

STERLING CHEMICALS INC

Form 424B3

August 15, 2008

Table of Contents

**Filed Pursuant to Rule No. 424(b)(3)  
Registration No. 333-145803**

**PROSPECTUS SUPPLEMENT  
TO PROSPECTUS DATED AUGUST 13, 2008  
Sterling Chemicals, Inc.**

**\$150,000,000 aggregate principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Secured Notes Due 2015, which have been registered under the Securities Act of 1933 for \$150,000,000 aggregate principal amount of 10<sup>1</sup>/<sub>4</sub>% Senior Secured Notes Due 2015**

This prospectus supplement supplements information contained in our prospectus dated August 13, 2008 (the Prospectus ) relating to Sterling Chemicals, Inc. s offer to exchange up to \$150,000,000 aggregate principal amount of its registered 10<sup>1</sup>/<sub>4</sub>% Senior Secured Notes due 2015 for a like principal amount of its outstanding 10<sup>1</sup>/<sub>4</sub>% Senior Secured Notes due 2015 solely by including in the Prospectus the Quarterly Report on Form 10-Q of Sterling Chemicals, Inc. for the quarter ended June 30, 2008. This prospectus supplement does not reflect any change in the terms of the exchange offer. This prospectus supplement is not complete without, and may not be delivered or used except in connection with, the Prospectus, including any supplements or amendments to the Prospectus.

**See Risk Factors beginning on page 16 of the Prospectus for a discussion of risks that you should consider before participating in the exchange offer.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the Prospectus or this prospectus supplement. Any representation to the contrary is a criminal offense.**

**The date of this prospectus supplement is August 15, 2008.**

---

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended June 30, 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 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**  
*(IRS 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)*

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

Large accelerated filer  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 Exchange Act). Yes  No .

As of July 31, 2008, Sterling Chemicals, Inc. had 2,828,460 shares of common stock outstanding.

**Table of Contents**

**IMPORTANT INFORMATION REGARDING THIS FORM 10-Q**

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

Readers should consider the following information as they review this Form 10-Q:

**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 statements about the following subjects:

current and future industry conditions and their effect on our results of operations or financial position;

the extent, timing and impact of expansions of production capacity of our products, by us or by our competitors;

the potential effects of market and industry conditions and cyclicity on our competitiveness, business strategy, results of operations or financial position;

our ability to consummate development projects at our Texas City, Texas site;

the adequacy of our liquidity;

our environmental management programs and safety initiatives;

our market sensitive financial instruments;

future uses of, and requirements for, financial resources;

future contractual obligations;

future amendments, renewals or terminations of existing contractual relationships;

business strategies;

growth opportunities;

competitive position;

expected financial position;

future cash flows or dividends;

budgets for capital and other expenditures;

plans and objectives of management;

outcomes of legal proceedings;

compliance with applicable laws;

our reliance on marketing partners;

adequacy of insurance coverage or indemnification rights;

the timing and extent of changes in commodity prices for our products or raw materials;

petrochemicals industry production capacity or operating rates;

costs associated with the shut down and decommissioning of our styrene facility;

increases in the cost of, or our ability to obtain, raw materials or energy;

regulatory initiatives and compliance with governmental laws or regulations, including environmental laws or regulations;

customer preferences;

our ability to attract or retain high quality employees;

operating hazards attendant to the petrochemicals industry;

casualty losses, including those resulting from weather related events;

changes in foreign, political, social or economic conditions;

risks of war, military operations, other armed hostilities, terrorist acts or embargoes;

changes in technology, which could require significant capital expenditures in order to maintain competitiveness or could cause existing manufacturing processes to become obsolete;

effects of litigation;

cost, availability or adequacy of insurance; and

**Table of Contents**

various other matters, many of which are beyond our control.

The risks included here are not exhaustive. Other sections of this report and our other filings with the Securities and Exchange Commission, or the SEC, including, without limitation, our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, or our Annual Report, include additional factors that could adversely affect our business, results of operations or financial performance. See Risk Factors contained in Item 1A of Part I of our Annual Report. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this Form 10-Q are made only as of the date of this Form 10-Q 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 have been 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-Q 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 our Annual Report, other periodic reports we file with the SEC or this Form 10-Q.

**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>). Our website provides a hyperlink to a third-party website, where these reports may be viewed and printed at no cost as soon as reasonably practicable after we have electronically filed such material with the SEC. The contents of our website (or the third-party websites accessible through the various hyperlinks) are not, and shall not be deemed to be, incorporated into this report.

**STERLING CHEMICALS, INC.  
INDEX**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	25
<u>Item 4T. Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	26
<u>Item 6. Exhibits</u>	28

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Sterling Chemicals, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Sterling Chemicals, Inc. and its subsidiaries (the Company) as of June 30, 2008, and the related condensed consolidated statements of operations for the three and six month periods ended June 30, 2008, and cash flows for the six months ended June 30, 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Houston, Texas  
August 14, 2008



**Table of Contents**

**PART I.  
FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**STERLING CHEMICALS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(Dollars in Thousands, Except Share Data)**

	<b>Three months ended June 30, 2007 (As Restated, See Note 11 )</b>		<b>Six months ended June 30, 2007 (As Restated, See Note 11)</b>	
	<b>2008</b>		<b>2008</b>	
Revenues	\$ 47,795	\$ 34,132	\$ 85,995	\$ 66,847
Cost of goods sold	37,969	31,329	71,767	58,417
Gross profit	9,826	2,803	14,228	8,430
Selling, general and administrative expenses	3,787	2,525	6,205	4,823
Impairment of long-lived assets	6,649		6,649	
Interest and debt related expenses	4,719	4,932	8,931	8,392
Interest income	(1,107)	(572)	(2,432)	(647)
Other expense		839		839
Loss from continuing operations before income tax	(4,222)	(4,921)	(5,125)	(4,977)
Benefit for income taxes		(973)		(973)
Loss from continuing operations	\$ (4,222)	\$ (3,948)	\$ (5,125)	\$ (4,004)
Income (loss) from discontinued operations, net of tax of zero for all periods	(1,588)	4,474	(7,813)	7,200
Net income (loss)	\$ (5,810)	\$ 526	\$ (12,938)	\$ 3,196
Preferred stock dividends	4,422	4,976	8,693	8,026
Net loss attributable to common stockholders	\$ (10,232)	\$ (4,450)	\$ (21,631)	\$ (4,830)
Income (loss) per share of common stock attributable to common stockholders, basic and diluted:				
Loss from continuing operations	\$ (3.06) (0.56)	\$ (3.15) 1.58	\$ (4.89) (2.76)	\$ (4.26) 2.55

Edgar Filing: STERLING CHEMICALS INC - Form 424B3

Income (loss) from discontinued operations,  
net of tax

Basic and diluted loss per share	\$	(3.62)	\$	(1.57)	\$	(7.65)	\$	(1.71)
----------------------------------	----	--------	----	--------	----	--------	----	--------

Weighted average shares outstanding:

Basic and diluted	2,828,460	2,828,460	2,828,460	2,828,460
-------------------	-----------	-----------	-----------	-----------

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

3

---

**Table of Contents**

**STERLING CHEMICALS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(Dollars in Thousands, Except Share Data)**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 160,491	\$ 100,183
Accounts receivable, net of allowance of \$33 and \$39, respectively	24,098	29,157
Inventories, net	5,562	5,044
Prepaid expenses	510	3,129
Deferred tax asset		5,029
Assets of discontinued operations	1,032	71,754
<b>Total current assets</b>	<b>191,693</b>	<b>214,296</b>
Property, plant and equipment, net	68,329	77,677
Other assets, net	13,646	14,471
<b>Total assets</b>	<b>\$ 273,668</b>	<b>\$ 306,444</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIENCY IN ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 14,996	\$ 13,715
Accrued liabilities	15,385	22,789
Liabilities of discontinued operations	12,401	11,528
<b>Total current liabilities</b>	<b>42,782</b>	<b>48,032</b>
Long-term debt	150,000	150,000
Deferred tax liability		5,029
Deferred credits and other liabilities	26,415	26,168
Long-term liabilities of discontinued operations	41,584	51,436
Commitments and contingencies (Note 6)		
Redeemable preferred stock	108,559	99,866
Stockholders' equity:		
Common stock, \$.01 par value (shares authorized 20,000,000; shares issued and outstanding 2,828,460)	28	28
Additional paid-in capital	132,527	141,174
Accumulated deficit	(245,480)	(232,542)
Accumulated other comprehensive income	17,253	17,253
<b>Total stockholders' deficiency in assets</b>	<b>(95,672)</b>	<b>(74,087)</b>

Total liabilities and stockholders' deficiency in assets	\$ 273,668	\$ 306,444
--	------------	------------

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

4

---

**Table of Contents**

**STERLING CHEMICALS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Dollars in Thousands)**

	<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net income (loss)	\$ (12,938)	\$ 3,196
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	10	
Stock compensation expense	46	
Depreciation and amortization	5,082	5,490
Impairment of long-lived assets	6,649	
Interest amortization	810	375
Unearned income amortization	(5,744)	(500)
Lower-of-cost-or-market adjustment		1,318
Loss on investment		839
Gain on disposal of property, plant and equipment		(182)
Deferred tax benefit		(973)
Other	2	20
Change in assets/liabilities:		
Accounts receivable	60,193	(29,358)
Inventories	15,010	19,359
Prepaid expenses	2,620	2,029
Other assets	(126)	1,976
Accounts payable	1,846	5,243
Accrued liabilities	(6,533)	(1,041)
Other liabilities	(3,862)	(8,760)
Net cash provided by (used in) operating activities	63,065	(969)
Cash flows used in investing activities:		
Capital expenditures for property, plant and equipment	(2,757)	(4,350)
Net proceeds from the sale of property, plant and equipment		182
Net cash used in investing activities	(2,757)	(4,168)
Cash flows from financing activities:		
Repayment of tendered Old Secured Notes		(100,579)
Proceeds from the issuance of Secured Notes		150,000
Debt issuance costs		(7,832)
Net cash provided by financing activities		41,589

Net increase in cash		60,308	36,452
Cash and cash equivalents	beginning of year	100,183	20,690
Cash and cash equivalents	end of period	\$ 160,491	\$ 57,142

Supplemental disclosures of cash flow information:

Interest paid, net of interest income received		\$ 5,607	\$ 4,001
Cash paid for income taxes		404	299

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

**Table of Contents**

**STERLING CHEMICALS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and reflect all adjustments (including normal recurring accruals) which, in our opinion, are considered necessary for the fair presentation of the results for the periods presented. The results of operations and cash flows for the periods presented are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report.

***Reclassifications***

Certain amounts reported in the condensed consolidated financial statements for the prior periods have been reclassified to conform to the current consolidated financial statement presentation with no effect on net loss or stockholders' equity (deficiency in assets). For the six months ended June 30, 2007, we have reclassified certain amounts between depreciation and amortization and other liabilities on the condensed consolidated statement of cash flows. For the three and six months ended June 30, 2007, we have reclassified certain amounts on the condensed consolidated statements of operations and the condensed consolidated balance sheet as of December 31, 2007, to reflect the discontinued operations of styrene.

**2. Stock-Based Compensation**

On December 19, 2002, we adopted our 2002 Stock Plan and reserved 379,747 shares of our common stock for issuance under the plan (subject to adjustment). Under our 2002 Stock Plan, officers and key employees, as designated by our Board of Directors, may be issued stock options, stock awards, stock appreciation rights or stock units. There are currently options to purchase a total of 347,500 shares of our common stock outstanding under our 2002 Stock Plan, all at an exercise price of \$31.60, and an additional 16,414 shares of common stock available for issuance under our 2002 Stock Plan.

During the second quarter of 2008, we granted 125,000 stock options at a weighted-average exercise price of \$31.60. The fair value of each grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2008
Expected life (years)	7.5
Expected volatility	54.3%
Expected dividend yield	
Risk-free interest rate	3.5%
Weighted-average fair value of options granted during the period	\$7.25

Stock based compensation expense was less than \$0.1 million for the three and six months ended June 30, 2008 and 2007.

**3. Discontinued Operations**

On September 16, 2005, we announced that we were exiting the acrylonitrile business and related derivative operations, which included sodium cyanide and disodium iminodiacetic acid production. These production units had been shut down since February 2005, and after our announcement, we dismantled these facilities. Our decision was based on a history of operating losses incurred by our acrylonitrile and derivatives businesses, and was made after a full review and analysis of our strategic alternatives.

**Table of Contents****STERLING CHEMICALS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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., or NOVA. Under this supply agreement, NOVA had the exclusive right to purchase 100% of our styrene production (subject to existing contractual commitments), the amount of styrene supplied in any particular period being at NOVA's option. In November 2007, this supply agreement, which was subsequently assigned by NOVA to INEOS NOVA, LLC, or INEOS NOVA, obtained clearance under the Hart-Scott-Rodino Act. This clearance caused the supply agreement and the railcar agreement to become effective and triggered a \$60 million payment to us in November 2007. In accordance with the terms of the supply agreement, INEOS NOVA assumed substantially all of our contractual obligations for future styrene deliveries. 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 of time was initially 8 years. However effective April 1, 2008, INEOS NOVA unilaterally reduced the restricted period to 5 years. We operated our styrene facility through early December 2007, as we completed our production of inventory and exhausted our raw materials and purchase requirements, and sold substantially all of our remaining inventory during the first quarter of 2008. During 2007 and the first six months of 2008, we incurred closure costs to decommission our styrene facility of \$0.7 million and \$14.6 million, respectively. We expect to incur up to approximately \$4 million in additional decommissioning costs related to the closure of our styrene facility. In mid-July, with the decontamination process for the styrene facility nearing completion, 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 seven people. In addition, we made offers for early retirement to several members of our hourly work force and our salaried administrative and process supervisors. Upon completion of the down-sizing of our hourly work force and our administrative and process supervisor positions, total staff reductions are expected to be approximately 40 employees, and we expect to recognize approximately \$2.2 million in severance costs in the third and fourth quarters of 2008, in accordance with Statement of Financial Accounting Standards, or SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

In accordance with SFAS No. 144, Accounting for the Impairment and Disposal of Long Lived Assets, we have reported the operating results of these businesses as discontinued operations in our condensed consolidated financial statements. The carrying amounts of assets and liabilities related to discontinued operations as of June 30, 2008 and December 31, 2007 were as follows:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>(Dollars in Thousands)</b>	
<b>Assets of discontinued operations:</b>		
Accounts receivable, net	\$ 851	\$ 55,995
Inventories	181	15,709
Other assets		50
<b>Total</b>	<b>\$ 1,032</b>	<b>\$ 71,754</b>
<b>Liabilities of discontinued operations:</b>		
Accounts payable	\$	\$ 3,363
Accrued liabilities <sup>(1)</sup>	12,401	8,165
Deferred credits and other liabilities <sup>(1)</sup>	41,584	51,436



Total \$ 53,985 \$ 62,964

(1) Includes \$54 million of deferred income for the NOVA supply agreement that will be amortized over the contractual non-compete period of five years using the straight-line method. Accrued liabilities include the current portion of \$12.4 million and deferred credits and other liabilities include the long-term portion of \$41.6 million.

Revenue and pre-tax losses from discontinued operations for the three and six-month periods ended June 30, 2008 and 2007 are presented below:

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>(Dollars in thousands)</b>			
Revenues	\$ 611	\$218,339	\$15,208	\$382,011
Income (loss) before income taxes	(1,588)	4,474	(7,813)	7,200
	7			

**Table of Contents****STERLING CHEMICALS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Current severance obligations related to the exit from our acrylonitrile operations are detailed below (in thousands):

	<b>Accrued as of December 31, 2007</b>	<b>Additional accruals</b>	<b>Cash payments</b>	<b>Accrued as of June 30, 2008</b>
Severance accrual	\$ 325	\$	\$ 325	\$

**4. Shutdown and Impairment of Phthalic Anhydride Manufacturing Unit**

On May 27, 2008, we entered into a Third Amended and Restated Plasticizers Production Agreement, or our Amended Plasticizers Production Agreement, with BASF Corporation, or BASF, with an effective date of April 1, 2008. The Amended Plasticizers Production Agreement amended certain provisions of the Second Amended and Restated Plasticizers Production Agreement between us and BASF dated as of January 1, 2006, or the Old Plasticizers Production Agreement. The Amended Plasticizers Production Agreement was entered into in connection with BASF's nomination of zero pounds of phthalic anhydride, or PA, under the Old Plasticizers Production Agreement in response to deteriorating market conditions which were not expected to improve over the next few years, causing the shutdown of our PA unit.

The Amended Plasticizers Production Agreement relieves BASF of most of its obligations under the Old Plasticizers Production Agreement related to our PA manufacturing unit. BASF's obligations under the Old Plasticizers Production Agreement related to our esters manufacturing unit were not affected by the Amended Plasticizers Production Agreement and are continuing in accordance with the same terms as existed under the Old Plasticizers Production Agreement. In exchange for being relieved of its obligations related to our PA manufacturing unit, BASF is required to pay us an aggregate amount of approximately \$3.2 million, \$3.0 million of which was paid in May 2008, and the balance of which is due and payable on or before August 15, 2008. However, we are obligated to refund 75% of this amount if we restart our PA manufacturing unit before January 1, 2009, 50% of this amount if we restart our PA manufacturing unit during 2009 and 25% of this amount if we restart our PA manufacturing unit during 2010. The \$3.2 million represents the termination of BASF's obligations under the Old Plasticizers Production Agreement with respect to the operation of our PA manufacturing unit, and will be recognized using the straight-line method over the restricted period of April 1, 2008 through December 31, 2010 under the Amended Plasticizers Production Agreement. During the first half of 2008, BASF is also required to pay 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 unit have been incurred and expensed, and the \$3.7 million in cost reimbursements, has been recognized as revenue in the first six months of 2008. The quarterly fixed periodic payments under the Old Plasticizers Production Agreement with respect to the operation of our PA and esters manufacturing units were not changed under the Amended Plasticizers Agreement. However, these quarterly fixed periodic payments are now solely related to the operation of our esters manufacturing unit under the Amended Plasticizers Production Agreement.

In addition, under the Amended Plasticizers Production Agreement, (i) the methods for calculating payments required to be made by BASF for achieving reductions in direct fixed and variable costs and (ii) BASF's right to terminate the Agreement in the event that direct fixed and variable costs exceed a specified threshold (unless we elect to cap BASF's reimbursement obligations) have both been modified to exclude costs savings and direct fixed and variable costs pertaining to our PA manufacturing unit.

After April 1, 2008, the Amended Plasticizers Production Agreement also removed all restrictions or rights BASF formerly had during the term of the Old Plasticizers Production Agreement with respect to our use or disposition of the PA manufacturing unit, including a limited purchase right, the right to request capacity increases and consultation rights regarding future capital expenditures with respect to our PA manufacturing unit.

As a result of the Amended Plasticizers Production Agreement and subsequent permanent shutdown of our PA unit, our management determined that a triggering event, as defined in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, had occurred and during the second quarter of 2008, we performed an asset impairment analysis on our PA manufacturing unit. We analyzed the undiscounted cash flow stream from our PA business over the remaining life of the PA manufacturing unit and compared it to the \$6.6 million net book carrying value of our PA manufacturing unit. This analysis showed that the undiscounted projected cash flow stream from our PA business was less than the net book carrying value of our PA manufacturing unit. As a result, we performed a discounted cash flow analysis and subsequently concluded that our PA manufacturing unit was impaired and should be written down to zero. This write-down caused us to record an impairment of \$6.6 million in June 2008.

**Table of Contents****STERLING CHEMICALS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other than the impairment discussed above, we do not believe the shutdown of our PA manufacturing unit will have a material adverse effect on our financial position, results of operations or cash flows as the required quarterly fixed periodic payments previously related to the PA manufacturing unit will continue throughout the original term of the contract, however have been allocated to the operations of the esters manufacturing unit, and all decontamination and shutdown costs were reimbursed by BASF.

**5. Long-Term Debt**

On March 1, 2007, we commenced an offer, or our tender offer, to repurchase all \$100.6 million of our outstanding 10% Senior Secured Notes due 2007, or our Old Secured Notes. Concurrently with our tender offer, we solicited consents from the holders of our Old Secured Notes to, among other things, eliminate certain covenants contained in the indenture governing our Old Secured Notes and related security documents. On March 30, 2007, we repurchased \$58 million in aggregate principal amount of our Old Secured Notes, which were validly tendered prior to the expiration of our tender offer, and paid the accrued interest thereon and \$0.1 million in consent fees. On April 27, 2007, we redeemed all of our Old Secured Notes that were not tendered pursuant to our tender offer for \$44 million, which included \$1.5 million in accrued interest.

On March 29, 2007, we completed a private offering of \$150 million aggregate principal amount of unregistered 10<sup>1</sup>/<sub>4</sub>% Senior Secured Notes due 2015, or our Secured Notes, pursuant to a Purchase Agreement among us, Sterling Chemicals Energy, Inc., or Sterling Energy, one of our wholly-owned subsidiaries, and Jefferies & Company, Inc. and CIBC World Markets Corp., as initial purchasers. In connection with the offering of our Secured Notes, we entered into an indenture, dated March 29, 2007, among us, Sterling Energy, as guarantor, and U. S. Bank National Association, as trustee and collateral agent. On May 6, 2008, Sterling Energy was merged with and into Sterling Chemicals, Inc. Upon consummation of the merger, Sterling Energy no longer had independent existence and, consequently, our Secured Notes are no longer guaranteed by Sterling Energy. Pursuant to a registration rights agreement among us, Sterling Energy and the initial purchasers, we agreed to use commercially reasonable efforts to file an exchange offer registration statement to exchange our unregistered Secured Notes for a new issue of substantially identical debt securities registered under the Securities Act, to cause the registration statement to become effective by December 24, 2007 and to complete the exchange offer within 50 days of the effective date of the registration statement. On August 30, 2007, we made an initial filing of this required exchange offer registration statement. However, the registration statement was not declared effective by December 24, 2007 and, as a result, the interest rate on our Secured Notes increased by 0.25% per annum on each of December 25, 2007, March 24, 2008 and June 22, 2008. The registration statement was declared effective on August 13, 2008 and we expect the interest rate on our Secured Notes to revert back to the face amount of 10<sup>1</sup>/<sub>4</sub>% per annum, effective September 12, 2008, when the exchange offer is expected to close. The additional interest incurred from December 25, 2007 through the expected closing of the exchange offer is estimated to be approximately \$.5 million.

Our indenture contains affirmative and negative covenants and customary events of default, including payment defaults, breaches of covenants and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, other than an event of default triggered upon certain bankruptcy events, the trustee under our indenture or the holders of at least 25% in principal amount of our outstanding Secured Notes may declare our Secured Notes to be due and payable immediately. Upon an event of default, the trustee may also take actions to foreclose on the collateral securing our outstanding Secured Notes, subject to the terms of an intercreditor agreement dated March 29, 2007, among us, Sterling Energy, the trustee and The CIT Group/Business Credit, Inc. Our indenture does not require us to maintain any financial ratios or satisfy any financial maintenance tests. We are currently in compliance with all of the covenants contained in our indenture.