

STERLING CHEMICALS INC

Form 10-K

March 24, 2010

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**UNITED STATES 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, 2009

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 000-50132

Sterling Chemicals, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

76-0502785

(I.R.S. Employer Identification No.)

**333 Clay Street, Suite 3600
Houston, Texas 77002-4109**

(Address of principal executive offices)

(713-650-3700)

*(Registrant's telephone number,
including area code)*

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value \$.01 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No .

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. .

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller
reporting company)

The aggregate market value of the registrant's common stock, par value \$.01 per share, held by non-affiliates at June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the value of the last sales price of these shares as reported on the OTC Electronic Bulletin Board maintained by the National Association of Securities Dealers, Inc., was \$10,221,032.

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

As of February 28, 2010, Sterling Chemicals, Inc. had 2,828,460 shares of common stock outstanding.

Portions of the definitive Proxy Statement relating to the 2010 Annual Meeting of Stockholders of Sterling Chemicals, Inc. are incorporated by reference in Part III of this Form 10-K.

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Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements give our current expectations or forecasts of future events. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain or be identified by the words expect, intend, plan, predict, anticipate, estimate, believe, should, could, may, might, will, will be, will continue, forecast, budget and similar expressions. Statements in this report that contain forward-looking statements include, but are not limited to, information concerning our possible or assumed future results of operations and our future plans with respect to our plasticizers business and facility and related disclosures. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report.

In addition, our other filings with the Securities and Exchange Commission, or the SEC, include additional factors that could adversely affect our business, results of operations or financial performance. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this Form 10-K are made only as of the date of this Form 10-K and are not guarantees of future performance. Although we believe that the expectations reflected in these forward-looking statements are reasonable, such expectations may prove to be incorrect. All written or oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

Document Summaries

Descriptions of documents and agreements contained in this Form 10-K are provided in summary form only, and such summaries are qualified in their entirety by reference to the actual documents and agreements filed as exhibits to this Form 10-K or other periodic reports we file with the SEC.

PART I

Unless otherwise indicated, references to we, us, our and ours in this Form 10-K refer collectively to Sterling Chemicals, Inc. and its wholly-owned subsidiaries.

Item 1. Business

We were formed in 1986 to acquire a petrochemicals facility located in Texas City, Texas that was previously owned by Monsanto Company. We are a North American producer of selected petrochemicals used to manufacture a wide array of consumer goods and industrial products. Our primary products are acetic acid and plasticizers.

Our acetic acid is used primarily to manufacture vinyl acetate monomer and purified terephthalic acid, which are used in a variety of products, including adhesives, surface coatings, polyester fibers, and films and plastic bottle resins, respectively. Pursuant to our 2008 Amended and Restated Acetic Acid Production Agreement, or our Acetic Acid Production Agreement, that extends to 2031, all of our acetic acid production is sold to BP Amoco Chemical Company, or BP Chemicals. We are BP Chemicals' sole source of acetic acid production in the Americas. BP Chemicals markets all of the acetic acid that we produce and pays us, among other amounts, a portion of the profits derived from its sales of our acetic acid. In addition, BP Chemicals reimburses us for 100% of our fixed and variable costs of production, other than specified indirect costs. We also jointly invest with BP Chemicals in capital expenditures related to our acetic acid facility in the same percentage as the profits from the business we receive from BP Chemicals.

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We own and operate one of the lowest cost acetic acid facilities in the world. Our acetic acid facility utilizes BP Chemicals proprietary Cativa carbonylation technology, which we believe offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs. Acetic acid production has two major raw material requirements, methanol and carbon monoxide. BP Chemicals, a producer of methanol, supplies 100% of our methanol requirements related to our production of acetic acid. All of our requirements for carbon monoxide are supplied by Praxair Hydrogen Supply, Inc., or Praxair, from a partial oxidation unit constructed by Praxair on land leased from us at our site in Texas City, Texas, or our Texas City facility.

Our plasticizers business is comprised of two separate products: phthalate esters and phthalic anhydride, together commonly referred to as plasticizers. All of our plasticizers, which are used to make flexible plastics, such as shower curtains, floor coverings, automotive parts and construction materials, are sold to BASF Corporation, or BASF. Since 1986, we have sold all of our plasticizers production exclusively to BASF pursuant to our agreement with BASF, or our Plasticizers Production Agreement, which has been amended several times. We also previously produced phthalic anhydride, or PA, for BASF under the Plasticizers Production Agreement. Under our Plasticizers Production Agreement, BASF provides us with most of the required raw materials, markets the plasticizers that we produce and is obligated to make certain fixed quarterly payments to us and reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility. Effective as of April 1, 2008, we and BASF amended our Plasticizers Production Agreement after BASF nominated zero pounds of PA under the prior version of the agreement due to deteriorating market conditions, ultimately resulting in the closure of our PA unit. The closure of our PA unit did not, however, impact our continued production of plasticizers for BASF. On November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement, effective December 31, 2010, at which time we will no longer produce plasticizers for BASF. We will not be subject to any early termination penalties in connection with BASF's termination of our Plasticizers Production Agreement. BASF, on the other hand, will be required to pay us an early termination fee of \$9.8 million on December 31, 2010. In December 2010, in connection with the termination of our Plasticizers Production Agreement, we will be required to refund BASF's \$1.0 million pre-payment deposit previously paid by BASF. We are in the process of exploring and evaluating our commercial options with respect to continuing our plasticizers business after the termination of our Plasticizers Production Agreement with BASF. Since we are in the early stages of evaluating our commercial options regarding our plasticizers business, we cannot predict the ultimate outcome or the success of continuing the plasticizers business after December 31, 2010. In the event we conclude to permanently close our plasticizers facility, we have also developed plans for restructuring our operating costs following the termination of our Plasticizers Production Agreement. If we are unable to continue our plasticizers operations through other viable commercial options for our plasticizers business or facility or restructure our operating costs, or are unable to do so at or shortly after December 31, 2010, the termination of our Plasticizers Production Agreement will likely have a material adverse effect on our financial condition, results of operations and cash flows. However, we do not believe that these effects will impact our ability to continue as a going concern. For a further description of our agreement with BASF, see *Plasticizers-BASF* under *Contracts* and see *Risk Factors*.

Prior to 2008, we produced styrene as one of our principal products. On September 17, 2007, we entered into a long-term exclusive styrene supply agreement and a related railcar purchase and sale agreement with NOVA Chemicals Inc., which was subsequently assigned by NOVA Chemicals Inc. to INEOS NOVA LLC, or INEOS NOVA. After the supply agreement became effective, INEOS NOVA nominated zero pounds of styrene under the supply agreement for the balance of 2007 and, in response, we exercised our right to terminate the supply agreement and permanently shut down our styrene facility. Under the supply agreement, we are responsible for the closure costs of our styrene facility and are also restricted from reentering the styrene business until November 2012. The restricted period was initially eight years. However, on April 1, 2008, INEOS NOVA unilaterally reduced the restricted period to five years.

We sold substantially all remaining styrene inventory during the first quarter of 2008. The decommissioning process was completed by the end of 2008, with \$18.9 million of the \$19.6 million in total costs associated with the decommissions being incurred in 2008. In July 2008, we announced a reduction in work force in order to reduce our staffing to a level appropriate for our existing operations and site development projects. As a result, we reduced our salaried work force by 19 people and our hourly work force by 15 people and recognized and paid \$1.4 million of

severance costs in 2008. In addition, as a result of our work force reduction, the accrual of defined benefits for all future services of a significant number of employees was eliminated and we recorded a curtailment loss of \$1.2 million for our benefit plans in 2008. The revenues and gross profit (loss) from our styrene operations, which are

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reflected in discontinued operations, include \$12.4 million of deferred income from the NOVA supply agreement that is being amortized over the contractual non-compete period of five years using the straight-line method, are summarized below:

	Year ended December 31,	
	2009	2008
	(Dollars in Thousands)	
Revenues	\$ 12,382	\$ 26,591
Gross profit (loss)	10,903	(7,757)

We own the acetic acid and plasticizers manufacturing units located at our Texas City facility. We lease a portion of our Texas City facility to Praxair, who constructed a partial oxidation unit on that land. We also lease a portion of our Texas City facility to S&L Cogeneration Company, a 50/50 joint venture between us and Praxair Energy Resources, Inc., or Praxair Energy, which constructed a cogeneration facility on that land. However as our strategic initiatives under consideration do not require utilization of the steam produced by the cogeneration facility, we and Praxair Energy elected to terminate the joint venture and the Joint Venture Agreement governing S&L Cogeneration Company, or the Joint Venture Agreement, was amended to extend its term until the later of November 30, 2009 or upon completion of all final audits, and to address several matters related to the sale of the cogeneration facility, the distribution of the joint venture's assets and the termination and winding-up of its affairs. We expect the joint venture to be terminated and wound-up during 2010. We lease space for our principal offices located in Houston, Texas. As of December 31, 2009, we operated in two segments: acetic acid and plasticizers.

Business Strategy

Our strategic objectives include:

- safe, reliable and environmentally responsible operations;
- effective utilization of available capacity;
- superior expense and capital expenditure management;
- expansion of capacity through low cost or strategic investments;
- flawless execution of contract management and administration;
- monetization of under-utilized assets and infrastructure;
- capture of economic merger and acquisition opportunities;
- optimized capital structure, tax credits and governmental subsidies;
- top-quality human resource management, development and utilization; and
- leading shareholder returns.

Operating Our Facilities Safely, Reliably and in an Environmentally Responsible Manner. We believe in operating our facilities in a manner that earns the confidence of our employees and our community. We have created a positive and open safety culture in which employee participation is encouraged in an atmosphere of ownership and pride. We proactively protect the safety of our employees, the community and the environment through the systematic identification, reduction and management of risks. Expectations and accountabilities for safety have been defined for all levels of our organization, and employees have aligned their personal goals to meet these responsibilities. Management and employee variable compensation programs are partially dependent on our individual and collective accomplishments. Our Board of Directors, or our Board, is informed of our progress

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towards maintaining and improving our process safety programs through the use of performance metrics under our compensation programs and quarterly presentations to the Environmental, Health & Safety Committee of our Board.

Profitably Grow Our Business. We believe that our acetic acid facility is well positioned for cost-effective future capacity expansions at low relative incremental cost due to previous investments made by us and BP Chemicals. These investments include the installation of a new reactor in 2003 that is capable of producing up to 1.7 billion pounds of acetic acid annually and the replacement of the primary column of our acetic acid facility in June 2009 with a column sized in excess of existing capacity. Although slowdowns in the housing and automotive markets during 2009 resulted in reduced demand for vinyl acetate monomer and, consequently, acetic acid in North America for the short-term, as demand for acetic acid recovers and grows, we intend to grow our acetic acid business through capacity expansions that take advantage of this positioning.

Monetize Under-utilized Assets and Infrastructure. Our Texas City facility is strategically located on Galveston Bay and benefits from a deep-water dock capable of handling ships with up to a 40-foot draft, as well as four barge docks and direct access to Union Pacific and Burlington Northern Santa Fe railways with in-motion rail scales on site. Our Texas City facility also has truck loading racks, weigh scales, stainless and carbon steel storage tanks, three waste deepwells, 160 acres of available land zoned for heavy industrial use and additional land zoned for light industrial use and a supportive political environment for growth. We also have approximately 240 excess tons of perpetual NO_x allowances under the Texas Commission on Environmental Quality Mass Emissions Cap and Trade Program which apply to the eight county Houston-Galveston-Brazoria, Texas nonattainment area, which may be sold or used for development projects. In addition, we are in the heart of one of the largest petrochemical complexes on the Gulf Coast and, as a result, have on-site access to a number of raw material pipelines, as well as close proximity to a number of large refinery complexes. Given our under-utilized infrastructure and our management, operational and engineering expertise, as well as our ample unoccupied land, we believe that there are significant opportunities for further development of our Texas City facility. We are currently pursuing numerous initiatives to attract new manufacturing, distribution or storage related businesses. Specifically, we are seeking long-term contractual business arrangements or partnerships that will provide us with an ability to realize the value of our under-utilized assets through profit sharing or other revenue generating arrangements. For development projects that may have significant capital expenditure requirements, we are considering joint ventures or other arrangements where we would contribute certain of our assets, management and operational expertise to minimize our share of the capital costs. In any case, we expect any new facility constructed at our Texas City facility to lower the amount of overall fixed costs allocated to each of our operating units and provide us with additional profit.

Pursue Economic Merger and Acquisition Opportunities. We are pursuing strategic acquisitions, focusing on manufacturing businesses and assets which would allow us to increase the size and scope of our business, while adding revenue diversification to our existing businesses. We believe that the current economic environment has increased the potential number of acquisition targets and has provided an ideal situation for us to acquire businesses on favorable terms.

Industry Overview

Acetic Acid. The North American acetic acid industry has enjoyed a long period of sustained domestic demand growth, as well as substantial export demand. This has led to North American industry utilization rates above 85% over the last six years. Although slowdowns in the housing and automotive markets during 2009 resulted in reduced demand for vinyl acetate monomer, and consequently acetic acid, in North America for the short-term, Tecnon OrbiChem, or Tecnon, projects acetic acid utilization rates will increase to over 98% by 2013. The North American acetic acid industry is inherently less cyclical than many other petrochemical products due to a number of important factors. There are only four large producers of acetic acid in North America. Historically these producers have made capacity additions primarily through small expansion projects or the exploitation of debottlenecking opportunities. Finally, the North American acetic acid industry tends to sell most of its products through long-term sales agreements having formula based pricing mechanisms, eliminating much of the volatility seen in other petrochemicals products and resulting in more stable and predictable earnings and profit margins.

Global production capacity of acetic acid as of December 31, 2009 was approximately 31 billion pounds per year, with current North American production capacity at approximately six billion pounds per year. The North American

acetic acid industry is mature and well developed, with the four major acetic acid producers accounting

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for approximately 94% of production capacity in North America. Demand for acetic acid is linked to the demand for vinyl acetate monomer, a key intermediate in the production of a wide array of polymers. Vinyl acetate monomer is the largest derivative of acetic acid, representing over 35% of global demand. Although slowdowns in the housing and automotive markets over the last year have reduced global demand for vinyl acetate monomer in the short-term, annual global production of vinyl acetate monomer is expected to increase from 10.3 billion pounds in 2008 to 14.2 billion pounds in 2013.

Plasticizers. Plasticizers are produced from either ethylene-based linear alpha-olefins feedstocks or propylene-based non-linear technology. We produce both linear and non-linear plasticizers used to make flexible plastics such as shower curtains, floor coverings, automotive parts and construction materials. Feedstocks for plasticizers consist of PA and oxo-alcohols. Linear plasticizers have historically received a premium over competing propylene-based branched products for customers that require enhanced performance properties. Although we have not been exposed to fluctuations in costs or market conditions due to the contract terms in our Plasticizers Production Agreement with BASF, the markets for competing plasticizers may be affected by the cost of the underlying raw materials, especially when the cost of one olefin rises faster than the other or by the introduction of new products. Over the last several years, the price of linear alpha-olefins increased sharply, which caused many consumers to switch to lower cost branched products such as propylene-based plasticizers, despite the loss of some performance properties. As a result, we modified our plasticizer production facilities during the third quarter of 2006 to include branched plasticizers production. Ultimately, we expect branched plasticizers to replace linear plasticizers for most applications, although recently some branched plasticizers products have been the subject of health related concerns. Following termination of the Plasticizers Production Agreement, we may face greater cost fluctuations or exposure to market conditions if we continue to operate the plasticizers business. For a further description of our agreement with BASF, see *Plasticizers-BASF* under Contracts and see Risk Factors .

Product Summary

The following table summarizes our principal products, including our capacity, the primary end uses for each product, the raw materials used to produce each product and the major competitors for each product. Capacity represents rated annual production capacity as of December 31, 2009, which is calculated by estimating the number of days in a typical year that a production facility is capable of operating after allowing for downtime for regular maintenance, and multiplying that number of days by an amount equal to the facility's optimal daily output based on the design feedstock mix. As the capacity of a facility is an estimated amount, actual production may be more or less than capacity, and the following table does not reflect actual operating rates of any of our production facilities for any given period of time.

Sterling Product (Capacity)	Intermediate Products	Primary End Products	Raw Materials	Major Competitors
<i>Acetic Acid</i> (1.3 billion pounds per year)	Vinyl acetate monomer, terephthalic acid and acetate solvents	Adhesives, PET bottles, fibers and surface coatings	Methanol and Carbon Monoxide	Celanese AG, Eastman Chemical Company and Lyondell Basell Chemical Company
<i>Plasticizers</i> (200 million pounds per year of phthalate esters)	Flexible polyvinyl chloride, or PVC	Flexible plastics, such as shower curtains and liners, floor coverings, cable insulation, upholstery and plastic molding	Oxo-Alcohols and Phthalic Anhydride	ExxonMobil Corporation, Eastman Chemical Company and BASF Corporation

Products

Acetic Acid. Our acetic acid is used primarily to manufacture vinyl acetate monomer and purified terephthalic acid, which are used in a variety of products, including adhesives, surface coatings, polyester fibers, and films and plastic bottle resins, respectively. We have the third largest production capacity for acetic acid in North America. Our acetic

acid unit has a rated annual production capacity of approximately 1.3 billion pounds, which represents approximately 19% of total North American capacity. All of our acetic acid production is sold to BP Chemicals, and we are BP Chemicals' sole source of production in the Americas. We sell all of our acetic acid to BP Chemicals pursuant to our Acetic Acid Production Agreement that extends until 2031. For a further description of our agreement with BP Chemicals, please refer to *Acetic Acid-BP Chemicals* under *Contracts*.

Plasticizers. Our plasticizers business involves the production of phthalate esters, commonly referred to as plasticizers, from PA and oxo-alcohols. All of our plasticizers, which are used to make flexible plastics such as shower curtains, floor coverings, automotive parts and construction materials, are sold to BASF pursuant to our Plasticizers Production Agreement. Since 1986, we have sold all our plasticizers production exclusively to BASF

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pursuant to our Plasticizers Production Agreement, which has been amended several times. We also previously produced PA for BASF under the Plasticizers Production Agreement. Effective as of April 1, 2008, we and BASF amended our Plasticizers Production Agreement after BASF nominated zero pounds of PA under the prior version of the agreement, ultimately resulting in the closure of our PA unit. The closure of our PA unit did not, however, impact our continued production of plasticizers for BASF. On November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement, effective December 31, 2010, at which time we will no longer produce plasticizers for BASF. We will not be subject to any early termination penalties in connection with BASF's termination of our Plasticizers Production Agreement. BASF, on the other hand, will be required to pay us an early termination fee of \$9.8 million on December 31, 2010. In December 2010, in connection with the termination of our Plasticizers Production Agreement, we will be required to refund BASF's \$1.0 million pre-payment deposit previously paid by BASF. We are in the process of exploring and evaluating our commercial options with respect to continuing our plasticizers business after the termination of our Plasticizers Production Agreement with BASF. Since we are in the early stages of evaluating our commercial options regarding our plasticizers business, we cannot predict the ultimate outcome or the success of continuing the plasticizers business after December 31, 2010. In the event we conclude to permanently close our plasticizers facility, we have also developed plans for restructuring our operating costs following the termination of our Plasticizers Production Agreement. If we are unable to continue the plasticizers operations through other viable commercial options for our plasticizers business or facility or restructure our operating costs, or are unable to do so at or shortly after December 31, 2010, the termination of our Plasticizers Production Agreement will likely have a material adverse effect on our financial condition, results of operations and cash flows. However, we do not believe that these effects will impact our ability to continue as a going concern. For a further description of our agreement with BASF, see *Plasticizers-BASF* under *Contracts* and see *Risk Factors*.

Sales and Marketing

Our products are generally sold to customers for use in the manufacture of other chemicals and products, which in turn are used in the production of a wide array of consumer goods and industrial products throughout the world. Our Acetic Acid Production Agreement provides for the dedication of 100% of our production of acetic acid to BP Chemicals, and our Plasticizers Production Agreement provides for the dedication of 100% of our production of plasticizers to BASF. Under our Acetic Acid Production Agreement, we are reimbursed for our actual fixed and variable manufacturing costs (other than specified indirect costs) and also receive an agreed share of the profits earned from this business. Under our Plasticizers Production Agreement, we are reimbursed for our manufacturing costs and also receive a quarterly facility fee for the production unit included in our plasticizers business, but do not share in the profits or losses from that business.

Contracts

Our significant contracts are described below.

Acetic Acid-BP Chemicals

In 1986, we entered into the initial version of our Acetic Acid Production Agreement with BP Chemicals, which has since been amended several times. We sell all of our acetic acid production to BP Chemicals under our Acetic Acid Production Agreement and we are BP Chemicals' sole source of acetic acid production in the Americas. BP Chemicals markets all of the acetic acid that we produce and pays us, among other amounts, a portion of the profits derived from its sales of the acetic acid we produce. In addition, BP Chemicals reimburses us for 100% of our fixed and variable costs of production (other than specified indirect costs). Revenues from our acetic acid segment were \$87.3 million and \$129.7 million for the years ended December 31, 2009 and 2008, respectively, representing approximately 76% and 80%, respectively, of our total revenues for such period. Other than our Acetic Acid Production Agreement, we do not have any material relationships with BP Chemicals.

Plasticizers-BASF

Since 1986, we have sold all of our plasticizers production exclusively to BASF pursuant to our Plasticizers Production Agreement, which has been amended several times. We also previously produced PA for BASF under the Plasticizers Production Agreement. Under our Plasticizers Production Agreement, BASF provides us with most of the required raw materials and markets the plasticizers we produce, and is obligated to make certain fixed

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quarterly payments to us and to reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility. Effective as of April 1, 2008, our Plasticizers Production Agreement was amended and restated in connection with BASF's nomination of zero pounds of PA in response to deteriorating market conditions, ultimately resulting in the closure of our PA unit. The closure of our PA unit did not, however, impact our continued production of plasticizers for BASF. In exchange for being relieved of its obligations related to our PA manufacturing unit, BASF paid us an aggregate amount of approximately \$3.2 million. However, we are obligated to refund 25% of this amount if we restart our PA manufacturing unit during 2010. The \$3.2 million payment from BASF was made in exchange for the termination of BASF's obligations under our Plasticizers Production Agreement with respect to the operation of our PA manufacturing unit and, consequently, is recognized using the straight-line method over the restricted period from April 1, 2008 through December 31, 2010. In addition, during the first half of 2008, BASF paid us approximately \$3.7 million for reimbursement of certain direct fixed and variable costs associated with the shutdown and decontamination of our PA manufacturing unit, which amounts are not subject to refund. All direct fixed and variable costs associated with the shutdown and decontamination of our PA manufacturing unit have been incurred and expensed, and the \$3.7 million in cost reimbursements was recognized as revenue in the first half of 2008.

On November 11, 2009, BASF elected to terminate our Plasticizers Production Agreement, effective December 31, 2010. We will not be subject to any early termination penalties in connection with BASF's termination of our Plasticizers Production Agreement. BASF, on the other hand, will be required to pay us an early termination fee of \$9.8 million on December 31, 2010, at which time we will no longer produce plasticizers for BASF. In December 2010, in connection with the termination of our Plasticizers Production Agreement, we will be required to refund BASF's \$1.0 million pre-payment deposit previously paid by BASF. If we continue to operate the plasticizers business after the termination of our Plasticizers Production Agreement, we will be required to make payments to BASF for its undepreciated capital expenditures related to past capital projects paid by BASF, over the remaining balance of the original term of our Plasticizers Agreement, based on a straight line, 8-year life. As of December 31, 2010, we expect the total amount of these undepreciated capital expenditures to be approximately \$2.6 million, with approximately \$1.0 million, \$0.7 million, \$0.6 million, and \$0.3 million potentially to be paid in 2011, 2012, 2013, and 2014, respectively. If within 90 days after the termination of our Plasticizers Production Agreement, we provide written notice to BASF of our election to permanently close our plasticizers facility, the undepreciated capital expenditures paid by BASF for all capital projects is deemed to be zero, and we will not be required to make any payments to BASF. We are in the process of exploring and evaluating our commercial options with respect to continuing our plasticizers business after the termination of our Plasticizers Production Agreement with BASF. Since we are in the early stages of evaluating our commercial options regarding our plasticizers business, we cannot predict the ultimate outcome or the success of continuing the plasticizers business after December 31, 2010. In the event we conclude to permanently close our plasticizers facility, we have also developed plans for restructuring our operating costs following the termination of our Plasticizers Production Agreement. If we are unable to continue the plasticizers operations through other viable commercial options for our plasticizers business or facility or restructure our operating costs, or are unable to do so at or shortly after December 31, 2010, the termination of our Plasticizers Production Agreement will likely have a material adverse effect on our financial condition, results of operations and cash flows. However, we do not believe that these effects will impact our ability to continue as a going concern. Revenues from our plasticizers segment were \$26.0 million and \$31.0 million for the years ended December 31, 2009 and 2008, respectively, representing approximately 23% and 19%, respectively, of our total revenues for such period. Gross profit from our plasticizers operations was \$5.9 million in 2009 and \$4.1 million in 2008. Other than our Plasticizers Production Agreement, we do not have any material relationships with BASF.

Sales to major customers constituting 10% or more of total revenues are included in Note 11 of the Notes to Consolidated Financial Statements included in Item 8, Part II of this Form 10-K.

Raw Materials and Energy Resources

The aggregate cost of raw materials and energy resources used in the production of our products is far greater than the total of all other costs of production combined. As a result, an adequate supply of raw materials and energy at reasonable prices and on acceptable terms is critical to the success of our business. Although we believe that we will

continue to be able to secure adequate supplies of raw materials and energy, we may be unable to do so at

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acceptable prices or payment terms. See Risk Factors. Acetic acid is manufactured primarily from carbon monoxide and methanol. Praxair is our sole source for carbon monoxide and supplies us with all of the carbon monoxide we require for the production of acetic acid from its partial oxidation unit located on land leased from us at our Texas City site. Currently, our methanol requirements are supplied by BP Chemicals under our Acetic Acid Production Agreement. The primary raw materials for plasticizers are oxo-alcohols and orthoxylene, which are supplied by BASF under our Plasticizers Production Agreement. These sources of raw materials tend to mitigate certain risks typically associated with obtaining raw materials, as well as decrease our working capital requirements.

Technology and Licensing

In 1986, we acquired our Texas City facility from Monsanto Company, or Monsanto. In connection with that acquisition, Monsanto granted us a non-exclusive, irrevocable and perpetual right and license to use Monsanto's technology and other technology Monsanto acquired through third-party licenses in effect at the time of the acquisition. This license included Monsanto's technology related to the production of acetic acid and plasticizers. During 1991, BP Chemicals Ltd., or BPCL, purchased Monsanto's acetic acid technology, subject to existing licenses. Under a technology agreement with BP Chemicals and BPCL, BPCL granted us a non-exclusive, irrevocable and perpetual right and license to use acetic acid technology owned by BPCL and some of its affiliates at our Texas City facility, including any new acetic acid technology developed by BPCL at its acetic acid facilities in England or pursuant to the research and development program provided by BPCL under the terms of such agreement. We do not engage in alternative process research.

Competition

There are only four large producers of acetic acid in North America. Historically these producers have made capacity additions primarily through small expansion projects or the exploitation of debottlenecking opportunities. The North American plasticizers industry is a mature market, with phthalate esters like those produced by us being subject to excess production capacity and diminishing demand due to the ability of consumers to substitute different raw materials based on relative costs at the time, as well as increasing health concerns regarding these products. A list of our principal competitors is found in the Product Summary table above.

Environmental, Health and Safety Matters

Our operations involve the handling, production, transportation, treatment and disposal of materials that are classified as hazardous or toxic and that are extensively regulated by environmental and health and safety laws, regulations and permit requirements. Environmental permits required for our operations are subject to periodic renewal and may be revoked or modified for cause or when new or revised environmental requirements are implemented. Changing and increasingly strict environmental requirements can affect the manufacturing, handling, processing, distribution and use of our chemical products and, if so affected, our business and operations may be materially and adversely affected. In addition, changes in environmental requirements may cause us to incur substantial costs in upgrading or redesigning our facilities and processes, including our waste treatment, storage, disposal and other waste handling practices and equipment.

A business risk inherent in chemical operations is the potential for personal injury and property damage claims from employees, contractors and their employees and nearby landowners and occupants. While we believe our business operations and facilities are operated in compliance with applicable environmental and health and safety requirements in all material respects, we cannot be sure that past practices or future operations will not result in material claims or regulatory action, require material environmental expenditures or result in exposure or injury claims by employees, contractors or their employees or the public. Some risk of environmental costs and liabilities is inherent in our operations and products, as it is with other companies engaged in similar businesses.

Our operating expenditures for environmental matters, primarily waste management and compliance, were \$14.5 million and \$15.9 million in 2009 and 2008, respectively. During 2009 and 2008, we spent \$1.8 million and \$1.1 million, respectively, for environmentally-related capital projects and anticipate spending approximately \$0.3 million for capital projects related to waste management, incident prevention and environmental compliance during 2010.

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On December 13, 2007, the Texas Commission for Environmental Quality, or the TCEQ, issued an agreed order requiring us to remove all process wastewater from a holding pond at our Texas City facility in order to prevent discharges during heavy rain events. In order to comply with this agreed order, we implemented a capital project at a total cost to us of \$2.8 million, which represented the majority of our environmentally-related capital projects in 2008 and 2009.

In light of our historical expenditures and expected future results of operations and sources of liquidity, we believe we will have adequate resources to conduct our operations in compliance with applicable environmental, health and safety requirements. Nevertheless, we may be required to make significant site and operational modifications that are not currently contemplated in order to comply with changing facility permitting requirements and regulatory standards. Additionally, we have incurred, and may continue to incur, a liability for investigation and cleanup of waste or contamination at our own facilities or at facilities operated by third parties where we have disposed of waste. We continually review all estimates of potential environmental liabilities, but we may not have identified or fully assessed all potential liabilities arising out of our past or present operations or the amount necessary to investigate and remediate any conditions that may be significant to us. Based on information available at this time and reviews undertaken to identify potential exposure, we believe our amounts reserved for environmental matters are adequate to cover our potential exposure for clean-up costs.

Air emissions from our Texas City facility are subject to certain permit requirements and self-implementing emission limitations and standards under state and federal laws. Our Texas City facility is subject to the federal government's June 1997 National Ambient Air Quality Standards, or NAAQS, which lowered the ozone and particulate matter concentration thresholds for attainment. Our Texas City facility is located in an area that the Environmental Protection Agency, or the EPA, has classified as not having achieved attainment under the NAAQS for ozone, either on a 1-hour or an 8-hour basis. Ozone is typically controlled by reduction of emissions of volatile organic compounds, or VOCs, and nitrogen oxide, or NOx. The TCEQ has imposed strict requirements on regulated facilities, including our Texas City facility, to ensure that the air quality control region will achieve attainment status under the NAAQS for ozone. Local authorities may also impose new ozone and particulate matter standards. Compliance with these stricter standards may substantially increase our future control costs for emissions of NOx, VOCs and particulate matter, the amount and full impact of which cannot be determined at this time.

In 2002, the TCEQ adopted a revised State Implementation Plan, or SIP, in order to achieve compliance with the 1-hour ozone standard under the Clean Air Act by 2007. The EPA approved this 1-hour SIP, which required an 80% reduction of NOx emissions and extensive monitoring of emissions of highly reactive VOCs or HRVOCs, in the Houston-Galveston-Brazoria area, or the HGB area. Despite implementation of these programs, the HGB area failed to attain compliance with the 1-hour ozone standard. As Section 185 of the Clean Air Act requires implementation of a program of emissions-based fees until this standard is attained, Section 185 fees will be assessed on all emissions of NOx and VOCs in 2008 and beyond in the HGB area which are in excess of 80% of the baseline year. The final rules for administering this fee system will be adopted in 2010. Based on the current draft rules, we do not expect to be assessed any fees in connection with emissions from our Texas City facility.

In April 2004, the HGB area was designated a moderate non-attainment area with respect to the 8-hour ozone standard of the Clean Air Act. On May 23, 2007, the TCEQ formally adopted revisions to the SIP to bring the HGB area from moderate non-attainment status into attainment status by June 15, 2010. This 8-hour SIP called for relatively modest additional controls at our Texas City facility, which would require very little expense. However, in response to a request from the Governor of Texas, the EPA has now reclassified the HGB area as a severe non-attainment area, effective as of October 31, 2008. As a result, the new mandated compliance date for attainment of the 8-hour ozone standard is June 15, 2019. A revised 8-hour SIP to address the HGB area's severe non-attainment designation is expected to be submitted to the EPA by April 10, 2010. The content of the revised 8-hour SIP is currently unknown, making it difficult to predict our final cost of compliance with these regulations. However, given the permanent shutdown of our PA and styrene facilities, we do not anticipate incurring any further cost of compliance in connection with the revised 8-hour SIP.

The EPA's Greenhouse Gas, or GHG, reporting rules became effective on December 29, 2009. Under these rules, GHG monitoring systems must either be in place by April 1, 2010 or an extension request must be filed. We believe

that we will be able to attain compliance with the GHG rules by making capital expenditures of less than
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\$0.1 million in 2010. However, the rules for regulating GHG emissions have not yet been defined and, consequently, we cannot predict what impact, if any, these rules may have on us.

To reduce the risk of offsite consequences from unanticipated events, we acquired a greenbelt buffer zone adjacent to our Texas City site in 1991. We also participate in a regional air monitoring network to monitor ambient air quality in the Texas City community.

Employees

As of December 31, 2009, we had 182 employees, of whom approximately 35% (all of our hourly employees at our Texas City facility) were represented by the Texas City, Texas Metal Trades Council, AFL-CIO, or the Union. On May 1, 2007, we entered into a collective bargaining agreement with the Union which is effective through May 1, 2012.

Insurance

We maintain insurance coverage at levels that we believe are reasonable and typical for our industry. A portion of our insurance coverage is provided by a captive insurance company maintained by us and six other chemical companies. However, we are not fully insured against all potential hazards incident to our business. Additionally, we may incur losses beyond the limits of, or outside the coverage of, our insurance. We maintain full replacement value insurance coverage for property damage to our facilities and business interruption insurance. Nevertheless, a significant interruption in the operation of our acetic acid facility could have a material adverse effect on our business. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage.

We do not currently carry terrorism coverage on our Texas City facility as we believe it is not economically justified on the terms currently being offered in the industry. While terrorism insurance coverage is available, the premiums for such coverage are very expensive, especially for chemical facilities, and these policies are subject to very high deductibles. In addition, available terrorism coverage typically excludes coverage for losses from acts of foreign governments, as well as nuclear, biological and chemical attacks.

On September 13, 2008, Hurricane Ike struck the Texas Gulf Coast very near our Texas City facility. Our Texas City facility was shut down and secured prior to landfall and did not sustain any significant structural damage, although we did sustain some minor damage to three of our barge docks. Our Texas City facility lost all power and ancillary utilities during the storm, including our steam boilers. The resulting production outage lasted approximately 15 days, with our Texas City facility returning to normal operating levels on September 28, 2008. The losses we incurred from Hurricane Ike during 2008 totaled \$2.6 million, and we incurred additional expenses of \$0.2 million in 2009 related to damages caused by Hurricane Ike. Our total loss from Hurricane Ike of \$2.8 million was less than the deductibles under our insurance policies and, as such, we did not recover any of these losses under our insurance policies.

Access to Filings

Access to our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, filed with or furnished to the SEC pursuant to Section 13(a) of the Exchange Act, as well as reports filed electronically pursuant to Section 16(a) of the Exchange Act, may be obtained through our website (<http://www.sterlingchemicals.com>) at no cost, as soon as reasonably practicable after we have electronically filed such material with the SEC. The contents of our website are not, and shall not be deemed to be, incorporated into this Form 10-K.

Table of Contents**Item 1A. Risk Factors**

In addition to the other information contained in this report, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

Risks Related to Our Business***Each of our products is sold to only one customer.***

In 2009, a single customer, BP Chemicals, accounted for 100% of our acetic acid revenues. The termination of this long-term contract, or a material reduction in the amount of product purchased under our Acetic Acid Production Agreement, would materially adversely affect our overall business, financial condition, results of operations or cash flows.

On November 11, 2009, BASF, which accounts for 100% of our plasticizers revenues, elected to terminate our Plasticizers Production Agreement, effective December 31, 2010. Since we are in the early stages of evaluating our commercial options regarding our plasticizers business, we cannot predict the ultimate outcome or the success of continuing the plasticizers business after December 31, 2010. If we are unable to continue the plasticizers operations through other viable commercial options for our plasticizers business or facility or restructure our operating costs, or are unable to do so at or shortly after December 31, 2010, the termination of our Plasticizers Production Agreement will likely have a material adverse effect on our financial condition, results of operations and cash flows. See

Management's Discussion and Analysis of Financial Condition and Results of Operations Overview Business Plasticizers.

Our ability to realize increases in our acetic acid production capacity that could be made possible through low-cost, incremental capacity expansions is dependent on the availability of sufficient, economic quantities of carbon monoxide.

Carbon monoxide is one of the principal raw materials required for acetic acid production. Currently, all of the carbon monoxide we use in the production of acetic acid is supplied by Praxair from a partial oxidation unit constructed and operated by Praxair on land leased from us at our Texas City site. Although our new reactor installed in 2003 is capable of producing up to 1.7 billion pounds of acetic acid annually and the new column installed in 2009 is capable of producing 1.6 billion pounds of acetic acid annually, Praxair's existing partial oxidation unit is capable of supplying carbon monoxide in quantities sufficient for only 1.3 billion pounds of annual acetic acid production. While additional carbon monoxide may become available by routing surplus syngas from another Texas City source through a new supply pipeline or the use of an existing idled pipeline or through an expansion of Praxair's partial oxidation unit, we may not be able to implement any of these options on a cost effective basis.

We depend upon the continued operation of a single site for all of our production.

All of our products are produced at our Texas City facility. Significant unscheduled downtime at our Texas City facility could have a material adverse effect on our business, financial condition, results of operations or cash flows. Unanticipated downtime can occur for a variety of reasons, including equipment breakdowns, interruptions in the supply of raw materials, power failures, sabotage, natural forces or other hazards associated with the production of petrochemicals. Although we maintain business interruption insurance, recovery of losses is subject to time element deductibles of up to 45 days and policy limits of up to \$400 million.

Our operations involve risks that may increase our operating costs, which could reduce our profitability.

Although we take precautions to enhance the safety of our operations and minimize the risk of disruptions, our operations are subject to hazards inherent in the manufacturing of chemical products. These hazards include:

- severe weather and natural disasters;
- mechanical failures, unscheduled downtimes, labor difficulties and transportation interruptions;
- environmental remediation complications;

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chemical spills and discharges or releases of toxic or hazardous substances or gases; and pipeline or storage tank leaks and ruptures, explosions and fires.

Many of these hazards can cause bodily injury or loss of life, severe damage to or destruction of property or equipment or environmental damage, and may result in suspension of operations or the imposition of civil or criminal penalties and liabilities. Furthermore, we are subject to present and future claims with respect to workplace exposure of our employees or contractors on our premises or other persons located nearby, workers' compensation and other matters.

Volatility in asset values and liability costs related to our pension plans may reduce our profitability and adversely impact current funding levels.

We sponsor defined benefit pension plans for our employees. Effective July 1, 2007 and January 1, 2005, we froze all benefit accruals under these defined benefit pension plans for our hourly and salaried employees, respectively. The cash contributions made to our defined benefit pension plans are required to comply with minimum funding requirements imposed by laws governing employee benefit plans. The projected benefit obligation and assets of our defined benefit pension plans as of December 31, 2009 were \$124.3 million and \$86.8 million, respectively. The difference between plan obligations and assets, or the funded status of the plans, is a significant factor in determining pension expense and the ongoing funding requirements to those plans. Macroeconomic factors, as well as changes in investment returns and discount rates used to calculate pension expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs and funding requirements. A decline in the market value of the assets in our defined benefit pension plans, as was experienced in 2008, will increase the funding requirements under the plans if the actual asset returns do not recover these declines in value in the near term. Additionally, the liabilities of our defined benefit pension plans are sensitive to changes in interest rates. As interest rates decrease, the liabilities of the plans increase, potentially increasing funding requirements and pension expense. Changes in demographics, including increased numbers of retirements or changes in life expectancy assumptions may also increase the funding requirements and pension expense related to our defined benefit pension plans. Although we actively seek to control increases in these costs and funding requirements, we may not be successful in doing so. Future increases in pension expense and the contributions we are required to make to our defined benefit pension plans as a result of one or more of these factors could negatively affect our financial condition, results of operations or cash flows.

Our operations are subject to operating hazards and unforeseen interruptions for which we may not be adequately insured.

We maintain insurance coverage at levels that we believe are reasonable and typical for our industry, portions of which are provided by a captive insurance company maintained by us and six other chemical companies. However, we are not fully insured against all potential hazards incident to our business. Accordingly, our insurance coverage may be inadequate for any given risk or liability, such as property damage suffered in hurricanes or business interruption incurred from a loss of our supply of electricity or carbon monoxide. In addition, our insurance companies may be incapable of honoring their commitments if an unusually high number of claims are concurrently made against their policies. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business, financial condition, results of operations or cash flows. We may not be able to renew our existing insurance coverage at commercially reasonable rates or that coverage may not be adequate to cover future claims that may arise.

In addition, concerns about terrorist attacks, as well as other factors, have caused significant increases in the cost of our insurance coverage. We have determined that it is not economically prudent to obtain terrorism insurance and we do not carry terrorism insurance on our property at this time. In the event of a terrorist attack impacting one or more of our production units, we could lose the production and sales from one or more of these facilities, and the facilities themselves, and could become liable for contamination or personal injury or property damage from exposure to hazardous materials caused by a terrorist attack. Such loss of production, sales, facilities or incurrence of liabilities could materially adversely affect our business, financial condition, results of operations or cash flows.

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New regulations concerning the transportation of hazardous chemicals and the security of chemical manufacturing facilities could result in higher operating costs.

Chemical manufacturing facilities may be at greater risk of terrorist attacks than other potential targets in the United States. As a result, the chemical industry has responded to these issues by starting new initiatives relating to the security of chemicals industry facilities and the transportation of hazardous chemicals in the United States. Simultaneously, local, state and federal governments have begun a regulatory process that could lead to new regulations impacting the security of chemical plant locations and the transportation of hazardous chemicals. Our business or our customers' businesses could be adversely affected by the cost of complying with new security regulations.

Impact of Greenhouse Gases and Climate Change

Our operations emit greenhouse gases. Proposed U.S. Federal legislation and regulations to address greenhouse gas emissions, which are in various stages of review, discussion or implementation, could adversely impact our business. While it is currently not possible to predict the impact, if any, that these issues will have on us or the industry in general, such legislation and regulation could result in increases in costs to operate and maintain our facilities, as well as capital outlays for new emission control equipment. In addition, any regulation limiting greenhouse gas emissions which specifically targets the petrochemicals manufacturing industry could adversely affect our ability to conduct our business.

We are subject to many environmental and safety regulations that may result in significant unanticipated costs or liabilities or cause interruptions in our operations.

Our operations involve the handling, production, transportation, treatment and disposal of materials that are classified as hazardous or toxic and that are extensively regulated by environmental and health and safety laws, regulations and permit requirements. We may incur substantial costs, including fines, damages and criminal or civil sanctions, or experience interruptions in our operations for actual or alleged violations or compliance requirements arising under environmental laws, any of which could have a material adverse effect on our business, financial condition, results of operations or cash flows. Our operations could result in violations of environmental laws, including spills or other releases of hazardous substances into the environment. In the event of a catastrophic incident, we could incur material costs. Furthermore, we may be liable for the costs of investigating and cleaning up environmental contamination on or from our properties or at off-site locations where we disposed of or arranged for the disposal or treatment of hazardous materials. If significant previously unknown contamination is discovered or we have underestimated the costs to investigate and remediate known contamination, or if existing laws or their enforcement change, then the resulting expenditures could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Environmental, health and safety laws, regulations and permit requirements, and the potential for further expanded laws, regulations and permit requirements may increase our costs or reduce demand for our products and thereby negatively affect our business. Environmental permits required for our operations are subject to periodic renewal and may be revoked or modified for cause or when new or revised environmental requirements are implemented. Changing and increasingly strict environmental requirements and the potential for further expanded regulation may increase our costs and can affect the manufacturing, handling, processing, distribution and use of our products. If so affected, our business and operations may be materially and adversely affected. In addition, changes in these requirements may cause us to incur substantial costs in upgrading or redesigning our facilities and processes, including our waste treatment, storage, disposal and other waste handling practices and equipment. For these reasons, we may need to make capital expenditures beyond those currently anticipated to comply with existing or future environmental or safety laws.

Approximately 35% of our employees are covered by a collective bargaining agreement that expires on May 1, 2012. Disputes with the Union representing these employees or other labor relations issues may negatively affect our business.

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As of December 31, 2009, we had approximately 182 employees, of whom approximately 35% (all of our hourly employees at our Texas City facility) were represented by the Union and are covered by a collective bargaining agreement which expires on May 1, 2012. Future strikes or other labor disturbances could have a material adverse effect on our business, financial condition, results of operations or cash flows.

A failure to retain or attract key employees could adversely affect our business.

We are dependent on the services of the members of our senior management team to remain competitive in our industry. There is a risk that we will not be able to retain these key employees or attract other key employees. Our current key employees are subject to employment conditions or arrangements that permit the employees to terminate their employment without notice. The loss of any member of our senior management team could materially adversely affect our business, financial condition, results of operations or cash flows.

Stock options or other equity awards offered to certain employees may not provide effective incentives to remain with us due to the dilutive effect of the quarterly paid-in-kind dividends paid on our Series A Convertible Preferred Stock, or our Preferred Stock, and the fact that our common stock is not listed on any national or regional securities exchange. Quotations for shares of our common stock are listed by certain members of the National Association of Securities Dealers, Inc. on the Over-the-Counter, or OTC, Electronic Bulletin Board. In recent years, the trading volume of our common stock has been very low and the transactions that have occurred were typically effected in transactions for which reliable market quotations have not been available. An active trading market may not develop or, if developed, may not continue for our equity securities and a holder of any of these securities, including stock options or other equity awards, could find it difficult obtain a positive return.

We may not successfully develop our under-utilized infrastructure at our Texas City facility.

We may be unable to identify or attract a long-term contractual business arrangement or partnership to our Texas City facility that will provide us with an ability to realize the value of our under-utilized assets. For development projects that may have significant capital expenditure requirements, we are considering joint ventures or other arrangements where we would contribute certain of our assets and management expertise to minimize our share of the capital costs. Even if we do identify a long-term contractual business arrangement or partnership, we may not be able to come to agreeable terms or the capital costs for the project may be prohibitively high.

We may not successfully complete acquisitions that we are pursuing or any future acquisitions may present unforeseen integration obstacles or costs, increase our leverage or negatively impact our performance.

We may not be able to identify suitable acquisition candidates or successfully complete identified acquisitions, and the expense incurred in consummating acquisitions of related businesses, or our failure to integrate such businesses successfully into our existing businesses, could affect our growth or result in our incurring unanticipated expenses and losses. Furthermore, we may not be able to realize any anticipated benefits from acquisitions. To finance an acquisition we may need to incur debt or issue equity. However, we may not be able to obtain favorable debt or equity financing to complete an acquisition, or at all, and we may not be able to secure the consent of our existing long-term debt holders to the incurrence of additional debt. The lack of an active trading market in our common stock, as well as the dilutive terms of the quarterly paid-in-kind dividends payable on our Preferred Stock, may make our common stock unattractive as consideration for an acquisition. The process of integrating acquired operations into our existing operations may result in unforeseen operating difficulties and may require significant financial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the risks associated with our acquisition strategy, which could materially adversely affect our business, financial condition, results of operations or cash flows, include:

- potential disruption of our ongoing business and distraction of management;
- unexpected loss of key employees or customers of an acquired business;
- conforming an acquired business standards, processes, procedures or controls with our operations;
- coordinating new product and process development;

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hiring additional management or other critical personnel;
encountering unknown contingent liabilities which could be material; and
increasing the scope, geographic diversity and complexity of our operations.

Our acquisition strategy may not be favorably received by customers, and we may not realize any anticipated benefits from acquisitions.

We are unable to predict the impact of the recent downturn in the credit markets and the resulting costs or constraints in obtaining financing on our business and financial results.

U.S. and global credit and equity markets have undergone significant disruption in the past 12 to 18 months, making it difficult for many businesses to obtain financing on acceptable terms. In addition, equity markets are continuing to experience wide fluctuations in value. If these conditions continue or worsen, our cost of borrowing may increase, and it may be more difficult to obtain financing in the future. In addition, a number of financial institutions have reported significant deterioration in their financial condition. If any of the financial institutions are unable to perform their obligations under our contracts, and we are unable to find suitable replacements on acceptable terms, our financial condition, results of operations, liquidity and cash flows could be adversely affected. We also face challenges relating to the impact of the disruption in the global financial markets on other parties with which we do business, such as customers and suppliers. The inability of these parties to obtain financing on acceptable terms could impair their ability to perform under their agreements with us and lead to various negative affects on us, including business disruption, decreased revenues and increases in bad debt write-offs. A sustained decline in the financial stability of these parties could have a material adverse impact on our business, financial condition, results of operations and cash flows.

If we are unable to successfully prevent or address material weaknesses in our internal control over financial reporting, or any other control deficiencies, our ability to report our financial results on a timely and accurate basis and to comply with disclosure and other reporting requirements may be adversely affected.

While we have taken actions designed to address compliance with the internal control, disclosure control and other requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC implementing these requirements, there are inherent limitations in our ability to control all circumstances. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. For example, as of December 31, 2009, our management identified a material weakness in our internal control over financial reporting resulting from a lack of effective controls over the billing for utilities at our Texas City facility. If we are unable to successfully prevent or address these and other material weaknesses in our internal control systems, our ability to report our financial results on a timely and accurate basis and to comply with disclosure and other reporting requirements may be adversely affected.

Risks Relating to Our Indebtedness

Our leverage and debt service obligations may adversely affect our cash flow and our ability to make payments on our indebtedness.

As of December 31, 2009, we had total long-term debt of \$125.0 million (consisting of outstanding principal on our 10¹/₄% Senior Secured Notes due 2015, or our Secured Notes). The terms and conditions governing our indebtedness, including our Secured Notes:

require us to dedicate a substantial portion of our cash flow from operations to service our existing debt service obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate expenditures;

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increase our vulnerability to adverse general economic or industry conditions and limit our flexibility in planning for, or reacting to, competition or changes in our business or our industry;
limit our ability to obtain additional financing;
place restrictions on our ability to make certain payments or investments, sell assets, make strategic acquisitions, engage in mergers or other fundamental changes and exploit business opportunities; and
place us at a competitive disadvantage relative to competitors with lower levels of indebtedness in relation to their overall size or less restrictive terms governing their indebtedness.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulations. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt, including our Secured Notes, and meet our other obligations. Further, failing to comply with the financial and other restrictive covenants in the agreements governing our indebtedness could result in an event of default under such indebtedness, which could materially adversely affect our business, financial condition, results of operations or cash flows.

Any failure to meet our debt obligations could harm our business, financial condition, results of operations or cash flows.

If our cash flow and capital resources are insufficient to fund our debt obligations, we may be forced to sell assets, seek additional equity or debt capital or restructure our debt, including our Secured Notes. We may not be able to refinance or restructure our debt, raise equity or debt capital or sell assets on terms acceptable to us, if at all. In addition, any failure to make scheduled payments of interest or principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms. Our cash flow and capital resources may be insufficient for payments of interest or principal on our debt in the future, including payments on our Secured Notes, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations and impair our liquidity.

Risks Relating to the Ownership of Our Common Stock

Our common stock is thinly traded. There is no active trading market for our common stock and an active trading market may not develop.

Our common stock is not listed on any national or regional securities exchange. Quotations for shares of our common stock are listed by certain members of the National Association of Securities Dealers, Inc. on the OTC Electronic Bulletin Board. In recent years, the trading volume of our common stock has been very low and the transactions that have occurred were typically effected in transactions for which reliable market quotations have not been available. An active trading market may not develop or, if de