

STERLING CHEMICALS INC

Form S-4

August 30, 2007

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As filed with the Securities and Exchange Commission on August 30, 2007

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
Sterling Chemicals, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

2860

*(Primary Standard Industrial
Classification Code Number)*

72-0395707

*(I.R.S. Employer
Identification Number)*

333 Clay Street, Suite 3600
Houston, Texas 77002-4109
(713) 650-3700

*(Address, including zip code, and telephone number
including area
code, of registrant's principal executive offices)*

Kenneth M. Hale
Senior Vice President, General Counsel
and Corporate Secretary
333 Clay Street, Suite 3600
Houston, Texas 77002-4109
(713) 650-3700

*(Name, address, including zip code, and telephone
number,
including area code, of agent for service)*

Copy to:

J. Michael Chambers
Akin Gump Strauss Hauer & Feld LLP
1111 Louisiana, 44th Floor
Houston, Texas 77002-5200
(713) 220-5800

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, or the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered ⁽¹⁾	Proposed Maximum Offering Price per Unit ⁽¹⁾	Proposed Maximum Aggregate Offering Price ⁽¹⁾	Amount of Registration Fee ⁽¹⁾
101/4% Senior Secured Notes due 2015 Guarantees of Senior Secured Notes due 2015 ⁽²⁾	\$150,000,000	100%	\$150,000,000	\$4,605
				(3)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(f) under the Securities Act of 1933.

(2) Sterling Chemicals Energy, Inc., a wholly-owned subsidiary of Sterling Chemicals, Inc. has guaranteed the notes being registered hereby.

(3) No separate consideration will be received for the Guarantees and, therefore, no additional registration fee is required.

The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

TABLE OF ADDITIONAL REGISTRANT GUARANTOR

State or Other
Jurisdiction of

Name	Incorporation or Organization	I.R.S. Employer Identification Number	Primary Standard Industrial Classification Code
Sterling Chemicals Energy, Inc.	Delaware	76-0326761	325900

The name, address of the principal executive office, including zip code, and telephone number, including area code, of the agent for service of each additional registrant is c/o Sterling Chemicals, Inc., Senior Vice President, General Counsel and Corporate Secretary; 333 Clay Street, Suite 3600, Houston, Texas 77002. The telephone number there is (713) 650-3700.

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Information in this prospectus is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. We may not exchange these securities until the registration statement is effective. This prospectus is not an offer to sell or a solicitation of an offer to buy the securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 30, 2007

PROSPECTUS

\$150,000,000

**Sterling Chemicals, Inc.
101/4% Senior Secured Notes due 2015**

This prospectus relates to our proposed exchange offer. We are offering to exchange up to \$150,000,000 aggregate principal amount of new and freely transferable 101/4% Senior Secured Notes due 2015, which we refer to as the registered notes, for any and all outstanding 101/4% Senior Secured Notes due 2015 issued in a private offering on March 29, 2007, which we refer to as the unregistered notes and which are subject to transfer restrictions. In this prospectus we sometimes refer to the unregistered notes and the registered notes collectively as the notes.

The terms of the registered notes are identical to the terms of the unregistered notes in all material respects, except for the elimination of some transfer restrictions, registration rights and additional interest provisions relating to the unregistered notes. The registered notes will be issued under the same indenture as the unregistered notes. All of our 101/4% Senior Secured Notes due 2015 outstanding from time to time under the indenture are referred to as our senior secured notes. The registered notes and the guarantees will rank senior in right of payment to all existing and future subordinated indebtedness of us and the guarantors, as applicable, and equal in right of payment with all existing and future senior indebtedness of us and of such guarantors. Holders of unregistered notes do not have any appraisal or dissenters' rights in connection with the exchange offer. The exchange of unregistered notes for registered notes will not be a taxable event for United States federal income tax purposes.

We will exchange any and all unregistered notes that are validly tendered and not validly withdrawn prior to 5:00 p.m. (New York City time) on, _____, 2007, unless extended.

We will not receive any cash proceeds from the exchange offer. You will be required to make the representations described on page 26. We have not applied, and do not intend to apply, for listing the notes on any national securities exchange or automated quotation system.

Unregistered notes not exchanged in the exchange offer will remain outstanding and will be entitled to the benefits of the indenture but, except under certain circumstances, will have no further exchange or registration rights under the registration rights agreement discussed in this prospectus

Each broker-dealer that receives registered notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such registered notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933, as amended, or the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of registered notes received in exchange for unregistered notes where such unregistered notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for such period of time as may be required under the Securities Act to permit resales of registered notes, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

See Risk Factors beginning on page 15 of this prospectus for a discussion of risks that you should consider before participating in this exchange offer.

The date of this prospectus is _____, 2007

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-4 under the Securities Act that we filed with the Securities and Exchange Commission, or the SEC. In making your decision whether to participate in the exchange offer, you should rely only on the information contained in this prospectus and in the accompanying letter of transmittal. We have not authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information appearing in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

Moreover, this prospectus does not contain all of the information set forth in the registration statement and the exhibits

thereto. You may refer to the registration statement and the exhibits thereto for more information. Statements made in this prospectus regarding the contents of any contract or document filed as an exhibit to the registration statement are not necessarily complete and, in each instance, reference is hereby made to the copy of such contract or document so filed. Each such statement is qualified in its entirety by such reference.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file at the SEC's public reference room at 100 F. Street

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N.E., NW, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at <http://www.sec.gov>. You can also find more information about us at our Internet website located at <http://www.sterlingchemicals.com>. Our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports are available free of charge through our website. 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. Except for such reports that may be specifically incorporated by reference in this prospectus, information that has been filed with the SEC or that is contained on our website does not constitute part of this prospectus.

This prospectus contains summaries of certain agreements, such as the indenture and the agreements described under Summary Registered Notes, Description of Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations. The descriptions contained in this prospectus of these agreements do not purport to be complete and are subject to, or qualified in their entirety by reference to, the definitive agreements. Copies of the definitive agreements will be made available without charge to you by making a written or oral request to us at the following address:

Sterling Chemicals, Inc.
333 Clay Street, Suite 3600
Houston, Texas 77002
Attention: Corporate Secretary

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of 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. Such 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, will likely result, project, forecast, or similar expressions. Statements in this prospectus that contain forward-looking statements include, but are not limited to, information concerning our possible or assumed future results of operations. 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 prospectus. These risks, contingencies and uncertainties relate to, among other matters, the following:

the cyclical nature of the petrochemicals industry;

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 cyclicalities on our competitiveness, business strategy, results of operations or financial position;

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;

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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;

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;

cost, availability or adequacy of insurance; and

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

The risks included here are not exhaustive. Other sections of this prospectus, and our filings with the SEC, include additional factors that could adversely affect our business, results of operations or financial performance. See Risk Factors. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements included in this prospectus are made only as of the date of this prospectus 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.

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NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this prospectus were obtained through internal company research, surveys and studies conducted by third parties and industry and general publications, including information from Chemical Market Associates, Inc., or CMAI, and Tecnon OrbiChem, or Tecnon. We have not independently verified market and industry data from third-party sources. Furthermore, the research, surveys and studies provided by such third party sources have been based in part on market and industry data that has not in turn been independently verified by those third party sources. While we believe internal company estimates are reliable, such estimates have not been verified by any independent sources, and we do not make any representations as to the accuracy of such estimates. Changes in factors upon which our estimates or the analyses or forecasts contained in such third party reports, surveys or studies referred to herein are based could effect the results of such estimates, analyses and forecasts, and are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including the actions of government, individuals, third parties and competitors.

PRODUCTION CAPACITY

Unless we state otherwise, annual production capacity used throughout this prospectus represents rated capacity at December 31, 2006. We calculated rated capacity by estimating the number of days in a typical year that a production unit of a plant is expected to operate, after allowing for downtime for regular maintenance, and multiplying that number by the unit's optimal daily output based on the design feedstock mix. Because the rated capacity of a production unit is an estimated amount, actual production volumes may be more or less than the rated capacity.

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PROSPECTUS SUMMARY

This summary is not complete and does not contain all of the information that you should consider before investing in our notes. You should read the entire prospectus carefully, including Risk Factors and our consolidated financial statements and the related notes and other financial information appearing elsewhere in this prospectus before you decide to invest in our notes. Generally, references to Sterling Chemicals, we, us and our mean Sterling Chemicals Inc. and its consolidated subsidiaries. In addition, in this prospectus our fiscal years ended December 31, 2004, December 31, 2005, and December 31, 2006 are referred to as 2004, 2005 and 2006, respectively.

The Company

We are a leading North American producer of selected petrochemicals used to manufacture a wide array of consumer goods and industrial products throughout the world. Our primary products are acetic acid, styrene and plasticizers.

Our acetic acid is used primarily to manufacture vinyl acetate monomer, which is used in a variety of products, including adhesives and surface coatings. All of our acetic acid production is sold to BP Amoco Chemical Company, or BP Chemicals, and we are BP Chemicals' sole source of acetic acid production in the Americas. We sell our acetic acid to BP Chemicals pursuant to a long-term contract, or Production Agreement, that extends until 2016. The Production Agreement provides us with a portion of the profits derived from BP Chemicals' sales of the acetic acid we produce and reimbursement of 100% of our fixed and variable costs of production. This Production Agreement has provided us with a steadily increasing source of income since the inception of this relationship in 1986 and, over the last three years, we have operated at over 100% of capacity and at utilization rates greater than the industry average.

We believe we have one of the lowest cost acetic acid facilities in the world. Our acetic acid facility utilizes BP Chemicals' proprietary carbonylation technology, or Cativa Technology, which we believe offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs. We also jointly invest with BP Chemicals in capital expenditures related to our acetic acid facility. Acetic acid production has two major raw materials 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 the carbon monoxide we use in the production of acetic acid is supplied by Praxair Hydrogen Supply, Inc., or Praxair, from a partial oxidation unit constructed by Praxair on land leased from us at our Texas City site.

Styrene is a commodity chemical used to produce intermediate products such as polystyrene, expandable polystyrene resins and ABS plastics, which are used in a wide variety of products such as household goods, foam cups and containers, disposable food service items, toys, packaging and other consumer and industrial products. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of our styrene capacity into the global spot market.

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, pursuant to a long-term production agreement that extends until 2013, subject to some limited early termination rights held by BASF beginning in 2010. Under our agreement with BASF, BASF provides us with most of the required raw materials, markets the plasticizers we produce, and is obligated to make certain fixed quarterly payments to us and to reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility.

We manufacture all of our petrochemicals products at our site in Texas City, Texas. In terms of production capacity, our Texas City site has the sixth largest acetic acid facility in the world and fourth largest styrene facility in North America. The Texas City site covers an area of 290 acres, 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, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. 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 key raw material pipelines, as well as close proximity to a number of large refinery complexes that provide some of our principal raw materials.

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We own the acetic acid, styrene and plasticizers manufacturing units located at our Texas City site. We also lease a portion of our Texas City site to Praxair, who constructed a partial oxidation unit on that land, and we lease a portion of our Texas City site to S&L Cogeneration Company, a 50/50 joint venture between us and Praxair Energy Resources, Inc., who constructed a cogeneration facility on that land. We lease space for our principal offices located in Houston, Texas.

In addition to our intention to further expand the capacity of our acetic acid facility, we are presently undertaking numerous initiatives to attract new chemical related businesses to our Texas City site. Given our significant under-utilized infrastructure, land, materials handling, utilities and storage, our Texas City site should be a favorable location for companies looking to construct new manufacturing facilities on the Gulf Coast of the United States. We believe that the construction of a new facility at our site by another company would lower the amount of overall fixed costs allocated to each of our operating units and provide us with additional revenue. Accordingly, 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 and management expertise to minimize our share of the capital costs.

Current Industry Conditions

Acetic Acid. The North American acetic acid industry is enjoying a period of sustained domestic demand growth, as well as substantial export demand. This has led to current North American industry utilization rates of 86% and Tecnon projects utilization rates to 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 and historically these producers have made capacity additions in a disciplined and incremental manner, primarily using small expansion projects or exploiting debottlenecking opportunities. In addition, the leading technology required to manufacture acetic acid is controlled by two global companies, which allows these companies to control the pace of new capacity additions through the licensing or development of such additional capacity. The limited availability of this technology also creates a significant barrier to entry into the acetic acid industry by potential competitors.

Global production capacity of acetic acid as of December 31, 2006 was approximately 24 billion pounds per year, with current North American production capacity at approximately 7 billion pounds per year. The North American acetic acid market is mature and well developed and is dominated by four major producers that account for over 94% of the acetic acid 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 40% of total demand. Annual global production of vinyl acetate monomer is expected to increase from 10.4 billion pounds in 2005 to 12.2 billion pounds in 2010. The North American acetic acid industry tends to sell most of its products through long-term sales agreements having cost plus pricing mechanisms, eliminating much of the volatility seen in other petrochemicals products and resulting in more stable and predictable earnings and profit margins.

Styrene. The North American styrene industry is currently in a protracted down cycle, primarily as a result of over-supply. This shift is the result of two major developments. Export demand has historically represented over 20% of North American production capacity. Regional cost pressures in addition to new production capacity being added in Asia and the Middle East have made it difficult for North American producers to compete in these export markets on a regular basis. In addition, a significant amount of styrene capacity has been added globally over the past five to ten years by producers of propylene oxide using so-called PO-SM technology, which produces styrene as a by-product in the production of propylene oxide. Propylene oxide is a key intermediate in the production of polyurethane, and

polyurethane demand growth has been significantly greater than demand growth for styrene, exacerbating the over-supply of styrene. During such periods of over-supply, production rates for styrene producers decrease significantly. Production rates in the United States are currently estimated by CMAI to be 77% of capacity, but are projected to decrease to 67% during the fourth quarter of 2007. When production rates are low, unit production costs increase due to the allocation of fixed costs over a lower production volume and a reduction in the

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efficiency of the manufacturing unit, both in energy usage and in the conversion rates for raw materials. Compounding these cost impacts, prices for the principal styrene raw materials, benzene and ethylene, are currently near historical highs, putting pressure on margins on styrene sales even though styrene contract prices are near historic highs. According to CMAI, benzene and ethylene prices are expected to decline by approximately 8% and 4%, respectively, on average over each of the next five years.

CMAI currently is not projecting any additional capacity increases in the United States through 2010, with projected operating rates reaching a trough of 67% during the fourth quarter of 2007, and with less than 80% operating rates through 2010, without any major industry restructuring. Although we believe an improved North American industry outlook is possible, this largely depends on significant industry restructuring. Previously, styrene and polystyrene industry participants, including The DOW Chemical Company and NOVA Chemicals Corporation, have announced a desire to seek transactions which would restructure the North American styrene and polystyrene industries, thereby improving the balance of supply and demand in North America. More recently, NOVA Chemicals Corporation announced on March 22, 2007 that it planned to expand its European joint venture with INEOS to include North American styrene and solid polystyrene assets, and The DOW Chemical Company announced on April 10, 2007 that it had signed a non-binding memorandum of understanding with Chevron Phillips Chemical Co. to form a joint venture involving selected styrene and polystyrene assets of the two companies in North America and South America. Separately, new technology for the manufacture of propylene oxide has been developed that should result in lower manufacturing costs for propylene oxide and which does not produce styrene as a co-product, which could significantly reduce the future growth of plants utilizing PO-SM technology.

Competitive Strengths

World Class Acetic Acid Facility. Our acetic acid facility, one of the largest in terms of production capacity in the world, enjoys high reliability and we believe it is the second most efficient facility in the world. With a rated annual production capacity of 1.1 billion pounds, our acetic acid facility produces approximately 17% of total North American capacity and approximately 5% of worldwide capacity. In terms of production capacity, our acetic acid facility is the third largest acetic acid facility in North America and the sixth largest in the world. Our acetic acid facility produces acetic acid using BP Chemicals' Cativa Technology, which offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs.

Well-Positioned for Further Growth. Since 1986, we and BP Chemicals have increased the annual rated production capacity of our acetic acid facility by 126%, from 490 million pounds of annual production capacity in 1986 to 1.1 billion pounds of annual production capacity today. In 2006, our acetic acid facility operated at 101% of capacity, in part as a result of its relatively low production costs and the efforts of BP Chemicals' global sales organization. We also have undertaken projects with BP Chemicals to ensure that we would be positioned to expand production capacity in the future. For example, in 2003, we and BP Chemicals installed a larger reactor at our acetic acid facility, which will continue to permit additional cost-effective expansions of this facility. We expect a further expansion of the production capacity of our facility to 1.2 billion pounds by 2009. Following this expansion, we expect the facility to continue to operate at or near maximum utilization rates.

Highly Contracted Sources of Cash Flows for Our Acetic Acid and Plasticizers Products. Our business benefits from long-term requirements contracts with BP Chemicals and BASF. We sell 100% of our acetic acid production to BP Chemicals pursuant to the Production Agreement. Under the Production Agreement, which runs through July 31, 2016, BP Chemicals markets all of the acetic acid that we produce and pays us, among other amounts, a portion of the profits earned from sales of the product. The Production Agreement has allowed us to operate our acetic acid facility consistently at or near full capacity and generate steadily growing cash flows. BP Chemicals' largest customer for acetic acid produced at our acetic acid facility is American Acetyls, a joint venture between BP Chemicals and The DOW Chemical Company, which currently accounts for approximately 50% of the acetic acid we produce. Sales to

American Acetyls are made under a cost-plus contract that extends until 2016. Much of the remaining sales of the acetic acid we produce are made by BP Chemicals under multiple year contracts. This high percentage of contractually committed volume has provided us with strong demand for our acetic acid and steadily increasing cash flows.

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Our long-term plasticizers business relationship with BASF, established in 1986, was extended last year until the end of 2013. Under this agreement, BASF reimburses 100% of our costs, including capital expenditures, and pays us fixed quarterly fees, eliminating most, if not all, of our exposure to market risk in our plasticizers business.

Additionally, in both contracts, principal raw materials are provided by BP Chemicals and BASF, respectively, allowing us to operate our business with relatively low working capital requirements, including finished product inventory requirements.

Well-Invested Production Assets. Over the past five years, we and BP Chemicals invested \$19 million in capital in our acetic acid facility. A new and larger reactor was installed in 2003, which was sized for an ultimate capacity in excess of 1.7 billion pounds of annual production. A new and larger product column is expected to be installed during the facility turnaround scheduled for 2009. All new capital investments for our acetic acid facility are being made with a view to ultimately achieving 1.7 billion pound annual production capacity in a cost efficient manner. We believe that the capital cost to expand our acetic acid facility to maximum capacity would be significantly less than the cost for new capacity at a greenfield location. We have invested \$26 million in our styrene facility since 2002, with much of the capital related to complying with new regulations requiring chemical plants in the non-attainment zones to lower nitrogen oxide, or NO_x, emissions by 80%. In 2006, we installed our new catalyst in both of our styrene reactors and a new superheater. Also, in 2006, BASF invested approximately \$4 million to convert our plasticizers production unit over to a new range of esters as part of the extension of its production agreement with us which runs until 2013. BASF is responsible for all capital investment in the plasticizers, esters and phthalic anhydride production facilities through the length of the agreement. We and third parties subject to agreements with us invested a further \$22 million in site infrastructure capital over the past five years, including the rebuilding of a ship dock and two barge docks. Given the condition of our Texas City site and infrastructure, we anticipate spending less than \$6 million annually for capital expenditures with respect to our styrene facilities and approximately \$2 million annually on utilities and services maintenance over the next five years.

Attractive Logistics Assets and Infrastructure. Our logistics assets include strategic access to the intercoastal waterway and the Gulf of Mexico, a deep water dock capable of handling ships with up to a 40-foot draft, as well as four barge docks, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. We are in the heart of one of the largest petrochemical complexes on the Gulf Coast, in close proximity to a number of large refinery complexes. As a result, we have on-site access to a number of key raw material pipelines and convenient access to several of our suppliers and customers. Currently, our dock facilities can accommodate new uses and we have 31 tanks available for third party use or terminalling. These assets present a substantial opportunity to grow our business by attracting new chemical related businesses to our Texas City site and significant opportunities for further development.

Leading Market Positions. We have a leading market position in each of our primary products. Our rated annual production capacity for acetic acid of 1.1 billion pounds represents 17% of the total North American production capacity and 5% of the global production capacity. In acetic acid, we are the third largest producer in North America with a low cost position derived from our use of BP Chemicals' Cativa Technology, global sales and marketing network and acetyls know-how. In styrene, we are a large merchant producer with top quartile ethylbenzene to styrene conversion yield. Our position as a merchant producer positions us to benefit from improved conditions in the styrene market.

Experienced Management Team. Our senior management team consists of five executives with an average of over 27 years of experience in the chemicals industry, 15 years of which have been with us. Our management team has demonstrated expertise in reducing costs, improving profitability and expanding profitable production capacity, while

exiting unprofitable businesses through various economic cycles.

Business Strategy

Grow Our Business. We intend to grow our acetic acid business through capacity expansions. We intend to take advantage of recent investments in our acetic acid facility made by us and BP Chemicals, which we believe

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have positioned our acetic acid facility for cost-effective future capacity expansions at lower incremental cost. We currently have low-cost debottlenecking opportunities which could increase annual capacity of the acetic acid facility by up to approximately 7% to approximately 1.2 billion pounds. In addition, a new acetic acid reactor installed in 2003 is capable of producing up to 1.7 billion pounds annually.

Our Texas City site offers approximately 135 acres for future expansion by us or by other companies that can benefit from our existing infrastructure and facilities, and includes a greenbelt around the northern edge of the plant site. Our Texas City site is strategically located on Galveston Bay and we benefit from a deep water dock capable of handling ships with up to a 40-foot draft, as well as four barge docks, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. 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 key raw material pipelines, as well as close proximity to a number of large refinery complexes that provide some of our principal raw materials.

Given our under-utilized infrastructure, as well as ample unoccupied land, there are significant opportunities for further development of our Texas City site. We believe that the construction of a new facility at our site by another company would lower the amount of fixed costs allocated to each of our operating units and provide us with additional revenue. We are presently undertaking numerous initiatives to attract new chemical related businesses to our Texas City site. 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 and management expertise to minimize our share of the capital costs. We are currently exploring opportunities involving renewable fuels projects, chemicals terminalling and waste injection well operations.

We plan to evaluate strategic acquisitions, focusing on chemical businesses and assets which would allow us to increase our market share of products we currently produce or those that would provide upstream or downstream integration within our existing businesses.

We intend to continue operating our styrene facility while seeking strategic alternatives and maintaining operational flexibility to capitalize on any upturns in the styrene industry. We have the fourth largest styrene facility in North America, capable of producing 1.7 billion pounds annually. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of our styrene capacity into the global spot market. Previously, styrene and polystyrene industry participants, including The DOW Chemical Company and NOVA Chemicals Corporation, have announced a desire to seek transactions which would restructure the North American styrene and polystyrene industries, thereby improving the balance of supply and demand in North America. More recently, NOVA Chemicals Corporation announced on March 22, 2007 that it planned to expand its European joint venture with INEOS to include North American styrene and solid polystyrene assets, and The DOW Chemical Company announced on April 10, 2007 that it had signed a non-binding memorandum of understanding with Chevron Phillips Chemical Co. to form a joint venture involving selected styrene and polystyrene assets of the two companies in North America and South America. According to CMAI, if demand for styrene remains steady, restructuring of North American styrene capacity should improve production rates in North America and lead to improved industry profitability. Given our styrene production capability and total uncontracted capacity, we are in a position to take advantage of any restructuring of the styrene industry and to capitalize on any improvements in styrene market conditions.

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Improve Organization Efficiency and Cost Structure. We continually seek to improve our cost competitiveness through organizational efficiencies, productivity enhancements, operating controls and general cost reductions. Since 2004, we have developed and implemented organizational efficiency projects involving the design, development and implementation of uniform and standardized systems, processes and policies to improve our production, maintenance, process efficiency, logistics and materials management and procurement functions. During this period, these projects reduced our fixed costs by more than \$20 million, representing a 15% reduction in our annual fixed costs. Approximately 10% to 15% of these cost savings accrue to the benefit of some of our customers under the cost reimbursement provisions of our production agreements. We believe the expansion of our acetic acid business, further development of our business and acquisitions will lead to further cost efficiencies.

Principal Executive Offices

Our principal executive offices are located at 333 Clay Street, Suite 3600, Houston, Texas 77002-4109 and our telephone number is (713) 650-3700. Our corporate website address is www.sterlingchemicals.com. The information contained on our corporate website is not part of this prospectus.

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THE EXCHANGE OFFER

*You are entitled to exchange in the exchange offer your outstanding unregistered notes for registered notes with substantially identical terms. The summary below describes the principal terms of the exchange offer. Certain of the terms and conditions described below are subject to important limitations and exceptions. You should read the discussion under the heading *Description of Notes* for further information regarding the registered notes.*

The Exchange Offer

We are offering to exchange up to \$150,000,000 aggregate principal amount of our registered 101/4% Senior Secured Notes due 2015, for a like principal amount of our unregistered 101/4% Senior Secured Notes due 2015, which were issued on March 29, 2007.

Registration Rights

Under the registration rights agreement executed as part of the offering of the unregistered notes, we agreed to use our commercially reasonable efforts to:

file a registration statement within 180 days after the issue date of the unregistered notes, or by September 25, 2007, enabling holders of unregistered notes to exchange the unregistered notes for registered notes with substantially identical terms;

cause the registration statement to become effective within 270 days after the issue date of the unregistered notes, or by December 24, 2007, and to complete the exchange offer within 50 days after the effective date of our registration statement; and

file a shelf registration statement for the resale of the notes if we cannot effect an exchange offer within the time periods listed above and in other circumstances.

The interest rate on the unregistered notes will increase if we do not comply with our obligations under the registration rights agreement.

Resales

Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third parties, we believe that the registered notes issued pursuant to the exchange offer in exchange for unregistered notes may be offered for resale, resold and otherwise transferred by you (unless you are our affiliate within the meaning of Rule 405 of the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that you:

are acquiring the registered notes in the ordinary course of business; and

have not engaged in, do not intend to engage in and have no arrangement or understanding with any person or entity, including any of our affiliates, to participate in, a distribution of the registered notes.

In addition, each participating broker-dealer that receives registered notes for its own account pursuant to the exchange offer in exchange for

unregistered notes that were acquired as a result of market-making or other trading activity must also acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. For more information, see Plan of Distribution.

Any holder of unregistered notes, including any broker-dealer, who
is our affiliate,

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does not acquire the registered notes in the ordinary course of its business, or

tenders in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of registered notes,

cannot rely on the position of the staff of the SEC expressed in Exxon Capital Holdings Corporation, Morgan Stanley & Co., Incorporated or similar no-action letters and, in the absence of an exemption, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with the resale of the registered notes.

Expiration Time

The exchange offer will expire at 5:00 p.m., New York City time, on _____, 2007, unless we extend the exchange offer in our sole discretion, in which case the term "expiration time" means the latest date and time to which the exchange offer is extended. We do not currently intend to extend the expiration date.

Conditions to the Exchange Offer

The exchange offer is subject to customary conditions, some of which we may waive. For more information, see "The Exchange Offer - Certain Conditions to the Exchange Offer."

Procedures for Tendering Unregistered Notes

If you wish to exchange your unregistered notes in the exchange offer, you must complete, sign and date the accompanying letter of transmittal, or a copy of the letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must also mail or otherwise deliver the letter of transmittal, or the copy, together with the unregistered notes and any other required documents, to the exchange agent at the address set forth on the cover of the letter of transmittal. If you hold unregistered notes through The Depository Trust Company, or DTC, and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC, by which you will agree to be bound by the letter of transmittal.

By signing or agreeing to be bound by the letter of transmittal, you will represent to us that, among other things:

any registered notes that you receive will be acquired in the ordinary course of your business;

you have no arrangement or understanding with any person or entity, including any of our affiliates, to participate in the distribution of the registered notes;

you are not our "affiliate" as defined in Rule 405 of the Securities Act, or, if you are an affiliate, you will comply with any applicable registration and prospectus delivery requirements of the Securities Act; and

if you are a broker-dealer that will receive registered notes for your own account in exchange for unregistered notes that were acquired as a result of market-making activities, you will deliver a prospectus, as required by law, in connection with any resale of the registered notes.

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Withdrawal of Tenders	A tender of unregistered notes pursuant to this exchange offer may be withdrawn at any time prior to the expiration date. Any unregistered notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after the expiration or termination of this exchange offer.
Guaranteed Delivery Procedures	If you wish to tender your unregistered notes and your unregistered notes are not immediately available or you cannot deliver your unregistered notes, the letter of transmittal or any other documents required by the letter of transmittal or comply with the applicable procedures under DTC's Automated Tender Offer Program prior to the expiration date, you must tender your unregistered notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer Guaranteed Delivery."
Delivery of the Registered Notes	The registered notes issued pursuant to this exchange offer will be delivered to holders who tender unregistered notes promptly following the expiration time.
Effect on Holders of Unregistered Notes	As a result of the making of, and upon acceptance for exchange of all validly tendered unregistered notes pursuant to the terms of the exchange offer, we will have fulfilled a covenant contained in the registration rights agreement and, accordingly, we will not be obligated to pay additional interest as described in the registration rights agreement. If you are a holder of unregistered notes and do not tender your unregistered notes in the exchange offer, you will continue to hold such unregistered notes and you will be entitled to all the rights and limitations applicable to the unregistered notes in the indenture, except for any rights under the registration rights agreement that by their terms terminate upon the consummation of the exchange offer.
Consequences of Failure to Exchange	All untendered unregistered notes will continue to be subject to the restrictions on transfer provided for in the unregistered notes and in the indenture. In general, the unregistered notes may not be offered or sold unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with this exchange offer, we do not anticipate that we will register the unregistered notes under the Securities Act.
Material United States Federal Income Tax Consequences	The exchange of unregistered notes for registered notes in the exchange offer should not be a taxable event for U.S. federal income tax purposes. For more information, see "Material U.S. Federal Income Tax Consequences."
Use of Proceeds	We will not receive any cash proceeds from the issuance of the registered notes.

Exchange Agent

U. S. Bank National Association is the exchange agent for this exchange offer. The address and telephone number of the exchange agent are set forth in the section captioned "The Exchange Offer - Exchange Agent."

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THE REGISTERED NOTES

The summary below describes the principal terms of the registered notes. Some of the terms and conditions described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus contains a more detailed description of the terms and conditions of the registered notes.

Issuer	Sterling Chemicals, Inc.
Securities Offered	\$150.0 million aggregate principal amount of 101/4% senior secured notes.
Maturity Date	April 1, 2015.
Interest	We will pay interest in cash on the principal amount of the registered notes at an annual rate of 101/4%. Interest will be payable in cash semi-annually in arrears on April 1 and October 1 of each year, beginning October 1, 2007.
Guarantees	The registered notes will be unconditionally guaranteed by all of our current and future domestic restricted subsidiaries on a senior secured basis.
Collateral	<p>The registered notes and the guarantees will be secured, subject to specified permitted liens, by a first priority lien on substantially all of our and the guarantors' fixed assets and certain related assets, including, without limitation, all property, plant and equipment. The first priority lien will not extend to assets securing our revolving credit facility. The registered notes and the guarantees will be secured, subject to specified permitted liens, by a second priority lien on our and the guarantors' other assets including, without limitation, accounts receivable, inventory, capital stock of our and their respective direct subsidiaries, certain intellectual property, deposit accounts and investment property securing on a first priority basis the obligations under our revolving credit facility. Consequently, the registered notes and the guarantees will be effectively subordinated to the revolving credit facility to the extent of the value of the assets securing our revolving credit facility. See Description of Notes Collateral.</p>
Ranking	<p>The registered notes will be:</p> <ul style="list-style-type: none">senior secured obligations of the Issuer;equal in right of payment with all existing and future senior indebtedness of the Issuer;effectively senior to all existing and future senior unsecured indebtedness of the Issuer to the extent of the value of the assets securing the registered notes; and

senior in right of payment to all existing and future subordinated indebtedness of the Issuer.

The guarantees of each guarantor will be:

senior secured obligations of that guarantor;

equal in right of payment with all of that guarantor's existing and future senior indebtedness, including guarantees;

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effectively senior to all of that guarantor's existing and future senior unsecured indebtedness to the extent of the value of the assets securing the registered notes; and

senior in right of payment to all of that guarantor's existing and future subordinated indebtedness.

As of June 30, 2007, we and the guarantors would have had \$150 million of senior indebtedness, all of which would have represented outstanding principal and the guarantors' guarantees, respectively, under the unregistered notes. The indenture governing the registered notes permits us, subject to specified limitations, to incur additional debt, some or all of which may be senior indebtedness.

Optional Redemption

We may redeem some or all of the senior secured notes at any time prior to April 1, 2011 at the make-whole redemption price set forth in

Description of Notes. We may redeem the senior secured notes, in whole or in part, at any time on and after April 1, 2011 at the redemption prices described in the section Description of Notes Optional Redemption Optional Redemption on or after April 1, 2011, plus accrued and unpaid interest to the date of redemption.

In addition, prior to April 1, 2010, we may redeem up to 35% of our senior secured notes with the net cash proceeds from specified equity offerings at a redemption price equal to 110.25% of the aggregate principal amount, plus accrued and unpaid interest to the date of redemption, so long as at least 65% of the aggregate principal amount of the senior secured notes issued under the indenture remain outstanding immediately after the redemption. See Description of Notes Optional Redemption Optional Redemption Upon Equity Offerings.

Change of Control Offer

If we undergo a change of control, we must offer to repurchase the senior secured notes at a purchase price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase. See Description of Notes Repurchase upon Change of Control.

Asset Sale or Event of Loss Offer

If we engage in certain sales or suffer a loss of material plant, property or equipment that constitutes collateral securing the senior secured notes and related guarantees, we generally must invest the net cash proceeds from such sales and losses in our business within 360 days or make an offer to repurchase a principal amount of senior secured notes equal to the net cash proceeds, in which case the purchase price of the senior secured notes will be 100% of their aggregate principal amount, plus accrued and unpaid interest to the date of such repurchase. See Description of Notes Certain Covenants Asset Sales and Description of Notes Event of Loss.

Certain Indenture Covenants

The registered notes will be issued under the same indenture that governs our unregistered notes, which agreement restricts our and our restricted

subsidiaries ability to, among other things:

pay dividends, redeem stock, prepay subordinated indebtedness or make other restricted payments;

incur indebtedness or issue disqualified capital stock;

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make certain investments;

create liens on assets;

restrict dividend payments or other payments from subsidiaries to us;

consolidate or merge;

sell or otherwise transfer or dispose of assets, including equity interests of restricted subsidiaries;

enter into transactions with affiliates;

designate subsidiaries as unrestricted subsidiaries;

use the proceeds of permitted sales of assets; and

change our line of business.

These covenants are subject to a number of important exceptions. For more details, see [Description of Notes](#) [Certain Covenants](#).

Table of Contents**SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our summary historical consolidated financial data as of the dates and for the periods indicated. The historical consolidated statement of operations data for each of the three fiscal years ended December 31, 2004, December 31, 2005 and December 31, 2006 and the six months ended June 30, 2006 and 2007 and the historical consolidated balance sheet data as of June 30, 2007 are derived from, and are qualified in their entirety by, our historical consolidated financial statements included elsewhere in this prospectus. Our unaudited condensed consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. The results of any interim period are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year, and the historical results set forth below do not necessarily indicate results expected for any future period.

You should read the following summary and financial data together with Business, Selected Historical Consolidated Financial and Operating Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes and our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this prospectus. In the following tables (including the footnotes thereto), dollars are in thousands, except as otherwise indicated.

	Year Ended December 31,			Six Months Ended	
	2004	2005	2006	June 30,	2007
	(Dollars in thousands)				
Statement of Operations Data:					
Revenues	\$ 655,353	\$ 641,886	\$ 667,544	\$ 287,056	\$ 450,604
Cost of goods sold	633,009	653,134	654,718	293,426	430,961
Gross profit (loss)	22,344	(11,248)	12,826	(6,370)	19,643
Selling, general and administrative expenses	11,413	7,811	9,968	3,780	7,395
Impairment of long-lived assets	48,463		127,653		
Gain on pension curtailment	(12,944)				
Gain on sale of methanol plant	(2,396)				
Other expense (income)			(15,724)	(3,724)	839
Interest and debt related expenses, net of interest income	10,427	10,090	10,079	4,903	7,745
Income (loss) from continuing operations before income tax	\$ (32,619)	\$ (29,149)	\$ (119,150)	\$ (11,329)	\$ 3,664
Provision (benefit) for income taxes	7,262	(10,641)	(14,488)	(4,332)	
Income (loss) from continuing operations	\$ (39,881)	\$ (18,508)	\$ (104,662)	\$ (6,997)	\$ 3,664
Loss from discontinued operations, net of tax	(22,763)	(11,060)	(997)	(1,751)	(1,441)

Net income (loss)	\$ (62,644)	\$ (29,568)	\$ (105,659)	\$ (8,748)	\$ 2,223
Other Financial Data:					
Depreciation and amortization	28,693	33,342	30,476	16,255	5,490
Capital expenditures	14,771	9,460	11,547	8,093	4,350
Ratio of earnings to fixed charges ⁽¹⁾					1.4

⁽¹⁾ Additional pre-tax earnings needed to achieve a 1:1 ratio for the years ended December 31, 2004, 2005 and 2006 and for the six months ended June 30, 2006 were \$33.6 million, \$30.2 million, \$120.1 million and \$11.6 million, respectively.

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	As of June 30, 2007
Summary Balance Sheet Data:	
Cash and cash equivalents	\$ 57,142
Accounts receivable, net	92,667
Inventories, net	41,401
Property, plant and equipment, net	82,883
Total assets	294,958
Total liabilities	256,193
Redeemable preferred stock	61,118
Stockholders' equity (deficiency in assets)	(22,353)

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RISK FACTORS

An investment in the notes involves certain risks. You should consider carefully these risks together with all of the other information included in this prospectus before deciding whether this investment is suitable for you.

Risks Related to Our Business

Cyclical in the styrene markets has in the past and may in the future result in reduced operating margins or operating losses.

Styrene, one of our principal products, is a commodity that exhibits wide swings in demand, prices and margins based upon current and anticipated levels of supply and demand. Demand for our styrene is largely influenced by the rate of growth of the world's economy, with the growth rate of the economy in Asia becoming increasingly more important. Our historical operating results reflect the cyclical and volatile nature of the styrene markets and the petrochemicals industry generally. These cycles are characterized by periods of tight supply, leading to increased operating rates and higher margins, followed by periods of oversupply leading to reduced operating rates and lower margins. In most cases, increases in supply are due to large increases in production capacity resulting from the construction of new facilities or major expansions of existing facilities. Typically, these types of expansions will cause available supply to greatly exceed demand for an extended period. Weak economic conditions, either in the United States or in the international markets generally, tend to result in a reduced growth in demand and profit margins for styrene, which may in turn materially adversely affect our business, financial condition, results of operations or cash flows.

Certain of our products are sold to only one customer.

In 2006, a single customer, BP Chemicals, accounted for 100% of our acetic acid revenues while another customer, BASF, accounted for 100% of our plasticizers revenues. The termination of one or more of the long-term contracts for the purchase of these products, or a material reduction in the amount of product purchased under either of these contracts, could materially adversely affect our overall business, financial condition, results of operations or cash flows.

A large portion of our styrene capacity is sold in the spot markets, rather than pursuant to long-term contracts, which may result in lower profitability during periods of excess domestic or global supply.

A large portion of our capacity for styrene is uncommitted and is therefore available for sale in the spot markets. The current negative market conditions could affect us more severely than competitors in our industry whose production is sold primarily pursuant to long-term contracts or consumed internally. Future growth in demand for styrene may not be sufficient to alleviate any existing or future conditions of excess industry capacity, and such conditions may be sustained or may be further aggravated by anticipated or unanticipated capacity additions or other events. During 2007, we expect to have approximately 30% of our styrene capacity committed to long-term contracts. If our customers do not renew their contracts with us or such contracts otherwise terminate or expire, such losses could result in increased styrene sales to the domestic and export spot markets, which could materially adversely affect our business, financial condition, results of operations or cash flows.

We may not be able to increase the price of our products to compensate for increases in natural gas prices which may, in turn, decrease the competitiveness of our products in certain markets.

We use significant amounts of natural gas as fuel in the production of our products, which makes the cost of producing our products particularly sensitive to changes in natural gas prices. In addition, most of our suppliers use

significant amounts of natural gas in the production of the raw materials we buy, which results in increased prices for our raw materials when the price of natural gas increases. There can be significant disparities in the prices for natural gas in different parts of the world. Prices for styrene, on the other hand, tend to be consistent throughout the world, after taking into account transportation costs. Consequently, when prices for natural gas rise in the United States but not in other parts of the world, we may not be able to recover these increased costs through higher sales prices, and our ability to compete with producers elsewhere in the world may be diminished. In addition, many producers in other parts of the world use oil-based processes rather than natural gas-based processes. Consequently,

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the relationship between the price of crude oil and the price of natural gas can also affect our competitiveness and our ability to recover increases in the price of natural gas through higher product sales prices. Over the last few years, we have experienced periods when domestic prices for natural gas resulted in our being unable to sell styrene in Europe or Asia at prices above our variable costs of production, essentially closing those markets to sales of our styrene. In the future, the domestic price for natural gas may adversely impact our competitiveness, which could materially adversely affect our business, financial condition, results of operations or cash flows.

We may be unable to obtain raw materials at reasonable prices, on acceptable terms or at all.

For most of our products, the aggregate costs of raw materials and energy resources are far greater than the total of all other costs of production combined. As a result, an adequate supply of raw materials at reasonable prices and on acceptable terms is critical to the success of our business. If we are unable to obtain raw materials at reasonable prices or on acceptable terms, our results of operations are negatively affected. Most of the raw materials necessary for our production of styrene are commodities and, consequently, are subject to wide fluctuations in prices for a variety of reasons beyond our control. Several factors may impact the cost or supply of our raw materials, including regional and global balances of supply and demand, the availability and pricing for crude oil and the occurrence of plant outages and other supply disruptions. While the markets for our products are generally global, prices and availability for most of our raw materials are influenced by regional factors. As a result, we may pay higher prices for raw materials than our competitors pay in other parts of the world or be unable to obtain raw materials at times when they are available to our competitors, both of which may negatively impact our competitiveness and our business, financial condition, results of operations or cash flows.

All of our primary raw materials are supplied by others pursuant to long-term contracts or spot market purchases. While we often enter into supply agreements, as is the general practice in our industry, these agreements typically provide for market-based pricing. Consequently, our supply agreements provide only limited protection against price volatility. In addition, it has become increasingly more difficult to secure long-term supply agreements for benzene, as benzene producers appear to have shifted their approach towards the sale of benzene from dedicated supply arrangements to predominantly spot sales in an active trading market. The markets for our raw materials are also subject to disruptions. If our suppliers are unable to meet their obligations under applicable supply agreements or we are otherwise unable to obtain reasonably priced raw materials, our business may be disrupted. For example, ethylene became difficult to obtain after Hurricane Katrina and Hurricane Rita shut down several production units over an extended period in 2005. This limited the ability to purchase ethylene in the spot market at the same time when contract suppliers were putting customers on allocation or declaring force majeure. In addition, we rely on Praxair as our sole supplier of carbon monoxide, which is a necessary raw material for our production of acetic acid, and any disruption in the supply of carbon monoxide from Praxair will disrupt our production of acetic acid since this gas is delivered directly by pipeline with no intermediate storage capacity. In the case of either raw materials price increases or supply disruptions, we could incur significant additional costs. While we attempt to match raw materials cost increases with corresponding product price increases, we are not always able to raise product prices immediately and, ultimately, our ability to pass on underlying cost increases to our customers is greatly dependent upon product market conditions. Any underlying cost increase that we are not able to pass on to our customers could materially adversely affect our business, financial condition, results of operations or cash flows.

We may be unable to compete successfully with integrated and larger competitors.

We compete with some of the world's largest chemical companies, most of whom are engaged in much broader businesses and either internally supply significant portions of the raw materials they need to produce styrene, or internally use significant amounts of the styrene they produce to make derivative products. We do not make any of the primary raw materials required for styrene production or convert any of our styrene into other products. Consequently, our production costs may be higher than those of our competitors during periods when demand for required raw

materials exceeds supply and, in more extreme cases, we may not be able to obtain the required raw materials in the market at times when our competitors are supplying their own raw materials internally. In addition, as production costs are highly influenced by production rates, our absence of internal uses for our styrene typically results in lower production rates, and consequently higher production costs, at our facilities during periods when the

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balance of supply and demand for styrene favors consumers. Our competitors who internally consume significant amounts of styrene have less volatile production rates and more stable production costs.

Our industry is highly competitive and our results are significantly impacted by manufacturing costs.

We compete with some of the world's largest chemical companies on the basis of product price, quality and deliverability. However, prices for our styrene are determined by global market factors that are largely beyond our control. Except with respect to our long-term contracts, we generally sell our styrene at prevailing market prices. As a result, our financial performance relative to our competitors, most of whom are larger than us, is greatly influenced by our manufacturing costs.

The worsening of conditions in the styrene industry could cause us to generate losses significant enough to warrant a shut down of our styrene plant.

While we intend to continue operating our styrene facilities for the foreseeable future, if conditions in the styrene industry worsen, we may be required to close these facilities. In recent years, relatively high costs of raw materials have resulted in higher styrene prices, negatively impacting demand growth and compressing styrene margins. In addition, over the last two years, these relatively higher raw materials prices have significantly limited our ability to sell styrene into the Asian markets and high styrene prices have reduced styrene global demand growth rates. Furthermore, several of our competitors have announced their intention to build new styrene production units outside the United States, which may further increase the challenges we face in selling styrene into the Asian markets. If any such new units are completed, we anticipate more difficult market conditions, especially in the export markets. If our styrene margins decrease significantly or our ability to sell into the export market decreases further, we may generate significant losses, which could cause us to close our styrene facilities without seeking strategic alternatives and could materially adversely affect our business, financial condition, results of operations or cash flows.

Our ability to realize increases in our acetic acid production capacity made possible through capacity expansions is limited by our current inability to obtain sufficient 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 by Praxair on land leased from us at our Texas City site. Although our new acetic acid reactor installed in 2003 is capable of producing up to 1.7 billion pounds annually, Praxair's partial oxidation unit is not capable of supplying carbon monoxide in quantities sufficient for more than approximately 1.2 billion pounds of annual acetic acid production. Moreover, the supply of sufficient quantities of carbon monoxide will likely require the construction of a new supply pipeline, which will require numerous third party and regulatory consents, or a substantial expansion of the Praxair oxidation unit. The expansion of the Praxair oxidation unit may not be cost effective and we may not be able to contract for the supply of carbon monoxide in quantities sufficient to increase our annual acetic acid production to 1.7 billion pounds. Furthermore, the construction of a supply pipeline may require a substantial period of time.

The styrene industry has experienced several years of depressed conditions and some of our current or potential styrene customers may be in troubled financial condition.

The styrene industry is highly volatile and has experienced several years of depressed conditions. As a result, many of our styrene customers have suffered prolonged losses and diminished liquidity. While we attempt to manage our credit exposure to our styrene customers on a case-by-case basis through a variety of methods, including requiring letters of credit, establishing credit limits or, in extreme cases, requiring cash-on-delivery for our products, we cannot be sure that our styrene customers will not default on their obligations to us. A default by one or more of our styrene customers on their payment obligations to us would have a negative effect on our business, financial condition, results

of operations or cash flows, which effect could be material.

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Our styrene technology is widely available and could become obsolete.

A significant portion of our styrene business is based upon widely available technology. Accordingly, barriers to entry, apart from capital availability, are low in certain product segments of our business, and the entrance of new competitors into the industry may reduce our ability to capture improving profit margins in circumstances where capacity utilization in the industry is increasing. Currently, a competing technology exists for the production of styrene which allows for lower overall production economics than the technology we utilize. If this technology becomes a more predominant method for producing styrene, it could materially adversely affect our business, financial condition, results of operations or cash flows.

We sell a significant portion of styrene to international customers. Reliance on overseas markets subjects us to significant risks inherent in operating internationally.

Our international sales are subject to a number of risks inherent to any business operating in foreign countries. As we continue to sell our products to such countries, our operations will encounter the following risks, among others:

political and economic instability and disruptions;

the inability to collect amounts owed;

the inability to secure adequate shipping space for our products at acceptable prices, which could adversely affect our competitiveness relative to producers located in close proximity to our foreign customers;

terrorism, civil uprisings, riots and war, which can make it unsafe to continue operations;

the imposition of duties and tariffs, import and export controls;

decrees, laws, regulations, interpretations and court decisions under legal systems, such as in the Peoples Republic of China, which are not always fully developed and which may be retroactively applied and cause us to incur unanticipated or unrecoverable costs, as well as delays which may result in real or opportunity costs; and

transportation delays and interruptions.

We cannot predict the nature or the likelihood of any of these events. However, the occurrence of any one or more of these events could have an adverse effect on our international sales by reducing the demand for our products, decreasing the prices at which we can sell our products or otherwise having an adverse effect on our business, financial condition, results of operations or cash flows.

The markets for our products, and the prices we receive for our products, are based on international supply and demand. In recent years, demand in Asia, particularly China, and capacity expansions in Asia and the Middle East, have driven product price trends. China has pursued an aggressive economic expansion in recent years. If this expansion ceased, or significantly slowed, the markets for our products could be materially adversely affected. Countries in Asia and in the Middle East have also completed or announced significant capacity increases for most of the products we produce, and may expand production even further in the future. These developments could have a significant negative impact on our ability to maintain existing market share, sell products in foreign or domestic markets or may adversely impact our profit margins.

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 site. Significant unscheduled downtime at our Texas City site 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, this insurance does not provide coverage for business interruptions of less than 45 days and is limited in its overall coverage.

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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 and marketing of chemical products. These hazards include:

pipeline or storage tank leaks and ruptures, explosions and fires;

severe weather and natural disasters;

mechanical failures, unscheduled downtimes, labor difficulties and transportation interruptions;

environmental remediation complications; and

chemical spills and discharges or releases of toxic or hazardous substances or gases.

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.

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 a few 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 from terrorist acts 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 can make no assurances that we can renew our existing insurance coverages at commercially reasonable rates or that such coverage will 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 or property damage from exposure to hazardous materials caused by a terrorist attack. Such loss of production, sales, or facilities or incurrence of liabilities could materially adversely affect our business, financial condition, results of operations or cash flows.

Terrorist attacks, the current military action in Iraq, general instability in various OPEC member nations and other attacks or acts of war in the United States and abroad may adversely affect the markets in which we operate.

The attacks of September 11, 2001 and subsequent events, including the current military action in Iraq, have caused instability in the United States and other financial markets and have led, and may continue to lead, to further armed hostilities, prolonged military action in Iraq or further acts of terrorism in the United States or abroad, which could cause further instability in the financial markets and in the markets for our products. Current regional tensions and conflicts in various OPEC member nations, including the current military action in Iraq, have caused, and may continue to cause, increased raw materials costs, specifically raising the prices of oil and gas, which are used in our operations or affect the prices of our raw materials. Furthermore, the terrorist attacks, subsequent events or future developments in any of these areas may result in reduced demand from our customers for our products. These

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developments could subject our operations to increased risks and, depending on their magnitude, could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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 future terrorist attacks than other potential targets in the United States. As a result, the chemical industry has responded to the issues surrounding the terrorist attacks of September 11, 2001 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 because of the cost of complying with new security regulations.

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 to 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. Based on available information, we believe that the costs to investigate and remediate known contamination will not have a material adverse effect on our business, financial condition, results of operations or cash flows. However, if significant previously unknown contamination is discovered, 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 36% 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.

As of May 1, 2007, we had 268 employees, of whom approximately 36% (all of our hourly employees at our Texas City site) were represented by the Texas City, Texas Metal Trades Council, AFL-CIO, or the Union, and are covered by a collective bargaining agreement which expires on May 1, 2012. Although we believe our relationship with our hourly employees is generally good, we locked out these employees for 16 weeks in 2002 and our hourly employees engaged in a one-week strike in 2004, in both cases in connection with efforts to reach new collective bargaining agreements. Future strikes or other labor disturbances could have a material adverse effect on our business, financial condition, results of operations or cash flows.

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A failure to retain our 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 or replace these 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.

Transactions consummated pursuant to our plan of reorganization could result in the imposition of material tax liabilities.

Prior to our emergence from bankruptcy in 2002, we eliminated our holding company structure by merging Sterling Chemicals Holdings, Inc. with and into us. We believe that this merger qualifies as a tax-free reorganization pursuant to Section 368(a)(1)(G) of the Internal Revenue Code (commonly referred to as a "G Reorganization") for United States federal income tax purposes. However, a judicial determination that this merger did not qualify as a G Reorganization would result in additional federal income tax liability which could materially adversely affect our business, financial condition, results of operations and cash flows.

We may not successfully implement our acquisition strategy, and acquisitions that we pursue 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, 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. From time to time we evaluate potential acquisitions and may complete one or more significant acquisitions in the future. 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. In particular, the lack of an active trading market in our common stock, as well as the dilutive terms of our outstanding Series A convertible 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;

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.

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Risks Relating to the Notes

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

As of June 30, 2007, we had total long-term debt of \$150.0 million (consisting of outstanding principal on the unregistered notes). The terms and conditions governing our indebtedness, including our notes and our revolving credit facility:

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;

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 regulation. We cannot be certain that our earnings will be sufficient to allow us to pay the principal and interest on our debt, including the notes, and meet our other obligations. If we do not have enough money, we may be required to refinance all or part of our existing debt, including the notes, sell assets, borrow more money or raise equity. We may not be able to refinance our debt, sell assets, borrow more money or raise equity on terms acceptable to us, if at all. Further, failing to comply with the financial and other restrictive covenants in our indebtedness could result in an event of default under such indebtedness, which could 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. In addition, any failure to make scheduled payments of interest and 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 payment of interest on and principal of our debt in the future, including payments on the 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.

There may not be sufficient collateral to pay all or any of the notes.

The notes and the related guarantees are secured, subject to certain permitted liens, by a first priority lien on substantially all of our and the guarantors' fixed assets and certain related assets, or the primary collateral, including,

without limitation, all property, plant and equipment. See Description of Notes Collateral. Concurrently with the closing of the offering of our unregistered notes, we amended and restated our revolving credit facility. Our revolving credit facility has a first priority lien on all assets that do not constitute primary collateral, or the secondary collateral, including without limitation, accounts receivable, inventory, capital stock of certain of our subsidiaries, intellectual property, deposit accounts and investment property. The notes and the related guarantees are secured by a second priority lien on the secondary collateral.

Although the noteholders may share in the proceeds of the secondary collateral, the lenders under our revolving credit facility are entitled to receive proceeds from any realization of their first priority collateral to repay

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their obligations in full before the noteholders will receive any repayment. Therefore, your security interest in the secondary collateral ranks behind that of the lenders under our revolving credit facility. In addition, the noteholders will not generally have any control over the secondary collateral even if the notes are in default.

We cannot assure you of the value of the primary collateral and secondary collateral, or the collateral. We further cannot assure you that the net proceeds of a sale of the collateral would be sufficient to repay all of the notes following a foreclosure upon the collateral (and any payments in respect of prior liens) or a liquidation of our assets or the assets of any current or future guarantors that may grant these security interests. As of June 30, 2007, the book value of the primary collateral was \$82.9 million. The value of the collateral at any time will depend upon market and other economic conditions, including the availability of suitable buyers for the collateral. By their nature, some of the pledged assets may be illiquid and may have no readily ascertainable market value. The value of the assets constituting the collateral could be impaired in the future as a result of changing economic conditions and other factors beyond our control. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the proceeds from any sale or liquidation of the collateral may be insufficient to pay our obligations under the notes in full.

If the net proceeds received from the sale of the collateral, after payment of our creditors having first priority security interests in the collateral for which the noteholders hold a second priority lien, are not sufficient to repay all amounts due with respect to the notes, you would, to the extent of the insufficiency, have only an unsecured claim against our and our current and future guarantors' remaining assets, if any. Moreover, the ability of the trustee for the notes to foreclose upon the collateral securing the notes would be delayed if we, or any current or future guarantors, were subject to proceedings under applicable bankruptcy law.

The security documents allow us to remain in possession of the collateral.

The security documents allow us and our subsidiaries to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the collateral securing the notes. In addition, to the extent we sell any assets that constitute collateral, the proceeds from such sale will be subject to the liens securing the notes only to the extent such proceeds would otherwise constitute collateral securing the notes under the security documents. To the extent the proceeds from any such sale of collateral do not constitute collateral under the security documents, the pool of assets securing the notes would be reduced and the notes would not be secured by such proceeds.

In the event of a bankruptcy, the ability of the noteholders to realize upon the collateral will be subject to certain bankruptcy law limitations.

The ability of noteholders to realize upon the collateral will be subject to certain bankruptcy law limitations in the event of our bankruptcy or the bankruptcy of any of the guarantors. Under applicable federal bankruptcy laws, secured creditors are prohibited from repossessing their security from a debtor in a bankruptcy case, or from disposing of security repossessed from such a debtor, without bankruptcy court approval. Moreover, applicable federal bankruptcy laws generally permit the debtor to continue to retain collateral even though the debtor is in default under the applicable debt instruments, provided generally that the secured creditor is given adequate protection. The meaning of the term adequate protection may vary according to the circumstances, but is intended in general to protect the value of the secured creditor's interest in the collateral at the commencement of the bankruptcy case and may include cash payments or the granting of additional security, if and at such times as the court in its discretion determines, for any diminution in the value of the collateral as a result of the stay of repossession or disposition of the collateral by the debtor during the pendency of the bankruptcy case. In view of the lack of a precise definition of the term adequate protection and the broad discretionary powers of a bankruptcy court, we cannot predict whether payments under the notes would be made following commencement of and during a bankruptcy case, whether or when the collateral agent, on behalf of the trustee and the noteholders, could foreclose upon or sell the collateral or whether or to what

extent noteholders would be compensated for any delay in payment or loss of value of the collateral through the requirement of adequate protection. Furthermore, in the event the bankruptcy court determines that the value of the collateral is not sufficient to repay all amounts due on the notes, noteholders would hold undersecured claims. Applicable federal bankruptcy laws do not permit the payment or accrual of interest, costs and attorney's fees for undersecured claims during a debtor's bankruptcy case.

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The intercreditor agreement limits the ability of the noteholders to realize upon the collateral.

Concurrently with the closing of the offering of our unregistered notes on March 29, 2007, U. S. Bank National Association, in its capacity as the collateral agent, entered into an intercreditor agreement with the credit facility agent under our revolving credit facility. Under the terms of the intercreditor agreement, your security interest in the secondary collateral is subordinated to the security interest held by the lenders under our revolving credit facility.

If we incur any other secondary collateral loans, the applicable lender will enter into a counterpart to the intercreditor agreement, or agreement similar to the existing intercreditor agreement, with the collateral agent. The terms of the intercreditor agreement provide that you will generally have no rights in the secondary collateral (including any rights in the manner of disposing the secondary collateral) until all of our obligations owing to the lenders under our revolving credit facility have been paid in full. See Description of Notes Collateral Intercreditor Agreement. The lenders who are secured by the first priority security interests in the secondary collateral will generally have control over releasing those assets subject to the terms of the intercreditor agreement with the collateral agent. These lenders may have significantly different interests than the noteholders and may have very little indebtedness outstanding. The credit facility agent and the lenders under our revolving credit facility are under no obligation to take the interests of the noteholders into account in determining whether to exercise their rights in respect of the secondary collateral, subject to the intercreditor agreement, and their interests may differ or be adverse from yours. See Description of Notes Collateral Intercreditor Agreement.

Rights of noteholders in the collateral may be adversely affected by the failure to perfect security interests in certain collateral existing or acquired in the future.

The security interest in the collateral securing the notes includes domestic assets, both tangible and intangible, whether now owned or acquired or arising in the future. There can be no assurance that the trustee or the collateral agent will monitor, or that we will inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after acquired collateral. The failure to perfect a security interest in respect of such acquired collateral may result in the loss of the security interest therein or the priority of the security interest in favor of the notes against third parties.

If we or any guarantor were to become subject to a bankruptcy proceeding after the issue date of the notes, any liens recorded or perfected after the issue date of the notes would face a greater risk of being invalidated than if they had been recorded or perfected on the issue date. If a lien is recorded or perfected after the issue date, it may be treated under bankruptcy law as if it were delivered to secure previously existing debt. In bankruptcy proceedings commenced within 90 days of lien perfection, a lien given to secure previously existing debt is materially more likely to be avoided as a preference by the bankruptcy court than if delivered and promptly recorded on the issue date of the notes. Accordingly, if we or a guarantor were to file for bankruptcy after the issue date of the notes and the liens had been perfected less than 90 days before commencement of such bankruptcy proceeding, the liens securing the notes may be especially subject to challenge as a result of having been delivered after the issue date of the notes. To the extent that such challenge succeeded, you would lose the benefit of the security that the collateral was intended to provide.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require noteholders to return payments received from guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

was insolvent or rendered insolvent by reason of such incurrence;

was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

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In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that our subsidiary guarantor will not, after giving effect to its guarantee of these notes, be insolvent, have unreasonably small capital for the business in which it is engaged and have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

We may not have the ability to raise the funds necessary to finance any change of control offer required by the indenture.

Upon the occurrence of certain specific kinds of change of control events, we are required to offer to repurchase all of our outstanding senior secured notes at 101% of the aggregate principal amount thereof plus accrued and unpaid interest to the date of repurchase. We cannot assure you that we will have sufficient funds at the time of the change of control to make the required repurchase of all the senior secured notes. Any such failure to comply with this offer and repurchase obligation would constitute an event of default under the indenture. See Description of Notes Repurchase upon Change of Control.

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THE EXCHANGE OFFER

Purpose and Effect of the Exchange Offer

We entered into a registration rights agreement with the initial purchasers of the unregistered notes, in which we agreed to file a registration statement relating to an offer to exchange the unregistered notes for the registered notes. The registration statement of which this prospectus forms a part was filed in compliance with this obligation. We also agreed to use our commercially reasonable efforts to cause the registration statement to become effective under the Securities Act. The registered notes will have terms substantially identical to the unregistered notes except that the registered notes will not contain terms with respect to transfer restrictions, registration rights and additional interest payable for the failure to comply with our obligations under the registration rights agreement. Unregistered notes in an aggregate principal amount of \$150.0 million were issued on March 29, 2007.

If:

because of any change in law or in applicable interpretations of the staff of the SEC, the issuer is not permitted to effect an exchange offer;

for any other reason the registration statement of which this prospectus is a part is not declared effective by December 24, 2007, or the exchange offer is not consummated within 50 days following the initial effectiveness of the registration statement of which this prospectus is a part;

in certain circumstances, certain holders of unregistered notes so request; or

in the case of any holder that participates in the exchange offer, such holder does not receive registered notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such holder as our affiliate or within the meaning of the Securities Act),

then in each case, we will (x) promptly deliver to the holders and the trustee written notice thereof and (y) at our sole expense, (a) as promptly as practicable, file a shelf registration statement covering resales of the notes, or the Shelf Registration Statement, and (b) use our commercially reasonable efforts to keep the Shelf Registration Statement continuously effective until the earliest of (i) the time the securities covered by the Shelf Registration Statement can be sold pursuant to Rule 144 under the Securities Act without any limitations under clauses (c), (e), (f) and (h) of Rule 144, (ii) two years from March 29, 2007 and (iii) the date on which all securities registered thereunder have been disposed of in accordance therewith.

Each holder of unregistered notes that wishes to exchange such unregistered notes for transferable registered notes in the exchange offer will be required to make the following representations:

that any registered notes to be received by it will be acquired in the ordinary course of its business;

that at the time of the commencement of the exchange offer it has no arrangement or understanding with any person to participate in the distribution (within the meaning of Securities Act) of the registered notes in violation of the Securities Act;

that it is not our affiliate (as defined in Rule 405 promulgated under the Securities Act), or, if it is an affiliate, that it will comply with any applicable registration and prospectus delivery requirements of the Securities Act;

if such holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of registered notes; and

if such holder is a broker-dealer that will receive registered notes for its own account in exchange for notes that were acquired as a result of market-making or other trading activities, that it will deliver a prospectus in connection with any resale of such registered notes.

In addition, the SEC has taken the position that each broker-dealer that receives registered notes for its own account in exchange for unregistered notes, where such unregistered notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, may fulfill their prospectus delivery requirements with

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respect to the registered notes (other than a resale of an unsold allotment from the original sale of the registered notes) by delivering a prospectus in connection with any resale of such registered notes. See Plan of Distribution.

If we fail to meet the obligations listed above, then additional interest, or the Additional Interest, shall become payable as follows:

(1) if (A) neither the registration statement of which this prospectus forms a part nor the Shelf Registration Statement is filed with the SEC on or prior to September 24, 2007 or (B) notwithstanding that we have consummated or will consummate the exchange offer, we are required to file a Shelf Registration Statement and such Shelf Registration Statement is not filed on or prior to the date required by the registration rights agreement, then commencing on the day after either such required filing date, Additional Interest shall accrue on the principal amount at maturity of the unregistered notes at a rate of 0.25% per annum for the first 90 days immediately following each such filing date, such Additional Interest increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period;

(2) if (A) neither the registration statement of which this prospectus forms a part nor the Shelf Registration Statement is declared effective by the SEC on or prior to December 24, 2007 or (B) notwithstanding that we have consummated or will consummate the exchange offer, we are required to file a Shelf Registration Statement and such Shelf Registration Statement is not declared effective by the SEC on or prior to the 90th day following the date such Shelf Registration Statement was filed, then, commencing on the day after either required effective date, Additional Interest shall accrue on the principal amount of the unregistered notes at a rate of 0.25% per annum for the first 90 days immediately following such date, such Additional Interest rate increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(3) if (A) we have not exchanged registered notes for all unregistered notes validly tendered and not withdrawn in accordance with the terms of the exchange offer on or prior to the date that is 50 days from the date the registration statement of which this prospectus forms a part was declared effective, (B) if applicable, the Shelf Registration Statement has been declared effective and such Shelf Registration Statement ceases to be effective or usable in connection with resales of the registered notes in accordance with and during the periods specified in the registration rights agreement, as applicable, at any time prior to the second anniversary of March 29, 2007 (other than during a blackout period or after such time as all registered notes have been disposed of thereunder) or (C) we issue a valid notice to suspend the use of the prospectus included in any Shelf Registration Statement and such suspension, when taken together with all other suspensions, if any (but solely to the extent not concurrent), during any 12-month period exceeds 90 days, then, in each case, the Additional Interest shall accrue on the principal amount of the unregistered or registered notes, as the case may be, at a rate of 0.25% per annum for the first 90 days commencing on (x) the 51st day after such effective date, in the case of (A) above, (y) the day such Shelf Registration Statement ceases to be effective, in the case of (B) above or (z) the day the prospectus in any Shelf Registration Statement is suspended for any period in excess of 90 days, in the case of (C) above, such Additional Interest rate increasing by an additional 0.25% per annum at the beginning of each subsequent 90-day period;

provided, however, that Additional Interest will not accrue under more than one of the foregoing clauses (1), (2) or (3) at any one time; provided further, however, that the amount of Additional Interest accruing will not exceed 1.0% per annum; provided further, however, that (a) upon the filing of the registration statement of which this prospectus forms a part or a Shelf Registration Statement (in the case of clause (1) above), (b) upon the effectiveness of the registration statement of which this prospectus forms a part or a Shelf Registration Statement (in the case of clause (2) above), (c) upon the exchange of registered notes for all unregistered notes tendered (in the case of clause (3)(A) above) or (d) upon the day that the prospectus in a Shelf Registration Statement the use of which was previously suspended may be used again (in the case of clause (3)(B) or (C) above), Additional Interest on the unregistered or registered notes, as the case may be, as a result of such clause (or the relevant subclause thereof), as the case may be, shall cease to accrue.

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Resale of Registered Notes

Based on interpretations of the SEC staff set forth in no-action letters issued to unrelated third parties, we believe that registered notes issued in the exchange offer in exchange for unregistered notes may be offered for resale, resold and otherwise transferred by any exchange note holder without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

such holder is not an affiliate of ours within the meaning of Rule 405 under the Securities Act;

such registered notes are acquired in the ordinary course of the holder's business; and

the holder does not intend to participate in the distribution of such registered notes.

Any holder who tenders in the exchange offer with the intention of participating in any manner in a distribution of the registered notes:

cannot rely on the position of the staff of the SEC set forth in Exxon Capital Holdings Corporation or similar interpretive letters; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

If, as stated above, a holder cannot rely on the position of the staff of the SEC set forth in Exxon Capital Holdings Corporation or similar interpretive letters, any effective registration statement used in connection with a secondary resale transaction must contain the selling security holder information required by Item 507 of Regulation S-K under the Securities Act.

This prospectus may be used for an offer to resell, for the resale or for other retransfer of registered notes only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the unregistered notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives registered notes for its own account in exchange for unregistered notes, where such unregistered notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the registered notes. Please read the section captioned Plan of Distribution for more details regarding these procedures for the transfer of registered notes. We have agreed that, for the period required by the Securities Act after the exchange offer is consummated, we will make this prospectus available to any broker-dealer for use in connection with any resale of the registered notes.

Terms of the Exchange Offer

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, we will accept for exchange any unregistered notes properly tendered and not withdrawn prior to the expiration date. We will issue up to \$150,000,000 in principal amount of registered notes, in the aggregate, in exchange for an equal principal amount of the unregistered notes surrendered under the exchange offer. Unregistered notes may be tendered for the registered notes only in integral multiples of \$1,000.

The form and terms of the registered notes will be substantially identical to the form and terms of the unregistered notes except that the registered notes will be registered under the Securities Act, will not bear legends restricting their transfer and will not provide for any Additional Interest upon our failure to fulfill our obligations under the

registration rights agreement to file, and cause to become effective, a registration statement. The registered notes will evidence the same debt as the unregistered notes. The registered notes will be issued under and entitled to the benefits of the same indenture that authorized the issuance of the unregistered notes. Consequently, each series of notes will be treated as a single class of debt securities under the applicable indenture.

The exchange offer is not conditioned upon any minimum aggregate principal amount of unregistered notes being tendered for exchange.

As of the date of this prospectus, \$150.0 million aggregate principal amount of the unregistered notes are outstanding. This prospectus and the letter of transmittal are being sent to all registered holders of unregistered

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notes. There will be no fixed record date for determining registered holders of unregistered notes entitled to participate in the exchange offer.

We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Exchange Act, and the rules and regulations of the SEC. Unregistered notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the indenture relating to the unregistered notes.

We will be deemed to have accepted for exchange properly tendered unregistered notes when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the registered notes from us and delivering registered notes to such holders. Subject to the terms of the registration rights agreement, we expressly reserve the right to amend or terminate the exchange offer, and not to accept for exchange any unregistered notes not previously accepted for exchange, upon the occurrence of any of the conditions specified below under the caption **Certain Conditions to the Exchange Offer**.

Holders who tender unregistered notes in the exchange offer will not be required to pay brokerage commissions or fees, or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of unregistered notes. We will pay all charges and expenses, other than those transfer taxes described below, in connection with the exchange offer. It is important that you read the section labeled **Fees and Expenses** below for more details regarding fees and expenses incurred in the exchange offer.

Expiration Date; Extensions; Amendments

The exchange offer will expire 5:00 p.m. (New York City time) on _____, 2007, unless we extend it in our sole discretion. However, we will not extend the exchange offer for more than 50 days after the date of this prospectus.

In order to extend the exchange offer, we will notify the exchange agent orally or in writing. In addition, we will notify the registered holders of unregistered notes, in writing, by public announcement or both, of the extension no later than 9:00 a.m. (New York City time) on the business day after the previously scheduled expiration date.

We reserve the right, in our sole discretion:

to delay accepting for exchange any unregistered notes before expiration or termination of the exchange offer, including any extensions;

to extend the exchange offer or to terminate the exchange offer and to refuse to accept unregistered notes not previously accepted if any of the conditions set forth below under **Certain Conditions to the Exchange Offer** have not been satisfied, by giving oral or written notice of such delay, extension or termination to the exchange agent; or

subject to the terms of the registration rights agreement, to amend the terms of the exchange offer in any manner.

Any such delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by giving notice or public announcement thereof to the registered holders of unregistered notes. Holders of unregistered notes that tender before or after the offer is extended will have until the new expiration date to withdraw their notes. If we amend the exchange offer in a manner that we determine to constitute a material change, including a waiver of what we determine to be a material condition, we will promptly disclose such amendment in a manner reasonably

calculated to inform the holders of unregistered notes of such amendment and extend the exchange offer for a period deemed adequate by us to permit holders to withdraw their unregistered notes. In any event, the extension will be at least five business days. If we amend the exchange offer to condition our offer on valid tenders from a specified percentage of unregistered notes or increase or decrease this percentage we will extend the exchange offer by at least 10 days. If we terminate this exchange offer as provided in this prospectus before accepting any unregistered notes for exchange or if we amend the terms of this exchange offer in a manner that constitutes a material change in the information set forth in the registration statement of which this prospectus

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forms a part, we will promptly file a post-effective amendment to the registration statement of which this prospectus forms a part and, if necessary, recirculate a revised prospectus. In addition, we will in all events comply with our obligation to promptly issue registered notes for all unregistered notes properly tendered and accepted for exchange in the exchange offer upon expiration of the exchange offer and will return unregistered notes not accepted for exchange promptly upon termination or expiration of the exchange offer.

Without limiting the manner in which we may choose to make public announcements of any delay in acceptance, extension, termination or amendment of the exchange offer, we shall not have any obligation to publish, advertise or otherwise communicate any such public announcement, other than by filing a Current Report on Form 8-K with the SEC or issuing a timely press release to a financial news service.

Certain Conditions to the Exchange Offer

Despite any other terms of the exchange offer, we will not be required to accept for exchange, or exchange any registered notes for, any unregistered notes, and we may terminate the exchange offer as provided in this prospectus before accepting any unregistered notes for exchange if:

the exchange offer, or the making of any exchange by a holder of unregistered notes, would violate applicable law or any applicable interpretation of the staff of the SEC;

any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer which, in our sole judgment, might materially impair our ability to proceed with the exchange offer;

any material adverse development has occurred in any existing action or proceeding with respect to us; or

any governmental approval has not been obtained, which approval we, in our sole discretion, deem necessary for the consummation of the exchange offer as contemplated by this prospectus.

In addition, we will not be obligated to accept for exchange the unregistered notes of any holder that has not made:

the representations described under Purpose and Effect of the Exchange Offer, Procedures for Tendering and Plan of Distribution; and

such other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to make available to us an appropriate form for registration of the registered notes under the Securities Act.

We expressly reserve the right, at any time or at various times on or prior to the scheduled expiration date of the exchange offer, to extend the period of time during which the exchange offer is open. Consequently, we may delay acceptance of any unregistered notes by giving oral or written notice of such extension to the registered holders of the unregistered notes. During any such extensions, all unregistered notes previously tendered will remain subject to the exchange offer, and we may accept them for exchange unless they have been previously withdrawn. We will return any unregistered notes that we do not accept for exchange for any reason without expense to their tendering holder promptly after the expiration or termination of the exchange offer.

We expressly reserve the right to amend or terminate the exchange offer on or prior to the scheduled expiration date of the exchange offer, and to reject for exchange any unregistered notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified above. We will give notice of or publicly announce

any extension, amendment, non-acceptance or termination to the registered holders of the unregistered notes as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m. (New York City time) on the business day after the previously scheduled expiration date. We will in all events comply with our obligation to promptly issue registered notes for all unregistered notes properly tendered and accepted for exchange in the exchange offer upon expiration of the exchange offer or to promptly return unregistered notes not accepted for exchange upon termination or expiration of the exchange offer.

These conditions are for our sole benefit and we may, in our sole discretion, assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times (provided that,

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if we waive a condition for one participant in the exchange offer, we must waive that condition for all participants). All conditions to the exchange offer, however, must be satisfied or waived by us prior to the expiration of the exchange offer.

In addition, we will not accept for exchange any unregistered notes tendered, and will not issue registered notes in exchange for any such unregistered notes, if at such time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939, as amended.

Procedures for Tendering

Only a holder of unregistered notes may tender such unregistered notes in the exchange offer. To tender in the exchange offer, a holder must:

complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature on the letter of transmittal guaranteed if the letter of transmittal so requires and mail or deliver such letter of transmittal or facsimile to the exchange agent prior to the expiration date; or

comply with DTC's Automated Tender Offer Program procedures described below.

In addition, either:

the exchange agent must receive unregistered notes along with the letter of transmittal;

the exchange agent must receive, prior to the expiration date, a timely confirmation of book-entry transfer of such unregistered notes into the exchange agent's account at DTC according to the procedures for book-entry transfer described below or a properly transmitted agent's message; or

the holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the exchange agent must receive any physical delivery of the letter of transmittal and other required documents at the address set forth below under "Exchange Agent" prior to the expiration date.

The tender by a holder that is not withdrawn prior to the expiration date will constitute an agreement between such holder and us in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

The method of delivery of unregistered notes, the letter of transmittal and all other required documents to the exchange agent is at the holder's election and risk. Rather than mail these items, we recommend that holders use an overnight or hand delivery service. In all cases, holders should allow sufficient time to assure delivery to the exchange agent before the expiration date. Holders should not send us the letter of transmittal or unregistered notes. Holders may request their respective brokers, dealers, commercial banks, trust companies or other nominees to effect the above transactions for them.

Any beneficial owner whose unregistered notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender should contact the registered holder promptly and instruct it to tender on the owners' behalf. If such beneficial owner wishes to tender on its own behalf, it must, prior to completing and executing the letter of transmittal and delivering its unregistered notes, either:

make appropriate arrangements to register ownership of the unregistered notes in such owner's name; or
obtain a properly completed bond power from the registered holder of unregistered notes.

Depending on the facts and circumstances applicable to a particular beneficial owner, including the nominee in whose name the notes are registered and applicable state laws, the transfer of registered ownership may take an indeterminable amount of time and may not be completed prior to the expiration date.

Signatures on a letter of transmittal or a notice of withdrawal described below must be guaranteed by a member of the Medallion Signature Guarantee Program or by any other eligible guarantor institution within the meaning

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of Rule 17Ad-15 under the Exchange Act (each are referred to as an eligible institution) unless the unregistered notes tendered pursuant thereto are tendered:

by a registered holder who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

for the account of an eligible institution.

If the unregistered notes are registered in the name of a person other than the signer of the letter of transmittal or if unregistered notes not accepted for exchange or not tendered are to be returned to a person other than the registered holder, then the signatures on the letter of transmittal accompanying the tendered unregistered notes must be guaranteed by an eligible institution as described above. See Instructions 1 and 5 of the letter of transmittal.

If the letter of transmittal or any unregistered notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing. Unless waived by us, they should also submit evidence satisfactory to us of their authority to deliver the letter of transmittal.

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, transmit their acceptance of the exchange offer electronically. They may do so by causing DTC to transfer the unregistered notes to the exchange agent in accordance with its procedures for transfer. DTC will then send an agent's message to the exchange agent. The term agent's message means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, to the effect that:

DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that is tendering unregistered notes that are the subject of such book-entry confirmation;

such participant has received and agrees to be bound by the terms of the letter of transmittal (or, in the case of an agent's message relating to guaranteed delivery, that such participant has received and agrees to be bound by the applicable notice of guaranteed delivery); and

the agreement may be enforced against such participant.

We will determine in our sole discretion all questions as to the validity, form, eligibility (including time of receipt), acceptance of tendered unregistered notes and withdrawal of tendered unregistered notes. Our determination will be final and binding. We reserve the absolute right to reject any unregistered notes not properly tendered or any unregistered notes the acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tenders as to particular unregistered notes. Our interpretation of the terms and conditions of the exchange offer (including the instructions in the letter of transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of unregistered notes must be cured within such time as we shall determine. Although we intend to notify holders of defects or irregularities with respect to tenders of unregistered notes, neither we, the exchange agent nor any other person will incur any liability for failure to give such notification. Tenders of unregistered notes will not be deemed made until such defects or irregularities have been cured or waived. Any unregistered notes received by the exchange agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned without cost to the tendering holder, unless otherwise provided in the letter of transmittal, promptly following the expiration or termination date.

In all cases, we will issue registered notes for unregistered notes that we have accepted for exchange under the exchange offer only after the exchange agent timely receives:

unregistered notes or a timely book-entry confirmation of such unregistered notes into the exchange agent's account at DTC; and

a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent's message.

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By signing the letter of transmittal, each tendering holder of unregistered notes will represent that, among other things:

that any registered notes to be received by it will be acquired in the ordinary course of its business;

that at the time of the commencement of the exchange offer it has no arrangement or understanding with any person to participate in the distribution (within the meaning of Securities Act) of the registered notes in violation of the Securities Act;

that it is not our affiliate (as defined in Rule 405 promulgated under the Securities Act), or, if it is an affiliate, that it will comply with any applicable registration and prospectus delivery requirements of the Securities Act;

if such holder is not a broker-dealer, that it is not engaged in, and does not intend to engage in, the distribution of registered notes; and

if such holder is a broker-dealer that will receive registered notes for its own account in exchange for notes that were acquired as a result of market-making or other trading activities, that it will deliver a prospectus in connection with any resale of such registered notes.

In addition, the SEC has taken the position that each broker-dealer that receives registered notes for its own account in exchange for unregistered notes, where such unregistered notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, may fulfill their prospectus delivery requirements with respect to the registered notes (other than a resale of an unsold allotment from the original sale of the registered notes) by delivering a prospectus in connection with any resale of such registered notes. See Plan of Distribution.

Book-Entry Transfer

The exchange agent will make a request to establish an account with respect to the unregistered notes at DTC for purposes of the exchange offer promptly after the date of this prospectus and any financial institution participating in DTC's system may make book-entry delivery of unregistered notes by causing DTC to transfer such unregistered notes into the exchange agent's account at DTC in accordance with DTC's procedures for transfer. Holders of unregistered notes who are unable to deliver confirmation of the book-entry tender of their unregistered notes into the exchange agent's account at DTC or all other documents of transmittal to the exchange agent on or prior to the expiration date must tender their unregistered notes according to the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

Holders wishing to tender their unregistered notes but whose unregistered notes are not immediately available or who cannot deliver their unregistered notes, the letter of transmittal or any other required documents to the exchange agent or comply with the applicable procedures under DTC's Automated Tender Offer Program prior to the expiration date may tender if:

the tender is made through an eligible institution;

prior to the expiration date, the exchange agent receives from such eligible institution either a properly completed and duly executed notice of guaranteed delivery by facsimile transmission, mail or hand delivery or a properly transmitted agent's message and notice of guaranteed delivery:

stating that the tender is being made thereby;

guaranteeing that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal or facsimile thereof together with the unregistered notes or a book-entry confirmation, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

setting forth the name and address of the holder, the registered number(s) of such unregistered notes and the principal amount of unregistered notes tendered; and

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the exchange agent receives such properly completed and executed letter of transmittal or facsimile thereof, as well as all tendered unregistered notes in proper form for transfer or a book-entry confirmation, and all other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the expiration date.

Upon request to the exchange agent, a notice of guaranteed delivery will be sent to holders who wish to tender their unregistered notes according to the guaranteed delivery procedures set forth above.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, holders of unregistered notes may withdraw their tenders at any time prior to the expiration date.

For a withdrawal to be effective:

the exchange agent must receive a written notice of withdrawal, which notice may be by facsimile transmission or letter, at one of the addresses set forth below under Exchange Agent ; or

holders must comply with the appropriate procedures of DTC's Automated Tender Offer Program system.

Any such notice of withdrawal must:

specify the name of the person who tendered the unregistered notes to be withdrawn;

identify the unregistered notes to be withdrawn, including the principal amount of such unregistered notes; and

where certificates for unregistered notes have been transmitted, specify the name in which such unregistered notes were registered, if different from that of the withdrawing holder.

If certificates for unregistered notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, the withdrawing holder must also submit:

the serial numbers of the particular certificates to be withdrawn; and

a signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution.

If unregistered notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn unregistered notes and otherwise comply with the procedures of such facility. We will determine all questions as to the validity, form and eligibility, including time of receipt of such notices, and our determination shall be final and binding on all parties. We will deem any unregistered notes so withdrawn not to have been validly tendered for exchange for purposes of the exchange offer. Any unregistered notes that have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of unregistered notes tendered by book-entry transfer into the exchange agent's account at DTC according to the procedures described above, such unregistered notes will be credited to an account maintained with DTC for unregistered notes) promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn unregistered notes may be retendered by following one of the procedures described under Procedures for

Tendering above at any time prior to the expiration date.

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Exchange Agent

U. S. Bank National Association has been appointed as exchange agent for the exchange offer. You should direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for the notice of guaranteed delivery to the exchange agent addressed as follows:

U. S. Bank National Association
Westside Operations Center
60 Livingston Avenue
St. Paul, MN 55107
Attention: Specialized Finance

DELIVERY OF THE LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY OF SUCH LETTER OF TRANSMITTAL.

Fees and Expenses

We will bear the expenses of soliciting tenders. The principal solicitation is being made by mail; however, we may make additional solicitations by telephone or in person by our officers and regular employees and those of our affiliates.

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to broker-dealers or others soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and reimburse it for its related reasonable out-of-pocket expenses.

Our expenses in connection with the exchange offer include:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- accounting and legal fees and printing costs; and
- related fees and expenses.

Transfer Taxes

In general, we will pay all transfer taxes, if any, applicable to the exchange of unregistered notes under the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing unregistered notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of unregistered notes tendered;
- tendered unregistered notes are registered in the name of any person other than the person signing the letter of transmittal; or

a transfer tax is imposed for any reason other than the exchange of unregistered notes under the exchange offer.

If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

In addition, holders who instruct us to register registered notes in the name of, or request that unregistered notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer taxes.

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Consequences of Failure to Exchange

Holders of unregistered notes who do not exchange their unregistered notes for registered notes under the exchange offer, including as a result of failing to timely deliver unregistered notes to the exchange agent, together with all required documentation, including a properly completed and signed letter of transmittal, will remain subject to the restrictions on transfer of such unregistered notes:

as set forth in the legend printed on the unregistered notes as a consequence of the issuance of the unregistered notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

otherwise as set forth in the offering circular distributed in connection with the private offering of the unregistered notes.

In addition, you will no longer have any registration rights or be entitled to Additional Interest with respect to the unregistered notes. Therefore, you should allow sufficient time to ensure timely delivery of the unregistered notes and you should carefully follow the instructions on how to tender your unregistered notes.

In general, you may not offer or sell the unregistered notes unless they are registered under the Securities Act, or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the unregistered notes under the Securities Act. Based on interpretations of the SEC staff, registered notes issued pursuant to the exchange offer may be offered for resale, resold or otherwise transferred by their holders, other than any such holder that is our affiliate within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that the holders acquired the registered notes in the ordinary course of the holders' business and the holders have no arrangement or understanding with respect to the distribution of the registered notes to be acquired in the exchange offer. Any holder who tenders in the exchange offer for the purpose of participating in a distribution of the registered notes:

cannot rely on the applicable interpretations of the SEC; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction.

After the exchange offer is consummated, if you continue to hold any unregistered notes, you may have difficulty selling them.

Accounting Treatment

We will record the registered notes in our accounting records at the same carrying value as the unregistered notes, as reflected in our accounting records on the date of exchange. Accordingly, we will not recognize any gain or loss for accounting purposes in connection with the exchange offer. We will expense the costs of this exchange offer as incurred.

Other

Participation in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered unregistered notes in the open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any unregistered notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered unregistered notes.

Table of Contents**USE OF PROCEEDS**

This exchange offer is intended to satisfy some of our obligations under the registration rights agreement. We will not receive any cash proceeds from the issuance of the registered notes in the exchange offer. In consideration for issuing the registered notes contemplated in this prospectus, we will receive unregistered notes in like principal amount, the form and terms of which are the same as the form and terms of the registered notes, except that the registered notes will not contain transfer restrictions or registration rights. Unregistered notes surrendered in exchange for registered notes will be retired and cancelled and will not be reissued. Accordingly, the issuance of the registered notes will not result in any change in our outstanding indebtedness.

The net proceeds from the offering of the unregistered notes, after deducting fees and expenses, was \$142.2 million. We used those proceeds to purchase and redeem all of our outstanding 10% Senior Secured Notes due 2007, or our 2007 secured notes, and for general corporate purposes.

The following table sets forth the sources and uses of funds in connection with the offering of the unregistered notes:

Sources of Funds		Uses of Funds	
Unregistered notes offered	\$ 150,000	2007 secured notes ⁽¹⁾	\$ 103,961
		General corporate purposes	38,207
		Fees and expenses	7,832
Total sources of funds	\$ 150,000	Total uses of funds	\$ 150,000

⁽¹⁾ Includes the repurchase and redemption of all of our 2007 secured notes at par plus accrued interest thereon.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization at June 30, 2007, and should be read in conjunction with our historical consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Conditions and Results of Operations and other financial information included elsewhere in this prospectus.

	At June 30, 2007	
	(Dollars in thousands)	
Cash and cash equivalents	\$	57,142
Long-term debt, including current maturities:		
Revolving credit facility		
Senior secured notes due 2015		150,000
Total long-term debt		150,000
Redeemable preferred stock		61,118
Stockholders' equity (deficiency in assets)		(22,353)
Total capitalization	\$	188,765

Table of Contents**SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA**

The following table sets forth selected financial data with respect to our consolidated financial condition and consolidated results of operations and should be read in conjunction with our historical consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information included elsewhere in this prospectus.

On July 16, 2001, Sterling Chemicals Holdings, Inc. and its subsidiaries, including us, filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. Our plan of reorganization was confirmed on November 20, 2002 and, on December 19, 2002, we emerged from bankruptcy. Due to the implementation of fresh-start accounting upon our emergence from bankruptcy, we refer to ourselves as Predecessor Sterling for periods on or before December 19, 2002 and Reorganized Sterling for periods after December 19, 2002. Prior to December 6, 2002, all issued and outstanding shares of Predecessor Sterling's capital stock were held by Sterling Chemicals Holdings, Inc. and, accordingly, per share data prior to December 19, 2002 is not presented.

The consolidated statements of operations information for the six months ended June 30, 2007 and 2006 and for the years ended December 31, 2006, 2005, 2004 and 2003 and the transition period from December 20, 2002 to December 31, 2002, and the consolidated balance sheet information as of June 30, 2007 and as of December 31, 2006, 2005, 2004, 2003 and 2002 reflect the financial position and operating results after giving effect to our plan of reorganization and the application of the principles of fresh-start accounting in accordance with the provisions of Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code. Accordingly, such financial information is not comparable to the historical financial information before December 20, 2002. During 2002, we changed our fiscal year end from September 30 to December 31.

	Reorganized Sterling						Predecessor Sterling		
	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	December 20 to December 31, 2002	October 1 to December 19, 2002	Fiscal Year Ended September 30, 2002
Operating Data:									
Revenues	\$ 450,604	\$ 287,056	\$ 667,544	\$ 641,886	\$ 655,353	\$ 518,772	\$ 12,211	\$ 98,575	\$ 375,000
Operating profit (loss)	19,643	(6,370)	12,826	(11,248)	22,344	23,790	1,494	6,471	47,000
Operating expense (loss)									
Operating income (loss) from continuing operations ⁽¹⁾	3,664	(6,997)	(104,622)	(18,508)	(39,881)	1,270	(553)	230,145	(32,000)
Operating expense (loss) from discontinued operations ⁽²⁾	1,441	(1,751)	(997)	(11,060)	(22,763)	(15,469)	(991)	188,466	(3,000)
Share Data:									
Operating income (loss) attributable to non controlling interest holders	\$ (0.84)	\$ (4.49)	\$ (40.26)	\$ (12.94)	\$ (24.30)	\$ (6.84)	\$ (0.61)	\$	\$

Income (loss)							
continuing							
tions							
attributable to							
non							
holders	(0.33)	(3.87)	(39.91)	(9.03)	(16.24)	(1.36)	(0.26)
dividends							
of earnings							
and charges ⁽³⁾	1.4					1.1	19.9

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	Reorganized Sterling					
	June 30, 2007	December 31, 2006	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002
Balance Sheet Data:						
Working capital ⁽⁴⁾	\$ 129,541	\$ 90,124	\$ 76,605	\$ 106,767	\$ 137,412	\$ 149,518
Total assets	294,958	245,823	386,594	473,553	550,503	547,170
Long-term debt (excluding current portion of long-term debt)	150,000	100,579	100,579	100,579	100,579	94,275
Stockholders' equity (deficiency in assets) ⁽⁵⁾	(22,353)	(22,766)	80,285	120,083	189,436	209,011

- (1) During the fourth quarter of 2006, we recorded a \$127.7 million impairment charge to our styrene assets. There was a deferred tax benefit of \$45 million in connection with this impairment, which was offset by deferred tax expense of \$28 million in connection with the recording of a valuation allowance against our deferred tax assets. During 2004, we recorded a \$48.5 million goodwill impairment charge. Also during 2004, we recorded a pension curtailment gain of \$13 million. The period from October 1, 2002 through December 19, 2002 includes a net loss on fresh-start adjustments of \$203 million, along with a net gain on debt restructuring of \$458 million. During fiscal year ended September 30, 2002, we recorded \$56.8 million of deferred tax expense to reflect a full valuation allowance on our U.S. deferred tax assets.
- (2) During 2005, we announced that we were exiting the acrylonitrile business and related derivatives operations. During 2004 we recorded a \$22 million pre-tax impairment charge related to our acrylonitrile long-lived assets. On December 19, 2002, pursuant to our plan of reorganization, we sold our pulp chemicals business to Superior Propane, Inc. for approximately \$373 million and our acrylic fibers business was sold to local management of that business for nominal consideration. The operating results of these businesses have been reported as discontinued operations in the consolidated statement of operations and cash flows, and the assets and liabilities of these businesses have been presented separately as assets and liabilities related to discontinued operations in our consolidated balance sheet.
- (3) Additional pre-tax earnings needed to achieve a 1:1 ratio for the six months ended June 30, 2006, for the years ended December 31, 2006, 2005 and 2004, and for the period from December 20 to December 31, 2002 were \$11.6 million, \$120.1 million, \$30.2 million, \$33.6 million and \$1.4 million, respectively.
- (4) Working capital as of June 30, 2007, December 31, 2006, 2005, 2004, 2003 and 2002 includes net assets (liabilities) of discontinued operations of \$(0.2) million, \$(0.2) million, \$(2) million, \$55 million, \$57 million and \$27 million, respectively.
- (5) The balance as of December 31, 2006 includes an increase in Stockholders' equity (deficiency in assets) of \$6.7 million (net of tax) due to the adoption of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans .

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information should be read in conjunction with our historical consolidated financial statements and related notes and other financial information included elsewhere in this prospectus.

Overview

Business

We are a leading North American producer of selected petrochemicals used to manufacture a wide array of consumer goods and industrial products throughout the world. Our primary products are acetic acid, styrene and plasticizers.

Our acetic acid is used primarily to manufacture vinyl acetate monomer, which is used in a variety of products, including adhesives and surface coatings. All of our acetic acid production is sold to BP Chemicals, and we are BP Chemicals' sole source of acetic acid production in the Americas. We sell our acetic acid to BP Chemicals pursuant to the Production Agreement that extends until 2016. The Production Agreement provides us with a portion of the profits derived from BP Chemicals' sales of the acetic acid we produce and reimbursement of 100% of our fixed and variable costs of production. This Production Agreement has provided us with a steadily increasing source of income since the inception of this relationship in 1986 and, over the last three years, we have operated at over 100% of capacity and at utilization rates greater than the industry average. We believe we have one of the lowest cost acetic acid facilities in the world. Our acetic acid facility utilizes BP Chemicals' Cativa Technology, which we believe offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs. We also jointly invest with BP Chemicals in capital expenditures related to our acetic acid facility. Acetic acid production has two major raw materials 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 the carbon monoxide we use in the production of acetic acid is supplied by Praxair from a partial oxidation unit constructed by Praxair on land leased from us at our Texas City site.

Styrene is a commodity chemical used to produce intermediate products such as polystyrene, expandable polystyrene resins and ABS plastics, which are used in a wide variety of products such as household goods, foam cups and containers, disposable food service items, toys, packaging and other consumer and industrial products. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of our styrene capacity into the global spot market. While we routinely seek to enter into new styrene sales contracts, we may not be successful in obtaining new contract customers. If we are unsuccessful, we may lower our styrene production levels or sell more of our styrene production in the spot markets, both domestic and export, which could materially adversely affect our business, financial condition, results of operations or cash flows. We may also explore mergers, acquisitions, joint ventures or other arrangements with other North American styrene producers that could improve the domestic balance of supply and demand for styrene and provide us with improved cash flows.

All of our plasticizers, which are used to make flexible plastics, such as shower curtains, floor coverings, automotive parts and construction materials, are produced exclusively for BASF pursuant to a long-term production agreement that extends until 2013, subject to some limited early termination rights held by BASF beginning in 2010. Under our agreement with BASF, BASF provides us with most of the required raw materials, markets the plasticizers we produce and is obligated to make certain fixed quarterly payments to us and to reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility.

We manufacture all of our petrochemicals products at our site in Texas City, Texas. In terms of production capacity, our Texas City site has the sixth largest acetic acid facility in the world and the fourth largest styrene facility in North America. Our Texas City site, which covers an area of 290 acres, 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, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of

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available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. 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 key raw material pipelines, as well as close proximity to a number of large refinery complexes that provide some of our principal raw materials.

As shown below, our rated annual production capacity as of December 31, 2006 is among the highest in North America for acetic acid and styrene.

Product	Rated Annual Production Capacity	Percent of Total North American Capacity	North American Market Position
Acetic Acid	1.1 billion pounds	17%	3
Styrene	1.7 billion pounds	11%	4

We generally sell our petrochemicals products 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. The North American acetic acid industry tends to sell most of its products through long-term sales agreements having cost plus pricing mechanisms, eliminating much of the volatility seen in other petrochemicals products and resulting in more stable and predictable earnings and profit margins. Styrene is a commodity and exhibits wide swings in prices and profit margins based upon current and anticipated levels of supply and demand. Although exceptions occasionally occur, as a general rule, if styrene profit margins are favorable, our overall financial performance is good, but our overall financial performance suffers when styrene margins are unfavorable. The market for styrene roughly follows repetitive cycles, and general trends in the supply and demand balance may be observed over time. However, it is difficult, if not impossible, to definitively predict when market conditions will be favorable or unfavorable. During the second quarter of 2007, operating problems at several domestic styrene producers resulted in shortages of styrene in the domestic markets and higher styrene prices for prompt deliveries. Those shortages allowed us to temporarily increase volumes of spot sales. However, benzene prices also increased significantly. As a result, it has been difficult for domestic styrene producers to realize meaningful margin improvements, even though the short-term domestic styrene market is considered balanced to tight. While the balance of supply and demand has improved in the domestic styrene markets in the short-term, domestic styrene markets remain in a condition of over-supply. In addition, we expect styrene margins to remain depressed for the foreseeable future, primarily due to the expected capacity additions in Asia and the Middle East.

Acetic Acid. The North American acetic acid industry is enjoying a period of sustained domestic demand growth, as well as substantial export demand. This has led to current North American industry utilization rates of 86% and Tecnon projects utilization rates to 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 and historically these producers have made capacity additions in a disciplined and incremental manner, primarily using small expansion projects or exploiting debottlenecking opportunities. In addition, the leading technology required to manufacture acetic acid is controlled by two global companies, which allow these companies to control the pace of new capacity additions through the licensing or development of such additional capacity. The limited availability of this technology also creates a

significant barrier to entry into the acetic acid industry by potential competitors.

Global production capacity of acetic acid as of December 31, 2006 was approximately 24 billion pounds per year, with current North American production capacity at approximately 7 billion pounds per year. The North American acetic acid market is mature and well developed and is dominated by four major producers that account for over 94% of the acetic acid 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 40% of total demand. Annual global production of vinyl acetate monomer is expected to increase from 10.4 billion pounds in 2005 to 12.2 billion pounds in 2010.

The North American acetic acid industry tends to sell most of its products through long-term sales agreements having cost plus pricing mechanisms, eliminating much of the volatility seen in other petrochemicals products and resulting in more stable and predictable earnings and profit margins.

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Several acetic acid capacity additions have occurred since 1998, including an expansion of our acetic acid unit from 800 million pounds of rated annual production capacity to 1.1 billion pounds during 2005. These capacity additions were somewhat offset by reductions of approximately 1.9 billion pounds in annual global capacity from the shutdown of various outdated acetic acid plants from 1999 through 2001. In 2006, BP Chemicals closed two of its outdated acetic acid production units in Hull, England that had a combined annual capacity of approximately 500 million pounds (which had been sold primarily in Europe and South America). We and BP Chemicals are reviewing further expansion of our acetic acid plant in 2008 or 2009.

Styrene. The North American styrene industry is currently in a protracted down cycle, primarily as a result of over-supply. This shift is the result of two major developments. Export demand has historically represented over 20% of North American production capacity. Regional cost pressures, in addition to new production capacity being added in Asia and the Middle East, have made it difficult for North American producers to compete in these export markets on a regular basis. In addition, a significant amount of styrene capacity has been added globally over the past five to ten years by PO-SM plants, which produce styrene as a by-product in the production of propylene oxide. Propylene oxide is a key intermediate in the production of polyurethane, and polyurethane demand growth has been significantly greater than demand growth for styrene, exacerbating the over-supply of styrene. During periods of over-supply, production rates for styrene producers decrease significantly. Production rates in the United States are currently estimated by CMAI to be 77% of capacity, but are projected to decrease to 67% during the fourth quarter of 2007. When production rates are low, unit production costs increase due to the allocation of fixed costs over a lower production volume and a reduction in the efficiency of the manufacturing unit, both in energy usage and in the conversion rates for raw materials. Compounding these cost impacts, prices for the principal styrene raw materials, benzene and ethylene, are currently near historical highs, putting pressure on margins on styrene sales even though styrene contract prices are near historic highs. According to CMAI, benzene and ethylene prices are expected to decline by approximately 8% and 4%, respectively, on average over each of the next five years.

The financial performance of styrene is primarily a function of sales prices, the costs of raw materials and energy and sales volumes. In contrast, under the Production Agreement with BP Chemicals and our agreement with BASF, BP Chemicals is required to provide the methanol to produce acetic acid and BASF is required to provide us with most of the major raw materials necessary to produce plasticizers. These sources of raw materials tend to mitigate certain risks typically associated with fluctuating raw materials costs, as well as decrease our working capital requirements. While changes in the prices for styrene may be tracked through a variety of sources, a change in price does not necessarily result in a corresponding change in our financial performance. When the price of styrene increases or decreases, our overall financial performance may improve, decline or stay roughly the same depending upon the extent and direction of changes in our costs for raw materials and energy and our production rates. The aggregate cost of raw materials and energy resources is far greater than all other costs of producing styrene combined. We use significant amounts of natural gas as fuel in the production of styrene, and the producers of most of our raw materials use significant amounts of natural gas in their production. As a result, our production and raw materials costs increase or decrease based upon changes in the price for natural gas. Natural gas and most of our raw materials are commodities and, consequently, are subject to wide fluctuations in prices, which can, and often do, move independently of changes in the prices for our products. Prices for, and the availability of, natural gas and many of our raw materials are largely based on regional factors, which can result in wide disparities in prices in different parts of the world or shortages or unavailability in some regions at the same time when these raw materials are plentiful in other parts of the world. Prices for styrene, on the other hand, tend to be more consistent throughout the world, after taking into account transportation costs. Consequently, changes in prices for natural gas and raw materials tend to impact the margin on our styrene sales rather than the price of styrene, with margins increasing when natural gas and raw materials costs decline and *vice versa*. In addition, many producers in other parts of the world use oil-based processes rather than natural gas-based processes. Subsequently, the relationship between the price of crude oil and the price of natural gas can either increase or decrease our competitiveness depending on their relative values at any particular point in time. Sales volumes influence our overall financial performance in a variety of ways. As a general rule, increases in sales volumes will

result in an increase in overall revenues and *vice versa*, although this is not necessarily the case since the price for styrene can change dramatically from month-to-month. More importantly, changes in production rates impact the average cost per pound of styrene produced. If more pounds are produced, our fixed costs are spread over a greater number of pounds resulting in a lower average cost to

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produce each pound. In addition, our styrene production rates influence the overall efficiency of our styrene manufacturing unit and the yields we receive from our raw materials.

Over the last five years, China has been the driver for growth in styrene demand, representing approximately 75% of the world's styrene demand growth in that period. Historically, we have positioned ourselves to take advantage of peaks in the Asian styrene markets, with a large portion of our styrene capacity not being committed under long-term arrangements. However, over the last two years, relatively high benzene and domestic natural gas prices have significantly limited our ability to sell styrene into the Asian markets, and high styrene prices have reduced styrene global demand growth rates. In addition, several of our competitors have announced their intention to build new styrene production units outside the United States, further complicating our ability to sell styrene into the Asian markets. In 2006, our competitors added 2.6 billion pounds of new styrene capacity in Asia. The majority of the remaining announced construction projects are scheduled to start up between 2007 and 2009, although it is not uncommon for announced construction to be delayed. For example, Shell Oil Company, or Shell, and Saudi Basic Industries Corporation, or SABIC, have announced their decision to suspend the development of a 600,000 metric ton per year styrene project in Al Jubail, Saudi Arabia, which was scheduled to come on-stream in 2007, due to rising construction expenses and the high cost of benzene feedstock. In addition, much of this new capacity is being constructed in politically unstable regions of the world, such as the Middle East, which may impact the timing of the start-up of this new capacity. If and when these new units are completed, we would anticipate more difficult market conditions, especially in the export markets, until the additional supply is absorbed by growth in styrene demand or significant capacity rationalization occurs.

Given the market conditions in Asia and the high domestic raw materials and energy costs we have been experiencing, most of our styrene sales over the last two years have been to customers in the United States, Mexico, Canada and South America. We expect most of our styrene sales over the next three to five years to also be in these geographic regions. Consequently, we are focusing our efforts on increasing market share in these areas, while continuing to make occasional styrene sales in Asia on an opportunistic basis. We may not, however, be successful in increasing our market share in these geographic regions during this period and we cannot guarantee when, or if, export market conditions to Asia will improve for North American styrene producers. We may also explore mergers, acquisitions, and joint ventures with other North American styrene producers that could improve the domestic balance of supply and demand for styrene and provide us with improved cash flows.

CMAI currently is not projecting any additional capacity increases in the United States through 2010, with projected operating rates reaching a trough of 67% during the fourth quarter of 2007, and less than 80% operating rates through 2010, without any major industry restructuring. Although we believe an improved North American industry outlook is possible, this largely depends on a significant industry restructuring. Previously, styrene and polystyrene industry participants, including The DOW Chemical Company and NOVA Chemicals Corporation, have announced a desire to seek transactions which would restructure the North American styrene and polystyrene industries, thereby improving the balance of supply and demand in North America. More recently, NOVA Chemicals Corporation announced on March 22, 2007 that it planned to expand its European joint venture with INEOS to include North American styrene and solid polystyrene assets, and The DOW Chemical Company announced on April 10, 2007 that it had signed a non-binding memorandum of understanding with Chevron Phillips Chemical Co. to form a joint venture involving selected styrene and polystyrene assets of the two companies in North America and South America. Separately, new technology for the manufacture of propylene oxide has been developed that should result in lower manufacturing costs for propylene oxide and which does not produce styrene as a co-product, which could significantly reduce the future growth of plants utilizing PO-SM technology.

Our styrene facilities consist of two reaction trains, a north train and a south train. On September 22, 2005, during a shut down of our plant in anticipation of Hurricane Rita, the superheater in the south train of our styrene facility was significantly damaged by a fire, forcing a closure of the south train until repairs could be completed. In addition, the

north train reactor of our styrene facility sustained internal damage as a result of this incident and, although still capable of producing product, the reactor damage caused significant raw material yield and energy inefficiencies. On January 12, 2006, we shut down the north train of our styrene facilities to make repairs to the reactor and replace the existing catalyst. In February 2006, both the north and south trains were re-started. During these shutdowns, we fully met our supply obligations to our contract styrene customers through the operation of the north train of our styrene facilities, supplemented by open market purchases of styrene. The total cost for these

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repairs was approximately \$11 million. We also filed a claim for approximately \$12 million under our business interruption insurance policies. During the second quarter of 2006, we received an advance payment from our insurance companies of \$3 million. In August 2006, we settled the claim with our insurance carriers for a total of \$15 million, including the \$3 million advance payment.

During the fourth quarter of 2006, we performed an asset impairment analysis on our styrene production unit. This analysis was performed due to industry forecasts, forecasted negative cash flow generated by our styrene business over the next few years and the uncertainty surrounding the ability of the North American styrene industry to successfully restructure. Our management determined that a triggering event, as defined in Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, or SFAS No. 144, had occurred and an asset impairment analysis was performed. We analyzed the undiscounted cash flow stream from our styrene business over the next seven years, which represented the remaining book life of our styrene assets, and compared it to the \$128 million net book carrying value of our styrene unit and related assets. This analysis showed that the undiscounted projected cash flow stream from our styrene business was less than the net book carrying value of our styrene unit and related assets. As a result, we performed a discounted cash flow analysis and subsequently concluded that our styrene unit and related assets were impaired. While we are still operating our styrene unit, our analysis led us to conclude that our styrene assets should be written down to zero. This write-down caused us to record a \$128 million impairment in December 2006.

Plasticizers. Historically, we have produced ethylene-based linear plasticizers, which typically receive a premium over competing propylene-based branched products for customers that require enhanced performance properties. However, the markets for competing plasticizers can 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. One of the raw materials for linear plasticizers is a product known as linear alpha-olefins. Over the last few years, the price of linear alpha-olefins has increased sharply as supply has declined, which has caused many consumers to switch to lower cost branched products, despite the loss of some performance properties. Ultimately, we expect branched plasticizers to replace linear plasticizers for most applications over the long-term. As a result, we modified our plasticizers facilities during the third quarter of 2006 to produce branched plasticizers products.

In 2005, BP Chemicals announced the permanent closure of its linear alpha-olefins production facility in Pasadena, Texas, the primary source of supply of this feedstock to the oxo-alcohols production unit at our plasticizers facility. After pursuing various alternative uses for our oxo-alcohols unit, we were unable to secure an alternative use for this facility. As a result, we permanently shut down our oxo-alcohols production unit on July 31, 2006. Due to the closure of our oxo-alcohols unit and our conversion to the production of branched plasticizers, the phthalate esters production unit at our plasticizers facility now uses oxo-alcohols supplied by BASF that have a different chemical composition.

Discontinued Operations

On September 16, 2005, we announced that we were exiting the acrylonitrile business and related derivative operations. 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. Our acrylonitrile and derivatives businesses had sustained losses in recent years and had been shut down since February of 2005.

In accordance with SFAS No. 144, we have reported the operating results of these businesses as discontinued operations in our consolidated statement of operations and cash flows, and we have presented the assets and liabilities of these businesses separately in our consolidated balance sheet.

Table of Contents**Results of Operations**

The following table sets forth revenues, gross profit (loss) and net loss from continuing operations for 2006, 2005 and 2004 and the six months ended June 30, 2007 and 2006:

	Fiscal Year Ended December 31,			Six Months Ended	
	2006	2005	2004	2007	2006
	(Dollars in thousands)				
Revenues	\$ 667,544	\$ 641,886	\$ 655,353	\$ 450,604	\$ 287,056
Gross profit (loss)	12,826	(11,248)	22,344	19,643	(6,370)
Income (loss) from continuing operations	(104,662)	(18,508)	(39,881)	3,664	(6,997)

Comparison of 2006 to 2005*Revenues and loss from continuing operations*

Our revenues were \$668 million in 2006, an increase of 4% over the \$642 million in revenues we recorded in 2005. This increase in revenues resulted primarily from an increase in acetic acid and styrene sales prices. We recorded a net loss from continuing operations of \$105 million in 2006, compared to the net loss of \$19 million we recorded in 2005. This increase in net loss was primarily due to the \$128 million impairment charge to our styrene assets that we recorded in 2006.

Revenues from acetic acid and plasticizers were \$143 million in 2006, a 12% increase over the \$128 million in revenues we recorded in 2005. This increase in revenues was due to a 14% increase in acetic acid revenues and a 6% increase in plasticizers revenues, primarily due to increases in sales prices. We achieved both monthly and annual production records in our acetic acid business during 2006.

Revenues from our styrene operations were \$525 million in 2006, an increase of 2% over the \$514 million in revenues we recorded in 2005. Direct sales prices for styrene increased 10% from those realized during 2005. Spot prices for styrene, a component of our direct sales prices, ranged from \$0.45 to \$0.60 per pound during 2006, compared to \$0.44 to \$0.62 per pound during 2005. Our total sales volumes for styrene in 2006 were 7% lower than in 2005. During 2006, prices for benzene, one of the primary raw materials required for styrene production, increased 10% over the prices we paid for benzene in 2005, and prices for ethylene, the other primary raw material required for styrene production, increased 2% over the prices we paid for ethylene in 2005. Average costs for natural gas, another major component in the cost of manufacturing styrene, decreased 13% during 2006 compared to average natural gas costs during 2005. Margins on our styrene sales in 2006 increased from those realized in 2005, primarily due to slightly improved market conditions. As noted previously, we recorded an impairment of \$128 million in 2006 related to our styrene production unit.

Selling, general & administrative expenses

Our selling, general and administrative expenses were \$10 million in 2006 compared to \$8 million in 2005. This increase in 2006 was primarily due to the approximately \$1 million in expenditures we incurred in professional fees to explore potential new business opportunities, and the \$1 million we expensed for bad debts in 2006 compared to the \$2 million credit for bad debts we recorded in 2005. This increase in the allowance for doubtful accounts balance as of

December 31, 2006 resulted primarily from the cumulative sum of disputed invoices related to our disagreement with BP Chemicals described below under Legal Proceedings .

Other expense (income)

We recorded other income of \$16 million in 2006, which primarily consisted of the recognition of final settlement of our claims under our property damage and business interruption insurance policies related to the September 2005 fire that occurred in our styrene unit.

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During 2006, our effective tax rate was 12% compared to 37% in 2005. This change in the effective rate was the result of a \$28 million increase in the valuation allowance related to certain deferred tax assets during 2006. The styrene impairment discussed above resulted in the reversal of \$45 million in deferred tax liabilities. As of December 31, 2006, we had an available U.S. federal income tax net operating loss carryforward, or NOL, of approximately \$85 million (representing a deferred tax asset of \$30 million), which expires during the years 2023 through 2026. Deferred tax assets are regularly assessed for recoverability based on both historical and anticipated earnings levels, and a valuation allowance is recorded when it is more likely than not that these amounts will not be recovered. As a result of our analysis, we concluded that an additional valuation allowance was needed against our deferred tax assets in the amount of \$28 million, which resulted in a total valuation allowance of \$30 million and an overall net deferred tax asset balance of \$4 million as of December 31, 2006. We also recorded a \$4 million liability relating to certain tax contingencies.

Loss from discontinued operations, net of tax

We recorded a net loss from discontinued operations of \$1 million in 2006 compared to a loss of \$11 million in 2005. The \$1 million loss in 2006 represents closure costs related to our acrylonitrile business, partially offset by asset sales related to that business. The loss of \$11 million in 2005 included costs of \$9 million related to our exit from the acrylonitrile and related derivatives businesses.

Comparison of 2005 to 2004*Revenues and loss from continuing operations*

Our revenues were \$642 million in 2005, a decrease of 2% from the \$655 million in revenues we recorded in 2004. This decrease in revenues resulted primarily from a reduction in styrene revenues due to a change in customer mix and lost volumes of styrene following the fire that occurred in our styrene unit in September 2005. As a result of this curtailed ability to produce styrene, we sold a larger percentage of our overall styrene sales under conversion arrangements during 2005. We recorded a net loss from continuing operations of \$19 million for 2005, compared to a net loss of \$40 million recorded in 2004. This difference between these two years was significantly influenced by the \$48 million impairment to goodwill we recorded in 2004 and a reduction in gross profit in 2005 due to the impact of Hurricane Rita and the fire in our styrene unit.

Revenues from acetic acid and plasticizers were \$128 million in 2005, a slight increase from the \$126 million in revenues we recorded in 2004. This slight increase in revenues resulted from a 7% increase in acetic acid revenues offset by a 6% decrease in plasticizers revenues. We achieved record monthly production rates in our acetic acid business during 2005.

Revenues from our styrene operations were \$514 million in 2005, a decrease of 3% from the \$530 million in revenues we recorded in 2004. Direct sales prices for styrene increased 6% from those realized during 2004. Spot prices for styrene, a component of our direct sales prices, ranged from \$0.44 to \$0.62 per pound during 2005, compared to \$0.37 to \$0.63 per pound during 2004. Our total sales volumes for styrene in 2005 were 1% lower than in 2004. During 2005, prices for benzene, one of the primary raw materials required for styrene production, increased 2% over the prices we paid for benzene in 2004, and prices for ethylene, the other primary raw material required for styrene production, were 35% higher than the prices we paid for ethylene in 2004. Average costs for natural gas, another major component in the cost of manufacturing styrene, increased 23% during 2005 compared to average natural gas costs during 2004. Margins on our styrene sales in 2005 decreased from those realized in 2004, primarily as a result of higher raw materials costs and the impact of Hurricane Rita and the fire in our styrene unit.

Selling, general & administrative expenses

Our selling, general and administrative expenses were \$8 million in 2005 compared to \$11 million in 2004. This reduction was primarily due to a \$2 million reduction in our allowance for doubtful accounts resulting from a decrease in total accounts receivable, as well as a decrease in balances with customers having greater credit risk.

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Organizational efficiency project

During the last half of 2004, we developed an organizational efficiency project involving the design, development and implementation of uniform and standardized systems, processes and policies to improve our production, maintenance and process efficiencies, and our logistics materials management and procurement functions. During 2005, we reduced our fixed costs by more than \$20 million per year, representing a 15% reduction in our annual fixed costs. Approximately 10% to 15% of these cost savings accrue to the benefit of some of our customers under the cost reimbursement provisions of our production agreements.

Provision (benefit) for income taxes

During 2005, our effective tax rate was 37% compared to 16% in 2004. This difference in the effective rate was a result of the \$48.5 million impairment of goodwill recorded during 2004, which was a non-tax deductible charge.

Loss from discontinued operations, net of tax

We recorded a net loss from discontinued operations of \$11 million in 2005 compared to a loss of \$23 million in 2004. The loss of \$11 million in 2005 included costs of \$9 million related to our exit from the acrylonitrile and related derivatives businesses. These costs included accruals for contractual obligations due in 2006 and asset impairments. The loss of \$23 million in 2004 included a pre-tax impairment charge of our long-lived acrylonitrile assets of \$22 million.

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Revenues and income from continuing operations

Our revenues were \$253.5 million for the second quarter of 2007, a 69% increase from the \$150.4 million in revenues we recorded for the second quarter of 2006. This increase in revenues was primarily due to increased styrene sales volumes and sales prices in the second quarter of 2007, compared to the second quarter of 2006. We had income from continuing operations of \$0.4 million for the second quarter of 2007, compared to income of \$2.1 million in the second quarter of 2006.

Revenues from acetic acid and plasticizers were approximately \$35 million for both the second quarter of 2007 and the second quarter of 2006. Acetic acid revenues increased 24% compared to the second quarter of 2006, offset by a 44% decrease in plasticizers revenues. The increase in acetic acid revenues in 2007 was due to increased sales volumes and improved profit sharing amounts. The decrease in plasticizers revenues was primarily due to the permanent shut down of the oxo alcohols unit in the second half of 2006.

Revenues from our styrene operations were \$218.3 million for the second quarter of 2007, an increase of 89% over the \$115.3 million in revenues we received from these operations for the second quarter of 2006. This increase in revenues from our styrene operations was primarily due to the increased styrene sales volumes and sales prices in the second quarter of 2007, compared to the second quarter of 2006. During the second quarter of 2007, the prices we paid for benzene, one of the primary raw materials required for styrene production, increased 28% from the prices we paid for benzene during the second quarter of 2006, and the prices we paid for ethylene, the other primary raw material required for styrene production, decreased 9% from the prices we paid for ethylene during the second quarter of 2006. The average price we paid for natural gas for the second quarter of 2007 increased 23% compared to the average price we paid for natural gas during the second quarter of 2006.

Selling, general and administrative expenses

Our selling, general and administrative expenses were \$3.8 million for the second quarter of 2007 compared to \$3.1 million for the second quarter of 2006. This increase in 2007 was due in large part to our recording bad debt expense of \$0.6 million in connection with the blend gas dispute with BP Chemicals and our incurring \$0.2 million in professional fees in connection with our pursuit of potential new business opportunities.

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Other Income (expense)

We recorded \$0.8 million in other expense for the second quarter of 2007 and recorded \$3.3 million in other income for the second quarter of 2006. The other expense recorded for the second quarter 2007 resulted from a write-down of one of our investments to its fair value. The other income recorded for the second quarter of 2006 primarily consisted of payments received under our property damage and business interruption insurance policies related to the fire that occurred in our styrene unit in September 2005.

Interest and debt related expenses, net of interest income

Our interest expense for the second quarter of 2007 was \$4.4 million and was \$2.5 million for the second quarter of 2006. This increase in the second quarter of 2007 was primarily due to our increased interest expense associated with higher debt levels after our debt refinancing that occurred in the first quarter of 2007, partially offset by an increase in interest income due to higher average cash balances.

Provision (benefit) for income taxes

During the second quarter of 2007, we recorded net tax expense of zero for income taxes from continuing operations, compared to a \$1 million provision for income taxes from continuing operations for the second quarter of 2006. This difference is due to us recording a tax provision for the pre-tax income in the second quarter of 2006. In the fourth quarter of 2006, we concluded that a valuation allowance was needed against our federal deferred tax assets. Based on our net operating loss position and projections for the year, we expect that any tax expense or benefit during 2007 will be fully offset by a related change in the valuation allowance, resulting in an effective tax rate of zero. For the second quarter of 2007, \$0.2 million of tax benefit from continuing operations was offset by an increase of \$0.2 million to our valuation allowance resulting in a net deferred tax asset of zero at June 30, 2007.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Revenues and income (loss) from continuing operations

Our revenues were \$450.6 million for the six-month period ended June 30, 2007; an increase of 57% over the \$287.1 million in revenues we received during the six-month period ended June 30, 2006. This increase in revenues resulted primarily from an increase in styrene sales volumes, largely attributable to the shut down of our styrene unit in the first quarter of 2006 to repair the damage caused by the September 2005 fire, as well as lower volumes of export sales of styrene during the second quarter of 2006 due to disadvantageous market conditions in Asia for Gulf Coast producers. We had net income from continuing operations of \$3.7 million for the six-month period ended June 30, 2007, compared to a net loss of \$7.0 million during the six-month period ended June 30, 2006. This improvement in operating results over the 2006 period was primarily due to the factors discussed above, together with a reduction in depreciation expense for the six-month period ended June 30, 2007 due to the impairment of our styrene assets we recorded in the fourth quarter of 2006.

Revenues from acetic acid and plasticizers were \$68.4 million for the six-month period ended June 30, 2007 and \$72.0 million for the six-month period ended June 30, 2006. This decrease in revenues was due to a 43% decrease in plasticizer revenues offset by a 15% increase in acetic acid revenues. The increase in acetic acid revenues in 2007 was due to increased sales volumes and improved profit sharing amounts. The decrease in plasticizers revenues was primarily due to the permanent shut down of the oxo alcohols unit in the second half of 2006.

Revenues from our styrene operations were \$381.7 million for the six-month period ended June 30, 2007; an increase of 77% over the \$215.1 million in revenues we received from these operations for the six-month period ended

June 30, 2006. This increase in revenues from our styrene sales volumes, largely attributable to the shut down of our styrene unit in the first quarter of 2006 to repair the damage caused by the September 2005 fire, as well as lower volumes of export sales of styrene during the second quarter of 2006 due to disadvantageous market conditions in Asia for Gulf Coast producers. As a part of normal recurring operations, each of our manufacturing units is completely shut down from time to time, for a period typically lasting two to four weeks, to replace catalysts and perform major maintenance work required to sustain long-term production. These periods are commonly

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referred to as turnarounds or shutdowns. While actual timing is subject to a number of variables, turnarounds of our styrene unit typically occur every two to three years. As our styrene production facility was already shut down in the first quarter of 2006 to repair the damage caused by the September 2005 fire discussed above, we decided to perform our normal recurring styrene turnaround earlier than planned. We expense the costs of turnarounds as the associated expenses are incurred. As expenses for turnarounds, especially for our styrene unit, can be significant, the impact of turnarounds can be material for financial reporting periods during which the turnarounds actually occur. During the first quarter of 2006, we incurred approximately \$9 million of expenses associated with this turnaround of our styrene unit. During the first two quarters of 2007, prices for benzene and ethylene, the two primary raw materials required for styrene production, increased 26% and decreased 16%, respectively, from the prices we paid for these products in the first two quarters of 2006. The average price we paid for natural gas for the first two quarters of 2007 increased 8% from the average price we paid for natural gas during the first two quarters of 2006.

Other income (expense)

We recorded \$0.8 million in other expense for the six-month period ended June 30, 2007 compared to the \$3.7 million in other income we recorded for the six-month period ended June 30, 2006. The other expense recorded for the 2007 period resulted from a write-down of one of our investments to its fair value. The other income recorded for the 2006 period primarily consisted of payments received under our property damage and business interruption insurance policies related to the fire that occurred in our styrene unit in September 2005.

Selling, general and administrative expenses

Our selling, general and administrative expenses were \$7.4 million for the six-month period ended June 30, 2007 and were \$3.8 million for the six-month period ended June 30, 2006. This increase in 2007 was due in large part to our recording bad debt expense of \$1.6 million in connection with the blend gas dispute with BP Chemicals and our incurring \$0.8 million in professional fees in connection with our pursuit of potential new business opportunities. Additionally, bonus accruals were \$0.3 million higher in 2007 compared to the amount accrued for the first six months of 2006 and a severance payout of \$0.4 million was made in May 2007.

Interest and debt related expenses, net of interest income

Our interest expense was \$7.7 million for the first six months of 2007 and \$4.9 million for the first six months of 2006. This increase in 2007 was associated with higher debt levels after our debt refinancing that occurred in the first quarter of 2007, offset by an increase in interest income due to higher average cash balances.

Provision (benefit) for income taxes

During the six-month period ended June 30, 2007, we recorded net tax expense of zero from continuing operations, compared to the \$4.3 million benefit for income taxes from continuing operations we recorded for the six-month period ended June 30, 2006. In the fourth quarter of 2006, we concluded that a valuation allowance was needed against our federal deferred tax assets. Based on our net operating loss position and projections for the year, we expect that any tax expense or benefit during 2007 will be fully offset by a related change in the valuation allowance, resulting in an effective tax rate of zero. For the six-month period ended June 30, 2007, this resulted in \$1.0 million of tax expense from continuing operations being offset by a reduction of \$1.0 million to our valuation allowance.

Liquidity and Capital Resources

On March 1, 2007, we commenced an offer to repurchase all of our outstanding 2007 secured notes, totaling \$100.6 million, or our tender offer. Concurrently with our tender offer, we solicited consents from the holders of our

2007 secured notes to, among other things, eliminate certain covenants contained in the indenture governing our 2007 secured notes and related security documents. On March 15, 2007, after receiving enough consents from the holders of our 2007 secured notes, we and Sterling Chemicals Energy, Inc., or Sterling Energy, our wholly-owned subsidiary, and the trustee entered into a supplemental indenture amending the indenture and the related security

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documents to eliminate most of the restrictive covenants contained therein, as well as certain events of default and repurchase rights. These amendments became effective when we accepted for purchase the 2007 secured notes held by the consenting holders pursuant to our tender offer and paid those holders an aggregate of \$0.1 million in consent fees. Our tender offer expired at 12:00 midnight, New York City time, on March 28, 2007. We accepted for repurchase \$58 million in aggregate principal amount of 2007 secured notes which were validly tendered prior to the expiration of our tender offer, and we repurchased those 2007 secured notes and paid the accrued interest thereon together with the consent fee, on March 30, 2007. On March 27, 2007, we issued a notice of redemption for all of our 2007 secured notes that were not tendered pursuant to our tender offer and, on April 27, 2007, we purchased those remaining 2007 secured notes for an aggregate amount equal to \$44.1 million, which included \$1.5 million in accrued interest.

On March 26, 2007, we entered into a purchase agreement, or the Purchase Agreement, with respect to the sale of \$150 million aggregate principal amount of unregistered notes to Jefferies & Company, Inc. and CIBC World Markets Corp., as initial purchasers. Sterling Energy was also a party to the Purchase Agreement as a guarantor. On March 29, 2007, we completed a private offering of the unregistered notes pursuant to the Purchase Agreement. In connection with that offering, 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. We have agreed to file an exchange offer registration statement, of which this prospectus forms a part, to exchange our unregistered notes for a new issue of substantially identical debt securities registered under the Securities Act. Pursuant to a registration rights agreement among us, Sterling Energy and the initial purchasers, we have agreed to use commercially reasonable efforts to (i) file a registration statement by September 25, 2007 to effectuate the exchange offer, (ii) cause the registration statement to become effective by December 24, 2007 and (iii) complete the exchange offer within 50 days of the effective date of the registration statement. This prospectus forms a part of a registration statement that was filed to comply with our obligations under the registration rights agreement. We will be required to file a shelf registration statement for the resale of the unregistered notes if we cannot effect this exchange offer within the time periods above or if certain other circumstances occur. If we do not comply with our obligations under the registration rights agreement, the interest rate on our unregistered notes will increase by 0.25% per annum for the first 90 days after such failure and by an additional 0.25% per annum at the beginning of each subsequent 90-day period if such failure continues, subject to a maximum increase of 1.0% per annum.

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, but does not require us to satisfy any financial maintenance tests or maintain any financial ratios. If an event of default, other than an event of default triggered upon certain bankruptcy events, occurs and is continuing, the trustee under our indenture or the holders of at least 25% in principal amount of the outstanding senior secured notes may declare the senior 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 senior 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.

We will pay interest on our outstanding senior secured notes on April 1 and October 1 of each year, beginning October 1, 2007. Our outstanding senior secured notes, which mature on April 1, 2015, are senior secured obligations and rank equally in right of payment with all of our existing and future senior indebtedness. Subject to specified permitted liens, our outstanding senior secured notes are secured (i) on a first priority basis by all of our and Sterling Energy's fixed assets and certain related assets, including, without limitation, all property, plant and equipment, and (ii) on a second priority basis by all of our and Sterling Energy's other assets, including, without limitation, accounts receivable, inventory, capital stock of our domestic restricted subsidiaries (including Sterling Energy), intellectual property, deposit accounts and investment property.

Approximately \$44 million of the proceeds from the sale of our unregistered notes was deposited with the trustee under the indenture for our 2007 secured notes and, on April 27, 2007, was used to redeem the \$42.6 million in

outstanding principal amount of our 2007 secured notes that were not tendered pursuant to our tender offer, plus accrued interest.

On December 19, 2002, we established our Revolving Credit Agreement with The CIT Group/Business Credit, Inc., as administrative agent and a lender, and certain other lenders, which provided up to \$100 million in revolving

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credit loans, subject to borrowing base limitations. Our revolving credit facility had an initial term ending on September 19, 2007. Under our revolving credit facility, we and Sterling Energy are co-borrowers and are jointly and severally liable for any indebtedness thereunder. Our revolving credit facility is secured by first priority liens on all of our accounts receivable, inventory and other specified assets, as well as all of the issued and outstanding capital stock of Sterling Energy. On March 29, 2007, we amended and restated our revolving credit facility to, among other things, extend the term of our revolving credit facility until March 29, 2012, reduce the maximum commitment thereunder to \$50 million, make certain changes to the calculation of the borrowing base and lower the interest rates and fees charged thereunder. Borrowings under our revolving credit facility now bear interest, at our option, at an annual rate of either a base rate plus 0.0% to 0.50% or the LIBOR rate plus 1.50% to 2.25%, depending on our borrowing availability at the time. We are also required to pay an aggregate commitment fee of 0.375% per year (payable monthly) on any unused portion. Available credit under our revolving credit facility is subject to a monthly borrowing base of 85% of eligible accounts receivable plus 65% of eligible inventory. As of June 30, 2007, our borrowing base exceeded the maximum commitment under our revolving credit facility, making the total credit available under our revolving credit facility \$50 million. As of June 30, 2007, there were no loans outstanding under our revolving credit facility, and we had \$9 million in letters of credit outstanding resulting in borrowing availability of \$41 million. Pursuant to Emerging Issues Task Force Issue No. 95-22, Balance Sheet Classification of Borrowings under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement, any balances outstanding under our revolving credit facility are classified as current portion of long-term debt.

Our revolving credit facility contains numerous covenants and conditions, including, but not limited to, restrictions on our ability to incur indebtedness, create liens, sell assets, make investments, make capital expenditures, engage in mergers and acquisitions and pay dividends. Our revolving credit facility also includes various circumstances and conditions that would, upon their occurrence and subject in certain cases to notice and grace periods, create an event of default thereunder.

Our liquidity (i.e., cash and cash equivalents plus total credit available under our revolving credit facility) was \$98 million at June 30, 2007, an increase of \$8 million compared to our liquidity at December 31, 2006. This increase was primarily due to an increase in cash from the net proceeds of our refinancing, partially offset by a reduction in our revolving credit facility's maximum commitment level, discussed above. We believe that our cash on hand, together with credit available under our revolving credit facility, will be sufficient to meet our short-term and long-term liquidity needs for the reasonably foreseeable future. We continue to pursue our strategy of growing our business. We are currently exploring opportunities involving renewable fuels projects which may require additional capital requirements beyond our contribution of certain of our assets and management expertise. We are currently evaluating these projects and their required capital investment.

Working Capital

Our working capital was \$90 million as of December 31, 2006, an increase of \$14 million from December 31, 2005. This increase in working capital resulted primarily from an increase in accounts receivable and inventories. Our working capital was \$130 million on June 30, 2007, an increase of \$40 million from our working capital of \$90 million on December 31, 2006. This increase in working capital resulted primarily from an increase in our cash balances due to the refinancing discussed above.

Cash Flow

Net cash used in our operations was \$14 million in 2006, compared to net cash provided by our operations of \$68 million in 2005. This reduction in net cash flow in 2006 was primarily driven by an increase in accounts receivable and inventories. Net cash flow used in our investing activities was \$7 million in 2006 and \$10 million in 2005. Cash flows from investing activities in 2006 included insurance proceeds of \$2 million and proceeds from the

sale of fixed assets of \$3 million. There were no net repayments under our revolving credit facility during 2006 compared to \$18 million of net repayments in 2005.

Net cash used in our operations was \$1 million for the first six months of 2007, compared to the \$29 million in net cash used by our operations during the first six months of 2006. This change in net cash flow in the first six

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months of 2007 was primarily due to a reduction in working capital requirements during the first six months of 2007 compared to the first six months of 2006 and improved net earnings. Net cash flow used in our investing activities was \$4 million during the first six months of 2007, compared to the \$8 million of net cash flow used in our investing activities during the first six months of 2006. This reduction in 2007 was primarily due to lower capital expenditures. Cash flow provided by financing activities was \$42 million in the first six months of 2007 due to our debt refinancing discussed above.

Capital Expenditures

Our capital expenditures were \$12 million in 2006, \$9 million in 2005 and \$15 million in 2004. These capital expenditures were for routine safety, environmental and replacement capital.

Our capital expenditures were \$4 million during the first six months of 2007 and \$8 million during the first six months of 2006. We expect our capital expenditures for the remainder of 2007 to be approximately \$6 million, primarily for routine safety, environmental and replacement capital.

Contractual Cash Obligations

The following table summarizes our significant contractual obligations at December 31, 2006, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Less than 1 Year⁽¹⁾	1-3 Years	4-5 Years	More than 5 Years	Total
	(Dollars in thousands)				
2007 secured notes	\$ 100,579	\$	\$	\$	\$ 100,579
Interest payments on debt	10,170				10,170
Operating leases	293	879	586	220	1,978
Purchase obligations ⁽²⁾	72,000	117,000	65,000	120,000	374,000
Pension and other postretirement benefits	9,675	16,717	7,230	31,113	64,735
Contractual obligations of discontinued operations	217				217
Total	\$ 192,934	\$ 134,596	\$ 72,816	\$ 151,333	\$ 551,679

(1) Payment obligations under our revolving credit facility are not presented because there were zero outstanding borrowings as of December 31, 2006, and interest payments fluctuate depending on the interest rate and outstanding balance under our revolving credit facility at any point in time. As discussed above we refinanced our 2007 secured notes prior to their stated maturity.

(2) For the purposes of this table, we have considered contractual obligations for the purchase of goods or services as agreements involving more than \$1 million that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Most of the purchase obligations identified include variable pricing provisions. We have estimated the future prices of these items, utilizing forward curves where

available. The pricing estimated for use in this table is subject to market risk.

As of June 30, 2007, the increase in our long-term debt from \$101 million to \$150 million, and the subsequent change in maturity date from December 2007 to March 2015 and corresponding interest payments, are the only significant changes to the contractual obligations disclosed above.

Critical Accounting Policies, Use of Estimates and Assumptions

A summary of our significant accounting policies is included in Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 2006 included in this prospectus. We believe that the consistent application of these policies enables us to provide readers of our financial statements with useful and reliable information about our operating results and financial condition. The following accounting policies are the ones we believe are the most important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments.

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Revenue Recognition

We generally recognize revenue from sales in the open market, raw materials conversion agreements and long-term supply contracts at the time the products are shipped and title passes. One of our contractual arrangements includes a profit sharing component, and we estimate and accrue our expected revenues from this profit sharing arrangement on a monthly basis. Shipping and handling costs associated with the delivery of our products to customers are included in cost of goods sold.

Inventories

Inventories are carried at the lower-of-cost-or-market value. Cost is primarily determined on a first-in, first-out basis, except for stores and supplies, which are valued at average cost. The comparison of cost to market value involves estimation of the market value of our products. For the years ended December 31, 2006, 2005 and 2004, this comparison led to a lower-of-cost or market adjustment of zero, \$3 million and \$16 million, respectively. For the six months ended June 30, 2007 and 2006, this comparison led to a lower-of-cost or market adjustment of \$1.3 million and zero, respectively. We enter into agreements with other companies to exchange chemical inventories in order to minimize working capital requirements and to facilitate distribution logistics. Balances related to quantities due to or payable by us in connection with these exchange agreements are included in inventory.

Long-Lived Assets

We assess our long-lived assets for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, we project undiscounted net future cash flows over the remaining book life of these assets. If these projected cash flows from these assets are less than the carrying amount of these assets, an impairment would be recognized. Any impairment loss would be measured based upon the difference between the carrying amount and the fair value of the relevant assets. For these impairment analyses, recoverability is determined by comparing the estimated fair value of these assets, utilizing the present value of expected net cash flows, to the carrying value of these assets. In determining the present value of expected net cash flows, we estimate future net cash flows from these assets and the timing of those cash flows and then apply a discount rate to reflect the time value of money and the inherent uncertainty of those future cash flows. The discount rate we use is based on our estimated cost of capital. The assumptions we use in estimating future cash flows are consistent with our internal planning. As mentioned above, during 2006, we recorded an impairment charge of \$128 million related to our long-lived styrene assets.

Income Taxes

Deferred income taxes are provided for revenue and expenses which are recognized in different periods for income tax and financial statement purposes. Deferred tax assets are regularly assessed for recoverability based on both historical and anticipated earnings levels, and a valuation allowance is recorded when it is more likely than not that these amounts will not be recovered. As of December 31, 2006, we had an available U.S. federal income tax net NOL of approximately \$85 million (representing a deferred tax asset of \$30 million), which expires during the years 2023 through 2026. As a result of our analysis as of December 31, 2006, we concluded that an additional valuation allowance was needed against our deferred tax assets in the amount of \$28 million, which brought our total valuation allowance to \$30 million and resulted in an overall net deferred tax asset balance of \$4 million. We also recorded a \$4 million liability relating to certain tax contingencies as of December 31, 2006. As of June 2007, based on an analysis of our net operating loss position and projections for the year, we expect that any tax expense or benefit during 2007 will be fully offset by a related change in the valuation allowance, resulting in an effective tax rate of zero. For the six-month period ended June 30, 2007, this resulted in \$1.0 million of tax expense from continuing operations being offset by a reduction of \$1.0 million to our valuation allowance.

In July 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, or FIN 48, to clarify the accounting for uncertain tax positions accounted for in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a two-step approach for recognizing and measuring

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tax benefits and requires explicit disclosure of any uncertain tax position. We adopted the provisions of FIN 48 as of January 1, 2007.

As stated above, at December 31, 2006, we had a \$4 million contingent tax liability relating to certain tax deductions taken in previous federal tax returns. Under FIN 48, we concluded that these deductions do not meet the more likely than not recognition threshold. As such, the deferred tax asset was derecognized and the related contingent tax liability was eliminated at the date of adoption. This had no net impact on our net income for the period and there was no cumulative effect impact on retained earnings. Our accounting policy is to recognize any accrued interest on unrecognized tax benefits as a component of interest expense and to reflect any penalties associated with unrecognized tax benefits as a component of income tax expense. Due to significant net operating losses incurred during the tax periods associated with our uncertain tax positions, no amount for penalties or interest has been recorded in the financial statements. We do not believe the total amount of unrecognized tax benefits will change significantly within the next twelve months. In addition, future changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance.

Employee Benefit Plans

We sponsor domestic defined benefit pension and other postretirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets and health care cost increase projections. Assumptions are determined based on our historical data and appropriate market indicators, and are evaluated each year as of the plans' measurement dates. A change in any of these assumptions would have an effect on net periodic pension and postretirement benefit costs reported in our financial statements. As mentioned below, in accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, or SFAS No. 158, we have recognized the funded status of our defined benefit postretirement plans on our balance sheet and have provided the required disclosures as of our fiscal year-ended December 31, 2006. We have also measured the assets and benefit obligations of our defined benefit postretirement plans as of the date of our fiscal year-end statement of financial position. The effect of the adoption of SFAS 158 was a reduction in our liabilities of \$11 million and an increase in stockholders' equity, net of tax, of \$7 million. Effective July 1, 2007, we froze all accruals under our defined benefit pension plan for our hourly employees, which resulted in a plan curtailment under SFAS No. 88 *Employers' Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. As a result, we recorded a pre-tax curtailment gain of \$0.1 million in the second quarter of 2007.

Plant Turnaround Costs

As a part of normal recurring operations, each of our manufacturing units is completely shut down from time to time, for a period typically lasting two to four weeks, to replace catalysts and perform major maintenance work required to sustain long-term production. These periods are commonly referred to as turnarounds or shutdowns. While actual timing is subject to a number of variables, turnarounds of our styrene unit typically occur every two to three years. We currently expense the costs of turnarounds as the associated expenses are incurred. Prior to our adoption of fresh-start accounting, we had accrued these costs over the expected period between turnarounds. As expenses for turnarounds can be significant, the impact of expensing turnaround costs as they are incurred can be material for financial reporting periods during which the turnarounds actually occur. Turnaround costs expensed during 2006, 2005 and 2004 were \$10 million, \$4 million and \$12 million, respectively.

New Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value

and expands disclosure about fair value measurement. SFAS No. 157 is effective for interim and annual reporting periods beginning after November 15, 2007. We do not believe the adoption of SFAS No. 157 will have a material impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159. SFAS No. 159, which amends

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SFAS No. 115, allows certain financial assets and liabilities to be recognized, at our election, at fair market value, with any gains or losses for the period recorded in the statement of operations. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not believe that the adoption of SFAS No. 159 will have a material impact on our financial statements.

Quantitative and Qualitative Disclosures about Market Risk

The table below provides information about our market sensitive financial instruments as of June 30, 2007 and constitutes a forward-looking statement.

Expected Maturity Dates	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
								June 30, 2007
(Dollars in thousands)								
Outstanding senior secured notes						\$ 150,000	\$ 150,000	\$ 155,000

Our financial results can be affected by volatile changes in raw materials, natural gas and finished product sales prices. Borrowings under our revolving credit facility bear interest, at our option, at an annual rate of either a base rate plus 0.0% to 0.50% or the LIBOR rate plus 1.50% to 2.25%, depending on our borrowing availability at the time. There were no borrowings under our revolving credit facility during the second quarter of 2007. Our outstanding senior secured notes bear interest at an annual rate of 101/4%, payable semi-annually on April 1 and October 1 of each year. The fair value of our outstanding senior secured notes is based on their quoted price, which may vary in response to changing interest rates. As of June 30, 2007, the fair value of our outstanding senior secured notes was approximately \$155 million.

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BUSINESS

We are a leading North American producer of selected petrochemicals used to manufacture a wide array of consumer goods and industrial products throughout the world. Our primary products are acetic acid, styrene and plasticizers.

Our acetic acid is used primarily to manufacture vinyl acetate monomer, which is used in a variety of products, including adhesives and surface coatings. All of our acetic acid production is sold to BP Chemicals, and we are BP Chemicals' sole source of acetic acid production in the Americas. We sell our acetic acid to BP Chemicals pursuant to the Production Agreement that extends until 2016. The Production Agreement provides us with a portion of the profits derived from BP Chemicals' sales of the acetic acid we produce and reimbursement of 100% of our fixed and variable costs of production. This Production Agreement has provided us with a steadily increasing source of income since the inception of this relationship in 1986 and, over the last three years, we have operated at over 100% of capacity and at utilization rates greater than the industry average. We believe we have one of the lowest cost acetic acid facilities in the world. Our acetic acid facility utilizes BP Chemicals' Cativa Technology, which we believe offers several advantages over competing production methods, including lower energy requirements and lower fixed and variable costs. We also jointly invest with BP Chemicals in capital expenditures related to our acetic acid facility. Acetic acid production has two major raw materials 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 the carbon monoxide we use in the production of acetic acid is supplied by Praxair from a partial oxidation unit constructed by Praxair on land leased from us at our Texas City site.

Styrene is a commodity chemical used to produce intermediate products such as polystyrene, expandable polystyrene resins and ABS plastics, which are used in a wide variety of products such as household goods, foam cups and containers, disposable food service items, toys, packaging and other consumer and industrial products. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of our styrene capacity into the global spot market.

All of our plasticizers, which are used to make flexible plastics, such as shower curtains, floor coverings, automotive parts and construction materials, are produced exclusively for BASF pursuant to a long-term production agreement that extends until 2013, subject to some limited early termination rights held by BASF beginning in 2010. Under our agreement with BASF, BASF provides us with most of the required raw materials, markets the plasticizers we produce, and is obligated to make certain fixed quarterly payments to us and to reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility.

We manufacture all of our petrochemicals products at our site in Texas City, Texas. In terms of production capacity, our Texas City site has the sixth largest acetic acid facility in the world and the fourth largest styrene facility in North America. Our Texas City site, which covers an area of 290 acres, 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, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. 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 key raw material pipelines, as well as close proximity to a number of large refinery complexes that provide some of our principal raw materials.

We own the acetic acid, styrene and plasticizers manufacturing units located at our Texas City site. We also lease a portion of our Texas City site to Praxair, who constructed a partial oxidation unit on that land, and we lease a portion

of our Texas City site to S&L Cogeneration Company, a 50/50 joint venture between us and Praxair Energy Resources, Inc., who constructed a cogeneration facility on that land. We lease the space for our principal offices located in Houston, Texas.

In addition to our intention to further expand the capacity of our acetic acid facility, we are presently undertaking numerous initiatives to attract new chemical related businesses to our Texas City site. Given our significant under-utilized infrastructure, land, materials handling, utilities and storage, our Texas City site should be a favorable location for companies looking to construct new manufacturing facilities on the Gulf Coast of the

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United States. We believe that the construction of a new facility at our site by another company would lower the amount of fixed costs allocated to each of our operating units and provide us with additional revenue. We are presently undertaking numerous initiatives to attract new chemical related businesses to our Texas City site. 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 and management expertise to minimize our share of the capital costs.

Business Strategy

Grow Our Business. We intend to grow our acetic acid business through capacity expansions. We intend to take advantage of recent investments in our acetic acid facility made by us and BP Chemicals, which we believe have positioned our acetic acid facility for cost-effective future capacity expansions at lower incremental cost. We currently have low-cost debottlenecking opportunities which could increase annual capacity of the acetic acid facility by up to approximately 7% to approximately 1.2 billion pounds. In addition, a new acetic acid reactor installed in 2003 is capable of producing up to 1.7 billion pounds annually.

Our Texas City site offers approximately 135 acres for future expansion by us or by other companies that can benefit from our existing infrastructure and facilities, and includes a greenbelt around the northern edge of the plant site. Our Texas City site is strategically located on Galveston Bay and we benefit from a deep water dock capable of handling ships with up to a 40-foot draft, as well as four barge docks, direct access to Union Pacific and Burlington Northern railways with in-motion rail scales on site, truck loading racks and weigh scales, stainless and mild steel storage tanks, three waste deepwells, 135 acres of available land zoned for heavy industrial use, additional land zoned for light industrial use and a supportive political environment for growth. 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 key raw material pipelines, as well as close proximity to a number of large refinery complexes that provide some of our principal raw materials.

Given our under-utilized infrastructure, as well as ample unoccupied land, there are significant opportunities for further development of our Texas City site. We believe that the construction of a new facility at our site by another company would lower the amount of fixed costs allocated to each of our operating units and provide us with additional revenue. We are presently undertaking numerous initiatives to attract new chemical related businesses to our Texas City site. 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 and management expertise to minimize our share of the capital costs. We are currently exploring opportunities involving renewable fuels projects, chemicals terminalling and waste injection well operations.

We plan to evaluate strategic acquisitions, focusing on chemical businesses and assets which would allow us to increase our market share of products we currently produce or those that would provide upstream or downstream integration within our existing businesses.

We intend to continue operating our styrene facility while seeking strategic alternatives and maintaining operational flexibility to capitalize on any upturns in the styrene industry. We have the fourth largest styrene facility in North America, capable of producing 1.7 billion pounds annually. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of

our styrene capacity into the global spot market. Previously, styrene and polystyrene industry participants, including The DOW Chemical Company and NOVA Chemicals Corporation, have announced a desire to seek transactions which would restructure the North American styrene and polystyrene industries, thereby improving the balance of supply and demand in North America. More recently, NOVA Chemicals Corporation announced on March 22, 2007 that it planned to expand its European joint venture with INEOS to include North American styrene and solid polystyrene assets, and The DOW Chemical Company announced on April 10, 2007 that it had signed a non-binding memorandum of understanding with Chevron Phillips Chemical Co. to form a joint

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venture involving selected styrene and polystyrene assets of the two companies in North America and South America. According to CMAI, if demand for styrene remains steady, restructuring of North American styrene capacity should improve production rates in North America and lead to improved industry profitability. Given our styrene production capability and total uncontracted capacity, we are in a position to take advantage of any restructuring of the styrene industry and to capitalize on any improvements in styrene market conditions.

Improve Organization Efficiency and Cost Structure. We continually seek to improve our cost competitiveness through organizational efficiencies, productivity enhancements, operating controls and general cost reductions. Since 2004, we have developed and implemented organizational efficiency projects involving the design, development and implementation of uniform and standardized systems, processes and policies to improve our production, maintenance, process efficiency, logistics and materials management and procurement functions. During this period, these projects reduced our fixed costs by more than \$20 million, representing a 15% reduction in our annual fixed costs. Approximately 10% to 15% of these cost savings accrue to the benefit of some of our customers under the cost reimbursement provisions of our production agreements. We believe the expansion of our acetic acid business, further development of our business and acquisitions will lead to further cost efficiencies.

Industry Overview

Acetic Acid. The North American acetic acid industry is enjoying a period of sustained domestic demand growth, as well as substantial export demand. This has led to current North American industry utilization rates of 86% and Tecnon projects utilization rates to 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 and historically these producers have made capacity additions in a disciplined and incremental manner, primarily using small expansion projects or exploiting debottlenecking opportunities. In addition, the leading technology required to manufacture acetic acid is controlled by two global companies, which allows these companies to control the pace of new capacity additions through the licensing or development of such additional capacity. The limited availability of this technology also creates a significant barrier to entry into the acetic acid industry by potential competitors.

Global production capacity of acetic acid as of December 31, 2006 was approximately 24 billion pounds per year, with current North American production capacity at approximately 7 billion pounds per year. The North American acetic acid market is mature and well developed and is dominated by four major producers that account for approximately 94% of the acetic acid 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 40% of global demand. According to Tecnon, annual global production of vinyl acetate monomer is expected to increase from 10.4 billion pounds in 2005 to 12.2 billion pounds in 2010. The North American acetic acid industry tends to sell most of its products through long-term sales agreements having cost plus pricing mechanisms, eliminating much of the volatility seen in other petrochemicals products and resulting in more stable and predictable earnings and profit margins.

Several acetic acid capacity additions have occurred since 1998, including an expansion of our acetic acid unit from 800 million pounds of rated annual production capacity to 1.1 billion pounds during 2005. These capacity additions were somewhat offset by reductions of approximately 1.9 billion pounds in annual global capacity from the shutdown of various outdated acetic acid plants from 1999 through 2001. In 2006, BP Chemicals closed two of its outdated acetic acid production units in Hull, England that had a combined annual capacity of approximately 500 million pounds (which had been sold primarily in Europe and South America). We and BP Chemicals are reviewing further expansion of our acetic acid plant in 2008 or 2009.

Styrene. The North American styrene industry is currently in a protracted down cycle, primarily as a result of over-supply. This shift is the result of two major developments. Export demand has historically represented over 20% of North American production capacity. Regional cost pressures in addition to new production capacity being added in Asia and the Middle East have made it difficult for North American producers to compete in these export markets on a regular basis. In addition, a significant amount of styrene capacity has been added globally over the past five to ten years by PO-SM plants, which produce styrene as a by-product in the production of propylene oxide. Propylene oxide is a key intermediate in the production of polyurethane, and polyurethane demand growth has been

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significantly greater than demand growth for styrene, exacerbating the over-supply of styrene. During periods of over-supply, production rates for styrene producers decrease significantly. Production rates in the United States are currently estimated by CMAI to be 77% of capacity, but are projected to decrease to 67% during the fourth quarter of 2007. When production rates are low, unit production costs increase due to the allocation of fixed costs over a lower production volume and a reduction in the efficiency of the manufacturing unit, both in energy usage and in the conversion rates for raw materials. Compounding these cost impacts, prices for the principal styrene raw materials, benzene and ethylene, are currently near historical highs, putting pressure on margins on styrene sales even though styrene contract prices are near historic highs. According to CMAI, benzene and ethylene prices are expected to decline by approximately 8% and 4%, respectively, on average over each of the next five years.

Over the last five years, China has been the driver for growth in styrene demand, representing approximately 75% of the world's styrene demand growth in that period. Historically, we have positioned ourselves to take advantage of peaks in the Asian styrene markets, with a large portion of our styrene capacity not being committed under long-term arrangements. However, over the last two years, relatively high benzene and domestic natural gas prices have significantly limited our ability to sell styrene into the Asian markets, and high styrene prices have reduced styrene global demand growth rates. In addition, several of our competitors have announced an intention to build new styrene production units outside the United States, further complicating our ability to sell styrene into the Asian markets. In 2006, our competitors added 2.6 billion pounds of new styrene capacity in Asia. The majority of the remaining announced construction projects are scheduled to start up between 2007 and 2009, although it is not uncommon for announced construction to be delayed. For example, Shell and SABIC have announced their decision to suspend the development of a 600,000 metric ton per year styrene project in Al Jubail, Saudi Arabia, which was scheduled to come on-stream in 2007, due to rising construction expenses and the high cost of benzene feedstock. In addition, much of this new capacity is being constructed in politically unstable regions of the world, such as the Middle East, which may impact the timing of the start-up of this new capacity. If and when these new units are completed, we would anticipate more difficult market conditions, especially in the export markets, until the additional supply is absorbed by growth in styrene demand or significant capacity rationalization occurs.

Given the market conditions in Asia and the high domestic raw materials and energy costs we have been experiencing, most of our styrene sales over the last two years have been to customers in the United States, Mexico, Canada and South America. We expect most of our styrene sales over the next three to five years to also be in these geographic regions. Consequently, we are focusing our efforts on increasing market share in these areas, while continuing to make occasional styrene sales in Asia on an opportunistic basis. We may not, however, be successful in increasing our market share in these geographic regions during this period and we cannot guarantee when, or if, export market conditions to Asia will improve for North American styrene producers. We may also explore mergers, acquisitions and joint ventures with other North American styrene producers that could improve the domestic balance of supply and demand for styrene and provide us with improved cash flows.

CMAI currently is not projecting any additional capacity increases in the United States through 2010, with projected operating rates reaching a trough of 67% during the fourth quarter of 2007, and with less than 80% operating rates through 2010, without any major industry restructuring. Although we believe an improved North American industry outlook is possible, this largely depends on a significant industry restructuring. Previously, styrene and polystyrene industry participants, including The DOW Chemical Company and NOVA Chemicals Corporation, have announced a desire to seek transactions which would restructure the North American styrene and polystyrene industries, thereby improving the balance of supply and demand in North America. More recently, NOVA Chemicals Corporation announced on March 22, 2007 that it planned to expand its European joint venture with INEOS to include North American styrene and solid polystyrene assets, and The DOW Chemical Company announced on April 10, 2007 that it had signed a non-binding memorandum of understanding with Chevron Phillips Chemical Co. to form a joint venture involving selected styrene and polystyrene assets of the two companies in North America and South America. Separately, new technology for the manufacture of propylene oxide has been developed that should result in lower

manufacturing costs for propylene oxide and which does not produce styrene as a co-product, which could significantly reduce the future growth of plants utilizing PO-SM technology.

Plasticizers. Plasticizers are produced from either ethylene-based linear alpha-olefins feedstocks or propylene-based technology. Linear plasticizers typically receive a premium over competing propylene-based branched products for customers that require enhanced performance properties. However, the markets for

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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 few years, the price of linear alpha-olefins has increased sharply as supply has declined, which has caused many consumers to switch to lower cost branched products, despite the loss of some performance properties. Ultimately, we expect branched plasticizers to replace linear plasticizers for most applications over the long-term. In addition, in 2005, BP Chemicals announced the permanent closure of its linear alpha-olefins production facility in Pasadena, Texas, the primary source of supply of this feedstock to the oxo-alcohols production unit at our plasticizers facility. As a result, we modified our plasticizers facilities during the third quarter of 2006 to produce branched plasticizers products and, on July 31, 2006, we permanently shut down our oxo-alcohols production unit. Due to the closure of our oxo-alcohols unit and our conversion to the production of branched plasticizers, the phthalate esters production unit at our plasticizers facility now uses oxo-alcohols supplied by BASF.

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, 2006, 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> (1.1 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 Chemical Company
<i>Styrene</i> (1.7 billion pounds per year)	Polystyrene, ABS/SAN resins, styrene butadiene latex and unsaturated polyester resins	Building products, boat and automotive components, disposable cups and trays, packaging and containers, housewares, tires, audio and video cassettes, luggage, children's toys, paper coating, appliance parts and carpet backing	Benzene and Ethylene	Lyondell Chemical Company, Ineos, PLC, Chevron Phillips Chemical Company, Shell Chemical Company, Cos-Mar (a joint venture of General Electric Company and FINA Inc.), Nova Chemicals Corporation, SABIC, Samsung Corporation and Mitsubishi Corporation
<i>Plasticizers</i> (200 million pounds of esters and	Flexible polyvinyl chloride (PVC)	Flexible plastics, such as shower curtains and	Oxo-Alcohols and Orthoxylene	ExxonMobil Corporation,

130 million pounds of phthalic anhydride per year)

liners, floor coverings, cable insulation, upholstery and plastic molding

Eastman Chemical Company and BASF Corporation

Products

Acetic Acid. Our acetic acid is used primarily to manufacture vinyl acetate monomer, which is used in a variety of products, including adhesives and surface coatings. 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

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1.1 billion pounds, which represents approximately 17% of total North American capacity. All of our acetic acid production is sold to BP Chemicals, and we are BP Chemicals' sole source of acetic acid production in the Americas. We sell our acetic acid to BP Chemicals pursuant to a Production Agreement that extends until 2016. For a further description of our agreement with BP Chemicals, please refer to *Acetic Acid-BP Chemicals* under *Contracts*.

Styrene. Styrene is a commodity chemical used to produce intermediate products such as polystyrene, expandable polystyrene resins and ABS plastics, which are used in a wide variety of products such as household goods, foam cups and containers, disposable food service items, toys, packaging and other consumer and industrial products. We have the fourth largest production capacity for styrene in North America. Our styrene unit is one of the largest in the world and has a rated annual production capacity of approximately 1.7 billion pounds, which represents approximately 11% of total North American capacity. During the first half of 2007, approximately 30% of our styrene capacity was committed for sales in North America under long-standing customer relationships with the balance of our capacity available for sales on a spot basis. During the second quarter of 2007, we sold 40% to 50% of our styrene capacity into the global spot market.

Plasticizers. Our plasticizers business is comprised of two separate products: phthalate esters and phthalic anhydride, together commonly referred to as plasticizers. Our phthalate esters are made from phthalic anhydride and oxo-alcohols, and phthalic anhydride is also sold as a separate product. 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 a long-term production agreement that extends until 2013, subject to some limited early termination rights held by BASF beginning in 2010. For a further description of our agreement with BASF, please refer to *Plasticizers-BASF* under *Contracts*.

Sales and Marketing

We generally sell our petrochemicals products 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. We compete on the basis of product price, quality and deliverability. We sell our petrochemicals products pursuant to:

- multi-year contracts;
- conversion agreements; and
- spot transactions in both the domestic and export markets.

We have long-term agreements that provide for the dedication of 100% of our production of acetic acid and plasticizers, each to one customer. Under our acetic acid agreement, we are reimbursed for our actual fixed and variable manufacturing costs and also receive an agreed share of the profits earned from this business. Under our plasticizers agreement, we are reimbursed for our manufacturing costs and also receive a quarterly facility fee for each production unit included in our plasticizers business, but do not share in the profits or losses from that business. These agreements are intended to:

- optimize our capacity utilization rates;
- lower our selling, general and administrative expenses;
- reduce our working capital requirements;

insulate our plasticizers operations from the effects of declining markets and changes in raw materials prices; and

in some cases, gain access to certain improvements in manufacturing process technology.

Prices for styrene are determined by global market factors that are largely beyond our control and we generally sell styrene at prevailing market prices. From time to time, we may resell raw materials we purchased from others, purchase styrene for resale or sell ethylbenzene that we have produced from our own purchased benzene and ethylene or from customer supplied raw materials. We sell a significant portion of our committed volumes of

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styrene, and generate a significant portion of our revenues, from styrene sales under our conversion agreements. Under our conversion agreements, the customer furnishes raw materials that we process into finished products. In exchange, we receive a fee which covers our fixed and variable costs of production and may provide an element of profit depending on the existing market conditions for styrene. These conversion agreements help us maintain lower levels of working capital. Our conversion agreements are designed to insulate us, to some extent, from the effects of declining styrene markets and changes in raw materials prices, while allowing us to share in the benefits when styrene market conditions are more favorable. The rest of our styrene is sold in the spot market by our direct sales force or sales agents.

For information regarding our export sales, see Note 10 of the Notes to Consolidated Financial Statements for the year ended December 31, 2006 included in this prospectus.

Contracts

Our multi-year requirements contracts are described below.

Acetic Acid-BP Chemicals

In 1986, we entered into a long-term acetic acid Production Agreement with BP Chemicals, which has since been amended several times. Under this Production Agreement, BP Chemicals has the exclusive right to purchase all of our acetic acid production until July 31, 2016. BP Chemicals markets all of the acetic acid that we produce and pays us, among other amounts, a portion of the profits derived from their sales of the acetic acid we produce. In addition, BP Chemicals reimburses us for 100% of our fixed and variable costs of production. Pursuant to the terms of this production agreement, beginning in August 2006, the portion of the profits we receive from the sales of acetic acid produced at our plant increased and BP Chemicals is no longer required to pay us the set monthly payment that we had received prior to that time. Based on forecasted acetic acid market conditions for the next several years, we believe that this change will result in improved profitability for us.

Plasticizers-BASF

Since 1986, we have provided all of our plasticizers production exclusively to BASF pursuant to a production agreement, which has been amended several times. Under this 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 quarterly payments to us and to reimburse us monthly for our actual production costs and capital expenditures relating to our plasticizers facility. Effective January 1, 2006, we amended this production agreement to extend the term of the agreement until 2013, subject to some limited early termination rights held by BASF beginning in 2010, increase the quarterly payments made to us by BASF and eliminate our participation in the profits and losses realized by BASF in connection with the sale of the plasticizers we produce. Additionally, on April 28, 2006, BASF notified us that it was exercising its right under the amended production agreement to terminate its future obligations with respect to the operation of our oxo-alcohols production unit effective July 31, 2006.

Sales to major customers constituting more than 10% or more of total revenues are included in Note 10 of the Notes to Consolidated Financial Statements for the year ended December 31, 2006 included in this prospectus.

Raw Materials and Energy Resources

For most of our products, the aggregate cost of raw materials and energy resources is far greater than the total of all other