may be awarded to officers and other key employees by an administrative committee composed of at least three directors of Koppers who are not eligible to participate, but not more than 40,000 units may be awarded to any one person. Each unit is equivalent to one share of Koppers Common Stock except that no stock is issued, the holders of the units have no right to vote, and each unit draws dividends whenever a dividend is declared and payable on Koppers Common Stock. Participants' accounts (except when the participant elects to have the dividends credited to his or her account in cash), are credited with a number of dividend units equal to the amount of dividends the participants would have received if each unit and dividend unit in his or her account were a share of Koppers Common Stock divided by the closing market price of Koppers Common Stock on the dividend record date. Each participant (or his or her beneficiary in case of death) is entitled upon termination of employment by reason of death, retirement or disability to have his or her account credited on such termination date with an amount equal to the aggregate fair market value on such date (or at the option of the participant,

on a selected value date) of the number of shares of Common Stock which is equal to the number of units in his or her account, minus the aggregate fair market value of such shares at the time such units were credited to his or her account, and to have the dividend units in his or her account converted into dollars at the fair market value of Koppers Common Stock on that date. On April 29, 1985, the stockholders approved an amendment and restatement of the Deferred Compensation Unit Plan which provides that with respect to any participant whose date of termination of employment ("Termination Date") is on or after May 1, 1985 that (i) units awarded on or after May 1, 1985 to such participant shall have a value on the date of award ("Award Date") equal to the average of the closing prices of Koppers Common Stock on the New York Stock Exchange ("Closing Price") on the trading days during one full year immediately prior to the Award Date; (ii) units and dividend units of such participant shall have a value as of the Termination Date equal to the highest of the annual averages of the Closing Prices for each of the three years immediately preceding the Termination Date; (iii) such participant's account will be revalued on each of the first, second and third anniversaries of such participant's Termination Date based on the average annual Closing Prices during each of such years, and any appreciation in the value of units and dividend units between such Termination Date and such anniversaries (or, if the Plan is terminated prior to the third anniversary, the value, if higher, as of such Plan Termination Date) be paid to such participant; (iv) if the Plan is terminated, such participant's units and dividend units will be valued as of the Plan Termination Date at such value as the Board of Directors determines by reference to either the Closing Price on the Plan Termination Date or the highest Closing Price during the 90 trading days immediately prior to the Plan Termination Date; and (v) such participant's ability to elect to have his or her units and dividend units valued after his or her Termination Date is eliminated. However, payment to each participant will continue to be made, at the participant's option over a five or ten year period. As a condition to the award of units, a participant must agree to remain in the employ of Koppers (subject to the right of Koppers to terminate his or her employment at any time) for five years after the date of such award, or until retirement prior to the expiration of such five year period. Approximately 249 employees of Koppers were participants in the Deferred Compensation Unit Plan during 1987. In 1987, deferred compensation units were awarded as follows: C. R. Pullin—0, G. C. Tenley—7,600, B. G. Bartley, Jr.—5,000, T. M. St. Clair—4,000, L. L. Murray—3,000; all executive officers as a group—52,900 units; all employees—254,625 units; the aggregate dividend credits allocated to C. R. Pullin, G. C. Tenley, B. G. Bartley, Jr., T. M. St. Clair, L. L. Murray, and such groups in 1987 were \$60,249, \$26,760, \$59,334, \$33,710, \$22,020, \$421,593, and \$924,778, respectively.

1979 Performance Share Plan

The 1979 Performance Share Plan, which was approved by Koppers stockholders on April 30, 1979, permits the grant of up to 500,000 performance shares to key employees of Koppers by the Compensation Committee of the Board of Directors. The Plan is designed to increase returns to stockholders by providing long-term incentives in the form of stock ownership to such key employees who are believed to have an opportunity to influence significantly Koppers long-term growth. Any performance shares which are forfeited by employees may be awarded again but no performance shares may be granted after December 31, 1988. The performance shares granted become earned, upon conclusion of the applicable performance period, only to the extent that Koppers growth in earnings per share of Koppers Common Stock during such period reaches certain levels specified by the Compensation Committee of the Board, none of whose members are eligible to receive performance shares. During the performance period, a participant receives cash equal in value to the dividends he or she would have received if each performance share were a share of Koppers Common Stock. If the performance goals are attained, in whole or in part, the number of performance shares earned by a participant are to be paid by delivering (a) a certificate for that number of shares of Koppers Common Stock which is equal to the number of performance shares earned, and (b) cash equal to the fair market value of the number of shares of Koppers Common Stock so delivered. If the performance goals are not attained, no award will be paid for the period to which such goals relate. The following annual payments were made pursuant to the dividend equivalents feature of the Plan in 1987 at an annual dividend rate of \$1.00 in 1987: C. R. Pullin—\$3,500; G. C. Tenley—\$1,400; B. G. Bartley, Jr.—\$1,700; T. M. St. Clair—\$1,400; and L. L. Murray—\$1,200. The following annual payments were also made by Koppers pursuant to the dividend equivalents feature of the Plan during 1987: all executive officers as a group—\$21,900; and all employees—\$146,105.

1986 Stock Option Plan

Koppers' 1986 Stock Option Plan providing for the granting of incentive stock options, nonqualified stock options and stock appreciation rights to officers (including directors who also are officers) and other key employees, was approved by the stockholders on April 28, 1986. The Plan is administered by the Compensation Committee of the Board of Directors of Koppers ("Committee") which is composed entirely of directors who are not eligible to participate in the Plan. Subject to the adjustments provided in the Plan, the aggregate number of shares of the common stock of Koppers for which options may be granted under the Plan is 1,000,000 shares.

Subject to the provisions of the Plan, the Committee determines the persons to whom options shall be awarded and the number of shares to be covered by each option. The Committee has the authority, in its discretion, to grant "incentive stock options"

within the meaning of Section 422A of the Internal Revenue Code or to grant "nonqualified stock options" (options which do not qualify under Section 422A of the Internal Revenue Code) or to grant both types of options. Furthermore, the Committee may include a stock appreciation right in connection with a stock option, either at the time of grant or by subsequent amendment.

The Committee establishes the option price at the time an option is granted at such amount as the Committee determines, except that with respect to incentive stock options such option price can not be less than 100% of the fair market value of such shares on the day such option is granted. The option price of each share purchased pursuant to an option must be paid in full at the time of purchase. Such price shall be payable in cash, or at the discretion of the Committee, by delivering to Koppers of other shares of common stock of Koppers owned by the optionee. Shares delivered to Koppers in payment of the option price shall be valued at the fair market value of the common stock of Koppers on the day preceding the date of the exercise of the option. A stock appreciation right (SAR) entitles the optionee to surrender to Koppers the related option, or any portion thereof, and receive from Koppers in exchange therefor an amount equal to the excess of the fair market value of one share of the common stock of Koppers on the day preceding the surrender of such option over the option price per share times the number of shares called for by the option or portion thereof, which is surrendered. The Committee has the right to determine that Koppers' obligation to any optionee exercising a SAR shall be paid in cash, or partly in cash and partly in shares.

During 1987, options for an aggregate of 179,025 shares of Koppers common stock were granted having an average per share exercise price of \$32.375. Of the 179,025 shares of Koppers common stock subject to options granted during 1987, an aggregate of 89,513 shares were in tandem with SARs. Of the 442,175 options outstanding under the Plan, Directors and Executive Officers held as of December 31, 1987 options to purchase 211,700 shares under the Plan, representing approximately 48% of the outstanding options under the Plan at that date. As of December 31, 1987, 88,736 stock options were exercisable within 60 days.

The table below shows information with respect to options and SARs granted, and the exercise of options and SARs, during 1987 for each person whose compensation is reported by name and for all persons who served as executive officers during 1987 as a group:

For the Period January 1, 1987—December 31, 1987						
<u>Name/Group</u>	<u>Number of Options Granted</u>	<u>Average Option Price Per Share (1)</u>	<u>Number of SARs Granted in Tandem With Options</u>	<u>Number of SARs not Granted in Tandem With Options</u>	<u>Average Price of SARs not Granted in Tandem With Options</u>	<u>Net Value Realized Upon Exercise of Options/SARs (2)</u>
Charles R. Pullin	20,000	32.375	10,000	—	—	—
Glen C. Tenley	9,500	32.375	4,750	—	—	—
Burnett G. Bartley, Jr.	7,000	32.375	3,500	—	—	—
Thomas M. St. Clair	5,000	32.375	2,500	—	—	—
Lester L. Murray	3,500	32.375	1,750	—	—	—
All executive officers (including the foregoing) as a Group (18)	81,000	32.375	40,500	—	—	—

(1) In all cases, option prices were at least 100 percent of market value on dates of grant.

(2) In 1987, Mr. Tenley exercised nonqualified stock options in respect of 4,000 shares of common stock. On the date of exercise, the fair market value of the shares of common stock acquired by Mr. Tenley upon the exercise of the option exceeded the exercise price of such option by \$. Under the Code, Mr. Tenley is not required to report such amount as taxable income until the expiration of six months from the date of exercise, unless Mr. Tenley files an election under Section 83(b) of the Code to accelerate the taxation of the gain. If no such election is filed, the actual amount subject to federal income tax shall be determined based upon the fair market value of such shares of common stock on the date such six month period expires.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Principal Stockholders and Management

The directors and officers of Koppers as a group (28 persons) owned beneficially 129,320 shares, or approximately .5%, of Koppers Common Stock at February 29, 1988, excluding the shares as to which Mr. Mathieson shares voting and investment

power as a co-trustee of trusts referred to in footnote 6 to the above tables.

Based upon information set forth in a Schedule 13G filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 and received by Koppers on February 8, 1988, Equitable Life Assurance Society of the United States and its two subsidiaries, Alliance Capital Management Corporation and Wood, Struthers & Winthrop Management are the beneficial owner of 1,861,150 shares of Koppers Common Stock, or 6.6% of such shares outstanding as of February 29, 1988.

Item 13. Certain Relationships and Related Transactions

See Item 10.

Part IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a) (1) The following financial statements included in Koppers Annual Report to Stockholders for the year ended December 31, 1987 are included herein.

- Report of Certified Public Accountants
- Statement of Accounting Policies
- Consolidated Statement of Operations for the years ended December 31, 1987, December 31, 1986, and December 31, 1985
- Consolidated Balance Sheet as of December 31, 1987, and December 31, 1986
- Consolidated Statement of Cash Flows for the years ended December 31, 1987, December 31, 1986, and December 31, 1985
- Consolidated Statement of Stockholders' Equity for the years ended December 31, 1987, December 31, 1986, and December 31, 1985
- Notes to Consolidated Financial Statements

- (2) Schedules for the three years ended December 31, 1987.

<u>Schedule Number</u>	<u>Schedule Title</u>
V	Property, Plant and Equipment
VI	Accumulated Depreciation of Property, Plant and Equipment
VIII	Valuation and Qualifying Accounts and Reserves
IX	Short-Term Borrowings
X	Supplementary Income Statement Information

Schedules I, II, III, IV, VII, XI, XII, XIII, and XIV are not given, as the subject matter thereof is not present or is not present in amounts sufficient to require submission of the schedules or because the information required is included in the financial statements or the notes thereto.

- (3) Exhibits required to be filed by Item 601 of Regulation S-K are listed below and are filed as part hereof. Documents not designated as being incorporated herein by reference are filed herewith. The paragraph numbers correspond to the exhibit numbers designated in Item 601 of Regulation S-K.

- 1-3.1 Koppers Certificate of Incorporation, as amended, and the Certificate of Resolution, dated December 16, 1980, setting forth certain terms of Koppers \$10 convertible preference stock, filed as exhibits 4.1 and 4.2 to Koppers Registration Statement No. 2-70174 and incorporated herein by this reference.
- 2-3.2 Certificate of Amendment to Koppers Certificate of Incorporation, dated May 1, 1984, filed as Exhibit 3.2 to Koppers Annual Report and Form 10-K for the year ended December 31, 1984 and incorporated herein by reference.
- 3-3.3 Certificate of Amendment to Koppers Certificate of Incorporation, dated April 28, 1987.
- 4-3.3 Koppers By-Laws as amended to December 14, 1987.

- 5-10.1 Koppers Restated Deferred Compensation Unit Plan, filed as Exhibit 10.2 to Koppers Annual Report and Form 10-K for the year ended December 31, 1984 and incorporated herein by reference.
- 6-10.2 Koppers Deferred Compensation Plan for Directors, filed as Exhibit 10.3 to Koppers Annual Report and Form 10-K for the year ended December 31, 1984 and incorporated herein by this reference.
- 7-10.3 Koppers 1986 Stock Option Plan, filed as Exhibit 10.3 to Koppers Annual Report and Form 10-K for the year ended December 31, 1986 and incorporated herein by reference.
- 8-10.4 Koppers 1979 Performance Share Plan, filed as Exhibit 10.5 to Koppers Annual Report and Form 10-K for the year ended December 31, 1984 and incorporated herein by reference.
- 9-10.5 Koppers 1988 Executive Incentive Plan. An Executive Incentive Plan for 1988 for certain officers and other key employees will be submitted to Koppers Board of Directors at their March 1988 Board of Directors meeting. Said plan will provide that each plan participant will be assigned a target award level, and he or she will receive an incentive payment if Company and individual performance criteria are met. The Chairman will recommend to the Compensation Committee of the Board of Directors the distribution of such portion of the Plan fund as he deems appropriate; or if he so determines, he may recommend that no awards be made for performance during the Plan year. Upon appropriate review of the Company's performance during the Plan year, the Compensation Committee shall act upon the Chairman's recommendations. Any award to the Chairman shall be determined by the Compensation Committee of the Board of Directors.
- 10-22 Listed below are the Koppers subsidiaries whose accounts are included in its consolidated financial statements. Koppers has 46 other subsidiaries, which are not named here because all of them, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

Subsidiary and Jurisdiction of Incorporation

Associated Asphalt Products Co.—Ga.	Davidson Mineral Properties, Inc.—Del.
Cherokee Crushed Stone, Inc.—Del.	Reeves Construction Co.—Ga.
DHH Investments, Inc.—Wash.	Meadow Steel Products, Inc.—Del.
Acme Concrete Company—Wash.	Kaiser Sand & Gravel Co.—Del.
Yakima Concrete and Asphalt Company—Wash.	The Kentucky Stone Co.—Ky.
Cunningham Sand and Gravel Co.—Wash.	Keystone Environmental Resources, Inc.—Del.
Eastern Rock Products, Inc.—N.Y.	Koppers International Canada Ltd.—Canada
Echols Brothers, Inc.—Del.	Lycoming Silica Sand Co.—Pa.
Fairfield Bridge Company, Inc.—Del.	Pettit Paint Company, Inc.—N.J.
France Stone Company—Ohio	Sloan Construction Co., Inc.—S.C.
The General Crushed Stone Co.—Del.	Sully-Miller Contracting Co.—Calif.
Chester Carriers, Inc.—Del.	Kern Rock Company—Calif.
Easton Mack Truck Sales, Inc.—Pa.	P&K Materials, Inc.—Calif.
Reed Paving, Inc.—N.Y.	South Coast Asphalt Products Co.—Calif.
The Stone Man, Inc.—Del.	Southern Pacific Milling Co.—Calif.
Sim J. Harris Co.—Del.	Nello L. Teer Co.—Del.
Herbert R. Imbt, Inc.—Pa.	Comfort Engineers, Inc.—N.C.
Keystone Pavement and Construction Company, Inc.—Pa.	Guest Associates, Inc.—N.C.
Southern Arizona Paving and Construction Company—Ariz.	Nello L. Teer International, Inc.—Del.
Holland Contracting Co.—Ga.	Thiem Corporation—Del.
Ivy Steel & Wire Company, Inc.—Del.	Western-Mobile, Inc.—Del. (50% equity investment)

11-24 Consent of Arthur Young & Company, Certified Public Accountants

Copies of the exhibits listed above will be furnished upon request to holders or beneficial holders of any class of Koppers stock, subject to payment in advance of the cost of reproducing the exhibits requested.

- (b) The only Form 8-K filed by Koppers during the fourth quarter of 1987 was filed on November 30, 1987. That report related to the fact that Koppers would take an after-tax charge estimated at \$63 million in the fourth quarter of 1987 relating to the Engineering and Construction business sold by Koppers in 1984.

SIGNATURES REQUIRED FOR FORM 10-K

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Koppers has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on March 29, 1988.

KOPPERS COMPANY, INC.
(Registrant)

By /s/ THOMAS M. ST. CLAIR
Thomas M. St. Clair, *Vice President and Chief Financial Officer*

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ CHARLES R. PULLIN</u> Charles R. Pullin	Chairman of the Board of Directors and Chief Executive Officer	March 29, 1988
<u>/s/ GLEN C. TENLEY</u> Glen C. Tenley	Director, President and Chief Operating Officer	March 29, 1988
<u>/s/ FITZHUGH L. BROWN</u> Fitzhugh L. Brown	Vice President and Comptroller	March 29, 1988
Charles F. Barber	Director	By <u>/s/ DONALD H. CUOZZO</u> March 29, 1988 Donald H. Cuozzo <i>Attorney-in-Fact</i>
Evelyn Berezin	Director	
Anthony J. A. Bryan	Director	
Fletcher L. Byrom	Director	
Dr. Richard M. Cyert	Director	
Edward Donley	Director	
Daniel M. Galbreath	Director	
William H. Knoell	Director	
Dr. Romesh Wadhvani	Director	

Exhibit No. 24 Consents of Experts and Counsel

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference with respect to the financial statements and schedules of Koppers Company, Inc. included in the Form 10-K for the year ended December 31, 1987 in the Registration Statements (Forms S-8, Numbers 2-89784 and 33-6107) pertaining to the Employee Savings Plan and 1986 Stock Option Plan of Koppers Company, Inc. and in the related Prospectus of our Report dated January 25, 1988 included in the 1987 Annual Report to Stockholders of Koppers Company, Inc.

ARTHUR YOUNG & COMPANY

Arthur Young & Company

Pittsburgh, Pennsylvania

**Koppers Company, Inc.
and Consolidated Subsidiaries**

**Schedule V—Property, Plant and Equipment
For the Years Ended December 31, 1987, 1986 and 1985**

Classification	Balance at beginning of year	Additions at cost	Retirements or sales(1)	Transfers and other additions (deductions)	Balance at close of year
(\$ Thousands)					
1987					
Land	\$ 36,833	\$ 4,843	\$ 329	\$1,836	\$ 43,183
Buildings	100,286	5,333	4,812	1,595	102,402
Machinery and equipment	900,515	96,564	57,751	4,205	943,533
Depletable mineral properties	48,358	5,723	3,134	24	50,971
Depletable timber properties	7,125	1,468	6,235	—	2,358
Total	\$1,093,117	\$113,931	\$ 72,261	\$7,660	\$1,142,447
1986					
Land	\$ 36,693	\$ 4,084	\$ 4,007	\$ 63	\$ 36,833
Buildings	101,410	11,609	12,295	(438)	100,286
Machinery and equipment	872,595	99,754	72,329	495	900,515
Depletable mineral properties	47,665	18,904	18,211	—	48,358
Depletable timber properties	7,008	2,270	2,153	—	7,125
Total	\$1,065,371	\$136,621	\$108,995	\$ 120	\$1,093,117
1985					
Land	\$ 51,307	\$ 2,028	\$ 16,607	\$ (35)	\$ 36,693
Buildings	136,039	4,178	38,522	(285)	101,410
Machinery and equipment	1,005,451	94,692	227,102	(446)	872,595
Depletable mineral properties	82,150	3,749	38,234	—	47,665
Depletable timber properties	14,998	1,650	9,640	—	7,008
Total	\$1,289,945	\$106,297	\$330,105	\$ (766)	\$1,065,371

(1) Includes \$64,856 in 1987, \$70,344 in 1986, and \$14,705 in 1985 from operations disposed of or closed. Also, included in 1985 is a \$300,921 transfer of net assets of discontinued operations.

**Koppers Company, Inc.
and Consolidated Subsidiaries**

**Schedule VI—Accumulated Depreciation, Depletion and Amortization
For the Years Ended December 31, 1987, 1986 and 1985**

Description	Balance at beginning of year	Additions charged to income	Retirements(2)	Other additions(3)	Balance at close of year
	(\$ Thousands)				
1987					
Depreciation and amortization	\$626,821	\$69,705	\$ 43,777	\$ 952	\$653,701
Depletion	11,666	3,826	3,284	(6)	12,202
Total	\$638,487	\$73,531	\$ 47,061	\$ 946	\$665,903
1986					
Depreciation and amortization	\$610,408	\$66,754	\$ 50,659	\$ 318	\$626,821
Depletion	18,700	3,454	10,426	(62)	11,666
Total	\$629,108	\$70,208	\$ 61,085	\$ 256	\$638,487
1985(1)					
Depreciation and amortization	\$666,128	\$78,074	\$175,587	\$41,793	\$610,408
Depletion	16,565	3,591	12,573	11,117	18,700
Total	\$682,693	\$81,665	\$188,160	\$52,910	\$629,108

(1) Includes provision relating to both continuing and discontinued operations.

(2) Includes \$40,543 in 1987, \$34,123 in 1986, and \$9,798 in 1985 from operations disposed of or closed. Also, included in 1985 is a \$173,016 transfer to Net Assets of Discontinued Operations.

(3) Includes \$2,745 in 1987, \$4,558 in 1986, and \$53,277 in 1985 of valuation reserves for operation closed or disposed.

**Koppers Company, Inc.
and Consolidated Subsidiaries**

**Schedule VIII—Valuation and Qualifying Accounts
For the Years Ended December 31, 1987, 1986 and 1985**

Description	Balance at beginning of year	Additions charged to income	Deductions (2)	Balance at close of year
	(\$ Thousands)			
1987				
Allowance for doubtful accounts	\$ 8,220	\$1,636	\$1,174	\$ 8,682
Allowance for doubtful notes receivable	4,145	—	4,145	—
Allowance for decline in value of investment	2,770	—	—	2,770
	<u>\$15,135</u>	<u>\$1,636</u>	<u>\$5,319</u>	<u>\$11,452</u>
1986				
Allowance for doubtful accounts	\$ 6,509	\$4,951	\$3,240	\$ 8,220
Allowance for doubtful notes receivable	4,567	—	422	4,145
Allowance for decline in value of investment	2,770	—	—	2,770
	<u>\$13,846</u>	<u>\$4,951</u>	<u>\$3,662</u>	<u>\$15,135</u>
1985 (1)				
Allowance for doubtful accounts	\$ 5,453	\$3,354	\$2,298	\$ 6,509
Allowance for doubtful notes receivable	3,872	695	—	4,567
Allowance for decline in value of investment	2,049	721	—	2,770
	<u>\$11,374</u>	<u>\$4,770</u>	<u>\$2,298</u>	<u>\$13,846</u>

(1) Includes provision relating to both continuing and discontinued operations.

(2) Accounts written off, less recoveries. Included in 1985 is a \$459 transfer to net assets of discontinued operations.

**Koppers Company, Inc.
and Consolidated Subsidiaries**

**Schedule IX—Short-Term Borrowing
For the Years Ended December 31, 1987, 1986 and 1985**

Category of Short-Term Borrowings	Balance at end of period	Weighted average interest rate	Maximum amount out- standing during the period	Average amount out- standing during the period(1)	Weighted average interest rate dur- ing the period(1)
(\$ Thousands)					
1987					
Amounts payable to banks	\$1,150 (2)	17.0%	\$35,000	\$ 4,206	8.9%
Commercial paper	—	—	\$40,000	\$11,440	7.1%
1986					
Amounts payable to banks	\$1,286 (2)	10.8%	\$ 1,307	\$ 1,146	12.1%
Commercial paper	—	—	—	—	
1985					
Amounts payable to banks	\$1,307 (2)	13.5%	\$ 2,221	\$ 1,208	14.5%
Commercial paper	—	—	\$59,750	\$19,610	8.2%

(1) The average amount outstanding for each period was computed by using a daily average during the year. The weighted average interest rate for each period was computed by weighting the effective interest rate over the year.

(2) Included in term debt due within one year.