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LSB INDUSTRIES INC  
Form 10-Q/A  
December 30, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1

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

For Quarterly period ended

June 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-7677  
-

LSB Industries, Inc.

Exact name of Registrant as specified in its charter

Delaware

73-1015226

State or other jurisdiction of  
incorporation or organization

I.R.S. Employer Identification No.

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

Former name, former address and former fiscal year, if changed since last report.

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

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Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES \_\_\_\_\_ NO X

The number of shares outstanding of the Registrant's voting common stock, as of August 1, 2005 was 13,748,738 shares, excluding 3,321,607 shares held as treasury stock.

-1-

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FORM 10-Q/A, AMENDMENT NO. 1, OF LSB INDUSTRIES, INC.

### TABLE OF CONTENTS

	<u>Page</u>
Explanatory Introduction Note	3
PART I - Financial Information	
Item 1. Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3. Quantitative and Qualitative Disclosures About Market Risk	57
Item 4. Controls and Procedures	58
PART II - Other Information	
Item 1. Legal Proceedings	62
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	63
Item 3. Defaults Upon Senior Securities	63
Item 4. Submission of Matters to a Vote of Security Holders	64
Item 5. Other Information	64
Item 6. Exhibits	65

-2-

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#### Explanatory Introduction Note:

As part of the Securities and Exchange Commission's ("SEC") requirements to periodically review reports filed by issuers under the Securities Exchange Act of 1934, we received comments from the SEC regarding our Annual Report on Form 10-K for year ended December 31, 2004 ("2004 Form 10-K") and our quarterly reports on Form 10-Q for quarters ended March 31, 2005 and June 30, 2005 ("2005 Forms 10-Q").

As a result of comments received from the SEC, we have filed a restated and amended 2004 Form 10-K/A and Form 10Q/A for the quarter ended March 31, 2005. In addition, we have restated and amended in this Form 10-Q/A ("2005 Form 10-Q/A") as follows:

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- Amend our 2004 audited Consolidated Statements of Income contained in our 2004 Form 10-K to appropriately classify other income relating to the sale of assets and other expense relating to the impairment of certain assets and certain other items from non-operating to operating income. These restated classifications did not change or affect "net income" reflected in our Consolidated Statement of Income in our 2004 Form 10-K.
- Amend our 2005 Condensed Consolidated Statements of Income contained in our 2005 Forms 10-Q to appropriately classify a gain resulting from the sale of certain operating assets and certain other items from non-operating to operating income. These restated classifications did not change or affect "net income" reflected in our Condensed Consolidated Statements of Operations in our 2005 Forms 10-Q.
- Restate our audited financial statements contained in our 2004 Form 10-K to appropriately reflect the change from LIFO to FIFO method of accounting for certain inventory of heat pump products within our Climate Control segment in accordance with Accounting Principles Board Opinion No. 20. The effect for the three years in the period ended December 31, 2004 decreased reported net income in 2004 and 2003 by \$503,000 and \$198,000, respectively, and increased 2002 net income by \$23,000. The effect of this restatement increased stockholders' equity by \$678,000 at December 31, 2001. There was no effect on the balance sheet at December 31, 2004 resulting from this restatement. We did not disclose this change in our financial statements contained in the 2004 Form 10-K since we believed that this was not a material change pursuant to Staff Accounting Bulletin 99. The effect of this restatement reduced net income contained in our 2004 Consolidated Statement of Income from \$1.9 million to \$1.4 million. In addition, the effect changed the 2004 results of operations reflected in our 2005 Forms 10-Q by increasing our net loss by \$125,000 for the three months ended March 31, 2004 (from a net loss of \$.1 million to a net loss of \$.2 million) and reducing our net income by \$250,000 for the six months ended June 30, 2004 (from net income of \$1.6 million to net income of \$1.4 million).

We revised our disclosure controls and procedures reports contained in our 2005 Forms 10-Q by removing any qualifying language to the effectiveness of such disclosure controls and procedures and by discussing the facts and circumstances surrounding the above described restatements and amendments and how such restatements and amendments impacted our CEO's and CFO's original conclusions regarding effectiveness of our disclosure controls and procedures and concluded that our disclosure controls and procedures were not effective at June 30, 2005.

-3-

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Accordingly, this 2005 Form 10Q/A includes our restated financial statements for the six and three-month periods ended June 30, 2005 and 2004 with accompanying notes.

Except for the foregoing amended information and certain other changes in classifications discussed in Note 2 of Notes to Condensed Consolidated Financial Statements, this 2005 Form 10-Q/A continues to describe conditions as of the date of the original filing and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the original filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC subsequent to the date of the original filing.

For the convenience of the reader, this 2005 Form 10-Q/A sets forth the original filing in its entirety; however, as a result of the items noted above, this 2005 Form 10-Q/A only amends and/or restates the condensed consolidated financial statements and accompanying notes of Item 1, Item 2, Special Note Regarding Forward-Looking Statements, and Item 4 of the original filing. In each case, solely as a result of the items noted above (including certain other changes in classifications discussed in Note 2 of Notes to Condensed Consolidated Financial Statements), and no other information in the original filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the original filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, the original filing has been amended to contain currently dated certifications for our Chief Executive Officer and Chief Financial Officer are attached to this 2005 Form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2, respectively.

-4-

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LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at June 30, 2005 is unaudited)  
(As restated, see Note 2)  
(Dollars in thousands)

Item 1.

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<u>ASSETS</u>	June 30, 2005	December 31, 2004
Current assets:		
Cash	\$ 2,869	\$ 1,020
Restricted cash	-	158
Accounts receivable, net	49,598	41,888
Inventories:		
Finished goods	17,161	17,180
Work in process	1,572	2,364
Raw materials	9,236	9,113
Total inventories	27,969	28,657
Supplies, prepaid items and other:		
Deferred rent expense	-	938
Prepaid insurance	2,417	4,498
Precious metals	5,455	5,616
Other	3,614	3,736
Total supplies, prepaid items and other	11,486	14,788
Total current assets	91,922	86,511
Property, plant and equipment, net	71,156	70,219
Other assets:		
Debt issuance and other costs, net	2,757	2,517
Investment in affiliate	3,303	3,111
Goodwill	1,724	1,724
Other, net	2,564	2,833
Total other assets	10,348	10,185
	<u>\$ 173,426</u>	<u>\$ 166,915</u>

(Continued on following page)

-5-

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LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at June 30, 2005 is unaudited)  
(As restated, see Note 2)  
(Dollars in thousands)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	June 30, 2005	December 31, 2004
Current liabilities:		
Accounts payable	\$ 27,009	\$ 27,698
Short-term financing and drafts payable	1,744	3,707
Accrued liabilities:		

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Customer deposits	273	3,421
Deferred rent expense	1,940	-
Other	17,406	13,006
Total accrued liabilities	19,619	16,427
Current portion of long-term debt	2,962	4,833
Total current liabilities	51,334	52,665
Long-term debt	106,268	101,674
Other noncurrent liabilities	4,016	4,178
Contingencies (Note 8)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding; aggregate liquidation preference of \$3,320,000 (\$3,020,000 in 2004)	2,000	2,000
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 623,550 shares issued; aggregate liquidation preference of \$43,044,000 (\$42,234,000 in 2004)	31,177	31,177
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued; aggregate liquidation preference of \$1,180,000	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 17,065,345 shares issued (16,400,985 in 2004)	1,707	1,640
Capital in excess of par value	57,510	57,352
Accumulated other comprehensive loss	(1,135)	(1,280)
Accumulated deficit	(63,349)	(66,840)
	28,910	25,049
Less treasury stock at cost:		
Series 2 Preferred; 15,000 shares (5,000 in 2004)	651	200
Common stock; 3,321,607 shares	16,451	16,451
Total stockholders' equity	11,808	8,398
	\$ 173,426	\$ 166,915

(See accompanying notes)

-6-

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
Six and Three Months Ended June 30, 2005 and 2004  
(As restated, see Note 2)  
(In thousands, except per share amounts)

	Six Months		Three Months	
	2005	2004	2005	2004
Net sales (Notes 14 and 15)	\$ 196,189	\$ 187,579	\$ 109,508	\$ 103,910
Cost of sales	163,920	160,064	91,788	87,426
Gross profit	32,269	27,515	17,720	16,484
Selling, general and administrative expense	26,153	25,375	13,887	14,192

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Other expense (Note 13)	177	194	(39)	57
Other income (Note 13)	(1,555)	(317)	(1,051)	(245)
Operating income	7,494	2,263	4,923	2,480
Interest expense	5,828	3,029	3,091	1,597
Non-operating other income, net (Note 13)	(1,458)	(2,337)	(60)	(550)
Income from operations before provision for income taxes, equity in earnings of affiliate and cumulative effect of accounting change	3,124	1,571	1,892	1,433
Provision for income taxes (Note 12)	-	(4)	-	-
Equity in earnings of affiliate (Note 4)	367	327	185	168
Income before cumulative effect of accounting change	3,491	1,894	2,077	1,601
Cumulative effect of accounting change (Note 15)	-	(536)	-	-
Net income	3,491	1,358	2,077	1,601
Preferred stock dividend requirements	(1,117)	(1,134)	(555)	(567)
Net income applicable to common stock (Note 11)	\$ 2,374	\$ 224	\$ 1,522	\$ 1,034
Weighted average common shares (Note 11):				
Basic	13,481	12,729	13,727	12,803
Diluted	15,061	15,195	15,289	15,163
Income per common share (Note 11):				
Basic:				
Income before cumulative effect of accounting change	\$ .18	\$ .06	\$ .11	\$ .08
Cumulative effect of accounting change	-	(.04)	-	-
Net income	\$ .18	\$ .02	\$ .11	\$ .08
Diluted:				
Income before cumulative effect of accounting change	\$ .16	\$ .05	\$ .10	\$ .07
Cumulative effect of accounting change	-	(.04)	-	-
Net income	\$ .16	\$ .01	\$ .10	\$ .07

(See accompanying notes)

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LSB INDUSTRIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 Six Months Ended June 30, 2005 and 2004  
 (As restated, see Note 2)  
 (In thousands)

	2005	2004
Cash flows from operating activities:		
Net income	\$ 3,491	\$ 1,358
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Cumulative effect of accounting change	-	536
Gains on property insurance recoveries	(523)	-
Gains on sales of property and equipment	(744)	(143)
Provision for (realization and reversal of) losses on firm sales commitments	-	(105)
Depreciation of property, plant and equipment	5,293	5,196
Amortization	682	449
Provision for losses on accounts receivables	256	340
Provisions for (realization and reversal of) losses on inventory	(916)	29
Provision for impairment on long-lived assets	75	-
Other	87	1
Cash provided (used) by changes in assets and liabilities (net of effects of the consolidation of a variable interest entity - Note 15):		
Accounts receivable	(8,465)	(13,398)
Inventories		