

LSB INDUSTRIES INC
Form 10-Q
November 06, 2008
LSB Industries, Inc.

Form 10-Q (9-30-2008)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from
_____ to _____

Commission file number 1-7677

LSB Industries, Inc.
Exact name of Registrant as specified in its charter

Delaware 73-1015226
State or other jurisdiction of I.R.S. Employer Identification No.
incorporation or organization

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107
Address of principal executive offices (Zip Code)

(405) 235-4546
Registrant's telephone number, including area code

____ None ____
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the Registrant's voting common stock, as of October 31, 2008 was 21,299,652 shares, excluding 3,648,518 shares held as treasury stock.

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FORM 10-Q OF LSB INDUSTRIES, INC.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Information at September 30, 2008 is unaudited)

	September 30, 2008	December 31, 2007
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 47,478	\$ 58,224
Restricted cash	276	203
Accounts receivable, net	106,348	70,577
Inventories:		
Finished goods	38,888	28,177
Work in process	3,526	3,569
Raw materials	32,031	25,130
Total inventories	74,445	56,876
Supplies, prepaid items and other:		
Prepaid insurance	927	3,350
Prepaid income taxes	1,535	-
Precious metals	14,400	10,935
Supplies	4,371	3,849
Other	1,619	1,464
Total supplies, prepaid items and other	22,852	19,598
Deferred income taxes	5,877	10,030
Total current assets	257,276	215,508
Property, plant and equipment, net	95,952	79,692
Other assets:		
Debt issuance and other debt-related costs, net	4,233	4,639
Investment in affiliate	3,568	3,426
Goodwill	1,724	1,724
Other, net	2,613	2,565
Total other assets	12,138	12,354
	\$ 365,366	\$ 307,554

(Continued on following page)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(Information at September 30, 2008 is unaudited)

	September 30, 2008	December 31, 2007
(In Thousands)		
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 55,190	\$ 39,060
Short-term financing and drafts payable	-	919
Accrued and other liabilities	44,193	38,942
Current portion of long-term debt	1,495	1,043
Total current liabilities	100,878	79,964
Long-term debt	122,032	121,064
Noncurrent accrued and other liabilities:		
Deferred income taxes	5,601	5,330
Other	8,343	6,913
	13,944	12,243
Contingencies (Note 10)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 24,898,170 shares issued (24,466,506 at December 31, 2007)	2,490	2,447
Capital in excess of par value	128,056	123,336
Accumulated other comprehensive loss	(193)	(411)
Retained earnings (accumulated deficit)	16,232	(16,437)
	149,585	111,935
Less treasury stock at cost:		
Common stock, 3,648,518 shares (3,448,518 at December 31, 2007)	21,073	17,652
Total stockholders' equity	128,512	94,283
	\$ 365,366	\$ 307,554

(See accompanying notes)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
Nine and Three Months Ended September 30, 2008 and 2007

	Nine Months		Three Months	
	2008	2007	2008	2007
(In Thousands, Except Per Share Amounts)				
Net sales	\$ 569,427	\$ 451,754	\$ 210,920	\$ 147,613
Cost of sales	456,760	349,873	179,751	112,441
Gross profit	112,667	101,881	31,169	35,172
Selling, general and administrative expense	62,633	55,821	22,411	18,827
Provisions for (recovery of) losses on accounts receivable	159	874	(133)	253
Other expense	946	853	289	335
Other income	(8,417)	(3,440)	(88)	(3,340)
Operating income	57,346	47,773	8,690	19,097
Interest expense	6,363	8,062	2,643	3,482
Non-operating other income, net	(1,125)	(605)	(263)	(532)
Income from continuing operations before provisions (benefits) for income taxes and equity in earnings of affiliate	52,108	40,316	6,310	16,147
Provisions (benefits) for income taxes	19,817	(1,017)	2,388	(1,549)
Equity in earnings of affiliate	(697)	(654)	(235)	(223)
Income from continuing operations	32,988	41,987	4,157	17,919
Net loss (income) from discontinued operations	13	(348)	(4)	(377)
Net income	32,975	42,335	4,161	18,296
Dividends, dividend requirements and stock dividend on preferred stocks	306	5,608	-	203
Net income applicable to common stock	\$ 32,669	\$ 36,727	\$ 4,161	\$ 18,093
Weighted-average common shares:				
Basic	21,156	19,150	21,237	20,220
Diluted	24,884	22,990	22,654	25,072
Income per common share:				
Basic:				
Income from continuing operations	\$ 1.54	\$ 1.90	\$.20	\$.87
Net income (loss) from discontinued operations	-	.02	-	.02
Net income	\$ 1.54	\$ 1.92	\$.20	\$.89
Diluted:				
Income from continuing operations	\$ 1.40	\$ 1.65	\$.18	\$.75
Net income (loss) from discontinued operations	-	.02	-	.02
Net income	\$ 1.40	\$ 1.67	\$.18	\$.77

(See accompanying notes)

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LSB INDUSTRIES, INC.
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (Unaudited)
 Nine Months Ended September 30, 2008

	Common Stock Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Treasury Stock- Common	Total
(In Thousands)								
Balance at December 31, 2007	24,467	\$3,000	\$2,447	\$123,336	\$ (411)	\$(16,437)	\$(17,652)	\$ 94,283
Net income						32,975		32,975
Amortization of cash flow hedge					218			218
Total comprehensive income								33,193
Dividends paid on preferred stock						(306)		(306)
Stock-based compensation				577				577
Exercise of stock options	430		43	728				771
Income tax benefit from exercise of stock options				3,412				3,412
Acquisition of 200,000 shares of common stock							(3,421)	(3,421)
Conversion of shares of redeemable preferred stock to common stock	1			3				3
Balance at September 30, 2008	24,898	\$3,000	\$2,490	\$128,056	\$ (193)	\$ 16,232	\$(21,073)	\$128,512

(See accompanying notes)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Nine Months Ended September 30, 2008 and 2007

	2008	2007
	(In Thousands)	
Cash flows from continuing operating activities:		
Net income	\$ 32,975	\$ 42,335
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Net loss (income) from discontinued operations	13	(348)
Deferred income taxes	4,424	(3,150)
Gain on litigation judgment associated with property, plant and equipment	(3,943)	-
Loss on sales of property and equipment	130	446
Depreciation of property, plant and equipment	9,784	9,201
Amortization	914	841
Stock-based compensation	577	228
Provisions for losses on accounts receivable	159	874
Provision for (realization of) losses on inventory	400	(360)
Provisions for impairment of long-lived assets	192	250
Realization of losses on firm sales commitments	-	(328)
Equity in earnings of affiliate	(697)	(654)
Distributions received from affiliate	555	570
Changes in fair value of commodities contracts	4,931	(133)
Changes in fair value of interest rate contracts	(237)	241
Other	-	(8)
Cash provided (used) by changes in assets and liabilities:		
Accounts receivable	(36,043)	(20,656)
Inventories	(17,969)	(1,587)
Other supplies and prepaid items	(3,254)	(2,541)
Accounts payable	14,410	(3,849)
Customer deposits	(269)	(233)
Deferred rent expense	(2,909)	(2,423)
Other current and noncurrent liabilities	5,178	7,889
Net cash provided by continuing operating activities	9,321	26,605
Cash flows from continuing investing activities:		
Capital expenditures	(22,693)	(10,300)
Proceeds from litigation judgment associated with property, plant and equipment	5,948	-
Payment of legal costs relating to litigation judgment associated with property, plant and equipment	(1,884)	-
Proceeds from sales of property and equipment	63	192
Proceeds from (deposits of) restricted cash	(73)	3,651
Purchase of interest rate cap contracts	-	(621)
Other assets	(305)	(70)
Net cash used by continuing investing activities	(18,944)	(7,148)

(Continued on following page)

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LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)
Nine Months Ended September 30, 2008 and 2007

	2008	2007
	(In Thousands)	
Cash flows from continuing financing activities:		
Proceeds from revolving debt facilities	\$ 475,372	\$ 381,835
Payments on revolving debt facilities	(475,372)	(408,242)
Proceeds from 5.5% convertible debentures, net of fees	-	56,985
Proceeds from other long-term debt, net of fees	-	2,424
Payments on other long-term debt	(524)	(7,629)
Payments of debt issuance costs	-	(143)
Proceeds from short-term financing and drafts payable	-	56
Payments on short-term financing and drafts payable	(919)	(2,909)
Proceeds from exercise of stock options	771	1,112
Acquisition of common stock	(3,421)	-
Excess income tax benefit on stock options exercised	3,412	-
Dividends paid on preferred stock	(306)	(2,934)
Acquisition of non-redeemable preferred stock	-	(1,292)
Net cash provided (used) by continuing financing activities	(987)	19,263
Cash flows of discontinued operations:		
Operating cash flows	(136)	(106)
Net increase (decrease) in cash and cash equivalents	(10,746)	38,614
Cash and cash equivalents at beginning of period	58,224	2,255
Cash and cash equivalents at end of period	\$ 47,478	\$ 40,869
Supplemental cash flow information:		
Cash payments for income taxes, net of refunds	\$ 16,814	\$ 1,399
Noncash investing and financing activities:		
Accounts payable and other long-term debt associated with purchases of property, plant and equipment	\$ 4,009	\$ 2,203
Debt issuance costs	\$ -	\$ 3,026
Debt issuance costs associated with 7% convertible debentures converted to common stock	\$ -	\$ 266
7% convertible debentures converted to common stock	\$ -	\$ 4,000
Series 2 preferred stock converted to common stock of which \$12,303,000 was charged to accumulated deficit	\$ -	\$ 27,593

(See accompanying notes)

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation The accompanying condensed consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company", "We", "Us", or "Our") and its subsidiaries. We are a manufacturing, marketing and engineering company which is primarily engaged, through our wholly-owned subsidiary ThermaClime, Inc. ("ThermaClime") and its subsidiaries, in the manufacture and sale of geothermal and water source heat pumps and air handling products (the "Climate Control Business") and the manufacture and sale of chemical products (the "Chemical Business"). The Company and ThermaClime are holding companies with no significant assets or operations other than cash and cash equivalents and our investments in our subsidiaries. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of September 30, 2008 and for the nine and three-month periods ended September 30, 2008 and 2007 include all adjustments and accruals, consisting only of normal, recurring accrual adjustments which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2007 ("2007 Form 10-K").

Note 2: Recently Issued Accounting Pronouncements In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157 - Fair Value Measurements ("SFAS 157"). SFAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. SFAS 157 provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and input used in valuations. SFAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of SFAS 157 became effective for the Company on January 1, 2008. The provisions of SFAS 157 were applied prospectively. See Note 11 - Derivatives, Hedges and Financial Instruments.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2 ("FSP 157-2"), which delayed the effective date of SFAS 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FSP 157-2 will become effective for the Company beginning in the first quarter of 2009. We have not yet

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 2: Recently Issued Accounting Pronouncements (continued)

determined if the adoption of FSP 157-2 will significantly impact our consolidated financial statements and disclosures.

In March 2008, the FASB issued SFAS No. 161 - Disclosures about Derivative Instruments and Hedging Activities; an Amendment of SFAS 133 ("SFAS 161"). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities for the purpose of improving the transparency of financial reporting. The new disclosure requirements of SFAS 161 will become effective for the Company beginning in the first quarter of 2009. We have not yet determined if the adoption of SFAS 161 will significantly impact our consolidated financial statements and disclosures.

Note 3: Accounts Receivable

	September 30, 2008	December 31, 2007
	(In Thousands)	
Trade receivables	\$ 105,646	\$ 68,234
Insurance claims	174	2,469
Other	1,099	1,182
	106,919	71,885
Allowance for doubtful accounts	(571)	(1,308)
	\$ 106,348	\$ 70,577

Note 4: Inventories Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At September 30, 2008 and December 31, 2007, inventory reserves for certain slow-moving inventory items (primarily Climate Control products) were \$544,000 and \$460,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were \$191,000 and \$13,000, at September 30, 2008 and December 31, 2007, respectively, because cost exceeded the net realizable value.

Changes in our inventory reserves are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2008	2007	2008	2007
	(In Thousands)			
Balance at beginning of period	\$ 473	\$ 1,255	\$ 583	\$ 847
Provisions for (realization of) losses	400	(360)	216	(15)
Write-offs/disposals	(138)	(327)	(64)	(264)
Balance at end of period	\$ 735	\$ 568	\$ 735	\$ 568

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LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 4: Inventories (continued)

The provisions for losses are included in cost of sales (realization of losses is a reduction to cost of sales) in the accompanying condensed consolidated statements of income.

Note 5: Precious Metals Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed.

Occasionally, during major maintenance and/or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within our manufacturing equipment. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals.

Precious metals expense, net, consists of the following:

Nine Months Ended September 30, 2008	Three Months Ended September 30,
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