

LSB INDUSTRIES INC  
Form 424B3  
August 31, 2007

**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-134111**

**PROSPECTUS**

**LSB INDUSTRIES, INC.**

**2,542,500 Shares of Common Stock**

The shares of our common stock covered by this prospectus will be offered and sold by the Selling Security Holders named in this prospectus or in any amendment or supplement to this prospectus. See "Selling Security Holders" beginning on page 25. All of the shares of common stock included in this prospectus were issued by us to the Selling Security Holders in connection with the conversion by the Selling Security Holders of all of our outstanding 7% Convertible Senior Subordinated Debentures due 2011 ("7% debentures"). We will not receive any of the proceeds from the sale by the Selling Security Holders of these securities.

Our common stock is listed on the American Stock Exchange ("AMEX") under the symbol "LXU." The last reported sale price of our common stock on the AMEX on August 13, 2007 was \$22.33 per share.

The Selling Security Holders may sell the securities offered by this prospectus from time to time on any exchange on which our shares of common stock are listed. They may also sell the securities covered by this prospectus in private sales or through dealers or agents. The Selling Security Holders may sell the securities covered by this prospectus at prevailing market prices or at prices negotiated with buyers. The Selling Security Holders will be responsible for any commissions due to brokers, dealers or agents. We will pay all expenses of the registration of the shares of common stock and certain other expenses as set forth in the registration rights agreement described in this prospectus.

**Investing in our common stock involves risks.  
See "Risk Factors" beginning on page 3.**

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

**The date of this prospectus is August 27, 2007.**

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**Table of Contents**

**TABLE OF CONTENTS**

<u>About This Prospectus</u>	i
<u>Prospectus Summary</u>	1
<u>The Offering</u>	2
<u>Risk Factors</u>	3
<u>Forward-Looking Statements</u>	9
<u>Incorporation by Reference</u>	10
<u>Where You Can Find More Information</u>	11
<u>Summary Financial Data</u>	12
<u>Ratio of Earnings to Fixed Charges</u>	13
<u>Recent Developments</u>	14
<u>No Proceeds</u>	14
<u>Dividend Policy</u>	14
<u>Price Range of Common Stock</u>	15
<u>Registration Rights</u>	15
<u>Description of Capital Stock</u>	16
<u>Selling Security Holders</u>	24
<u>Plan of Distribution</u>	26
<u>Certain United States Federal Income Tax Considerations</u>	28
<u>Security Ownership of Certain Beneficial Owners and Management</u>	29
<u>Certain Relationships and Related Transactions</u>	33
<u>Board Independence</u>	35
<u>Legal Matters</u>	35
<u>Experts</u>	36

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission. The securities described in this prospectus may be offered and sold by the Selling Security Holders using this prospectus from time to time as described the “Plan of Distribution” beginning on page 27. You should carefully read this prospectus and the information described under the heading “Incorporation by Reference” beginning on page 10 and “Where You Can Find More Information” on page 11.

This prospectus describes the shares of our common stock included in the registration statement. Such shares of common stock were issued upon the conversion of \$18 million principal amount of our 7% debentures, which 7% debentures were included in the registration statement. Because all such 7% debentures have been converted, and no 7% debentures remain outstanding, this prospectus excludes a description of the terms and conditions relating to the 7% debentures and includes only information with respect to the common stock issued upon the conversion of the 7% debentures.

**You should rely only on the information contained in, or incorporated by reference in, this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**



**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights certain information concerning our business and this offering. It does not contain all of the information that may be important to you and to your investment decision and is qualified in its entirety by, and should be read in conjunction with, the more detailed information about us and the common stock in this prospectus, including the section entitled "Risk Factors," along with our business information, our financial information and other documents incorporated by reference in this prospectus.*

**LSB Industries, Inc.**

LSB Industries, Inc. (the "Company," "we," "us," or "our") was formed in 1968 as an Oklahoma corporation, and became a Delaware corporation in 1977. We are a diversified holding company operating through our subsidiaries. Our wholly-owned subsidiary, ThermaClime, Inc. ("ThermaClime") through its subsidiaries, owns substantially all of our core businesses consisting of the:

Climate Control Business, which is engaged in the manufacturing and selling of a broad range of heating, ventilation and air conditioning products used in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems; and

Chemical Business, which is engaged in the manufacturing and selling of chemical products produced from three plants in Texas, Arkansas and Alabama for the industrial, mining and agricultural markets.

**Company Information**

Our executive offices are located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107, telephone (405) 235-4546. Our Web site is located at [www.lsb-okc.com](http://www.lsb-okc.com). The information on our Web site is not part of this prospectus and should not be considered in your decision to invest in our common stock.

**Table of Contents**

**THE OFFERING**

Issuer	LSB Industries, Inc.
Selling Security Holders	The securities to be offered and sold using this prospectus will be offered and sold by the Selling Security Holders named in this prospectus, or in any amendment or supplement to this prospectus. See “Selling Security Holders.”
Securities covered by this prospectus	<p>The \$18,000,000 aggregate principal amount of our 7% debentures that were included in the original prospectus included in the registration statement were converted prior to the date of this prospectus into shares of common stock. In connection with certain of the prior conversions, we agreed to pay certain holders interest through the next interest payment date following the date of conversion, although the 7% debentures owned by them were converted prior to such time. No 7% debentures remain outstanding as of the date of this prospectus.</p> <p>2,542,500 shares of common stock, par value \$0.10 per share. Of such number, 2,542,288 shares of common stock covered by this prospectus were issued by us upon conversion of the \$18,000,000 aggregate principal amount of the 7% debentures.</p>
No proceeds	We will not receive any proceeds from the sale made from time to time under this prospectus by the Selling Security Holders of the common stock. See “No Proceeds.”
Registration rights	We entered into a registration rights agreement with each Selling Security Holder and filed a registration statement with the SEC covering the resale of the 7% debentures and the common stock issuable upon conversion of the 7% debentures. The registration statement was declared effective by the SEC on May 26, 2006. We agreed to use commercially reasonable efforts to keep the registration statement effective until the earlier of the date that all registrable securities have ceased to be registrable securities or three years following the closing of the issuance of the 7% debentures, which is March 3, 2009. We filed a post-effective amendment no. 1 to the registration statement on April 10, 2007, which was declared effective on April 18, 2007. This prospectus is part of the registration statement contained in the post-effective amendment no. 2 to the registration statement, which was declared effective on August 27, 2007. See “Registration Rights.”

American Stock Exchange Symbol  
for our common stock

Our common stock is quoted on the AMEX under the symbol  
“LXU.”

Transfer Agent for our common  
stock

UMB Bank, n.a.

Risk Factors

You should read the “Risk Factors” section, beginning on page  
3 of this prospectus, to understand the risks associated with  
an investment in our common stock.

## **Table of Contents**

### **RISK FACTORS**

*Investing in the common stock involves risks. You should carefully consider the risks described below before investing in the common stock. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may impair our business operations in the future. If any of the following risks actually occur, our business, financial condition or results of operations could be materially harmed. You should also refer to other information included and incorporated by reference in this prospectus*

#### **Risks related to us and our business**

***Cost and availability of raw materials could materially affect our profitability and liquidity.***

Our chemical business' sales and profits are heavily affected by the costs and availability of its primary raw materials. Anhydrous ammonia and natural gas, which are purchased from unrelated third parties, represent the primary raw material feedstocks in the production of most of the products of the chemical business. The primary material utilized in anhydrous ammonia production is natural gas, and fluctuations in the price of natural gas have a significant effect on the cost of anhydrous ammonia. Historically, there has been volatility in the cost of anhydrous ammonia and natural gas, and in many instances we were unable to increase our sales prices to cover all of the higher anhydrous ammonia and natural gas costs incurred. Although our chemical business has a program to enter into contracts with certain customers that provide for the pass-through of raw material costs, we have a substantial amount of sales by the chemical business that do not provide for these pass-throughs. Thus, in the future, our chemical business may not be able to pass along to all of its customers the full amount of increases in anhydrous ammonia and natural gas costs. We have suspended in the past, and may in the future suspend, production at our chemical facilities due to, among other things, the high cost or unavailability of such primary raw materials. Accordingly, our results of operations and financial condition have in the past been, and could in the future be, materially affected by cost increases or unavailability of such raw materials, including anhydrous ammonia and natural gas. We are unable to predict, as of the date of this prospectus, the impact, if any, to us and our earnings if the price of anhydrous ammonia and natural gas is high and we are unable to increase our sales prices to cover the full amount of the high cost of these raw materials.

In addition, our climate control business depends on raw materials such as copper and steel, which have recently shown considerable price volatility. While we periodically enter into fixed-price contracts on copper to hedge against price increases, there can be no assurance that our climate control business will effectively manage against price fluctuations in copper and other raw materials or that future price fluctuations in copper and other raw materials will not have an adverse effect on our financial condition, liquidity and results of operations. Our climate control business depends on certain suppliers to deliver the key components that are required in the production of its products. Any disruption in such supply could result in lost production or delayed shipments, which could materially affect our operations and cash flow.

***In recent years our chemical business has been unable to generate significant positive cash flows.***

Due, in part, to lower than optimum sales levels, margin problems and extensive capital expenditures, our chemical business has not generated significant positive cash flows in recent years. Continuing significant cash flow expenditures by this business could have a material adverse effect on our financial condition and liquidity.

***Our climate control business and its customers are sensitive to economic cycles.***

Our climate control business is affected by cyclical factors, such as interest rates, inflation and economic downturns. Our climate control business depends on sales to customers in the commercial construction and renovation industries, which are particularly sensitive to these factors. A decline in the economic activity in the United States has in the past,

and could in the future, have a material adverse effect on our customers in the commercial construction and renovation industries in which our climate control business sells a substantial amount of its products. Such a decline could result in a decrease in revenues and profits, and an increase in bad debts, in our climate control business.

***Weather conditions adversely affect our chemical business.***

The agricultural products produced and sold by our chemical business have in the past been, and continue in the future to be, materially affected by adverse weather conditions outside our control (such as excessive rains or drought) in the primary markets for our fertilizer and related agricultural products. If any of these unusual weather events occur during the primary seasons for sales of our agricultural products (March-June and September-November), this could have a material adverse effect on the agricultural sales of our chemical business and our financial condition and results of operation.



## **Table of Contents**

### ***Environmental and regulatory matters entail significant risk for us.***

Our chemical business is subject to numerous environmental laws and regulations. The manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Our chemical business has in the past, and may in the future, be subject to fines, penalties and sanctions for violations of environmental laws and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from the chemical business' facilities. Further, a number of our chemical business' facilities are dependent on environmental permits to operate, the loss of which could have a material adverse effect on its operations and our financial condition.

### ***We may be required to expand our security procedures and install additional security equipment for our chemical business in order to comply with the Homeland Security Act of 2002 and possible future government regulation.***

The chemical industry in general, and producers and distributors of ammonium nitrate specifically, are scrutinized by the government, industry and public on security issues. Under the Homeland Security Act of 2002, as well as current and proposed regulations, we may be required to incur substantial additional costs relating to security at our chemical facilities and distribution centers and security for the transportation of our products. These costs could have a material impact on our financial condition and results of operations.

### ***A substantial portion of our sales is dependent upon a limited number of customers.***

During 2006, six customers of our chemical business accounted for 54% of the net sales of our chemical business and 29% of our consolidated sales, and our climate control business had one customer that accounted for 16% of the net sales of our climate control business and 7% of our consolidated sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer on substantially similar terms.

### ***Our working capital requirements fluctuate because of the seasonal nature of our chemical business' agricultural products.***

Because of the seasonal nature of our chemical business' agricultural products, our working capital requirements are significantly higher at certain times of the year due to increases in inventories of ammonium nitrate, UAN and other agricultural products prior to the beginning of each planting season. If additional working capital is required and not available under our revolving credit facility, this could have a negative impact on our other operations, including our climate control business.

### ***There is intense competition in the climate control and chemical industries.***

Substantially all of the markets in which we participate are highly competitive with respect to product quality, price, design innovations, distribution, service, warranties, reliability and efficiency. We compete with a number of established companies that have greater financial, marketing and other resources than we have and are less highly leveraged than we are. Competitive factors could require us to reduce prices or increase spending on product development, marketing and sales that would have a material adverse effect on our business, results of operation and financial condition.

### ***We are effectively controlled by the Golsen Group.***

Jack E. Golsen, our Chairman of the Board and CEO, members of his immediate family (spouse and children), including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (the "Golsen Group") owned as of July 26, 2007, an aggregate of 3,447,423 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together represented approximately 20.9% of the voting power of our issued and outstanding voting securities as of that date. At such date, the Golsen Group also beneficially owned options, rights and other convertible preferred stock that allowed its members to acquire an additional 392,926 shares of our common stock within 60 days of July 26, 2007. If the Golsen Group were to acquire the additional 392,926 shares of common stock, the Golsen Group would, in the aggregate, beneficially own 4,735,349 shares of voting securities, representing approximately 22.4% of the issued and outstanding shares of our voting securities (common and preferred). Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

## **Table of Contents**

Of the additional 392,926 shares that may be acquired by the Golsen Group, 99,926 are issuable upon conversion of 23,083 shares of Series 2 Preferred owned by members of the Golsen Group. We have issued a notice of redemption of all of the outstanding shares of our Series 2 Preferred, with a redemption date scheduled for August 27, 2007. If the Golsen Group elects to convert all shares of Series 2 Preferred in accordance with the redemption notice prior to the redemption date, the Golsen Group would be issued 99,926 shares of our common stock as a result thereof. If the Golsen Group does not elect to convert any of its shares of Series 2 Preferred, all such shares will be redeemed by us for cash. See “Recent Developments” and “Description of Capital Stock - Recent developments regarding Series 2 Preferred.”

### ***Loss of key personnel could negatively affect our business.***

We believe that our performance has been and will continue to be dependent upon the efforts of our principal executive officers. We cannot promise you that our principal executive officers will continue to be available. Jack E. Golsen has an employment agreement with us. No other principal executive has an employment agreement with us. The loss of one or more of our principal executive officers could have a material adverse effect on us. We believe that our future success will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel.

### ***We may have inadequate insurance.***

While we maintain liability insurance, including certain coverage for environmental contamination, it is subject to coverage limits and policies may exclude coverage for some types of damages. Although there may currently be sources from which such coverage may be obtained, it may not continue to be available to us on commercially reasonable terms or the possible types of liabilities that may be incurred by us may not be covered by our insurance. In addition, our insurance carriers may not be able to meet their obligations under the policies or the dollar amount of the liabilities may exceed our policy limits. Even a partially uninsured claim, if successful and of significant magnitude, could have a material adverse effect on our business, results of operations, financial condition and liquidity.

### ***Our warranty claims are not generally covered by our insurance.***

The development, manufacture, sale and use of products by our climate control business involve a risk of warranty and product liability claims. Warranty claims are not generally covered by our product liability insurance and there may be types of product liability claims that are not covered by our product liability insurance. A successful warranty or product liability claim not covered by our insurance could have a material adverse effect on our business, results of operations, financial condition and liquidity.

### ***We have not paid dividends on our outstanding common stock in many years and have a substantial amount of accrued and unpaid dividends on our outstanding series of cumulative preferred stock.***

We have not paid cash dividends on our outstanding common stock in many years, and since January 1, 1999, through December 31, 2005, we did not pay any accrued dividends on our outstanding cumulative preferred stock. We intend to retain most of our future earnings, if any, to provide funds for our operations and/or expansion of our business. However, during each quarter in 2006, our board of directors declared nominal dividends on certain outstanding series of our preferred stock, as follows: \$.10 per share on the then outstanding shares of our Series 2, \$3.25 Convertible, Exchangeable Class C Preferred Stock, no par value (“Series 2 Preferred”), \$.37 per share on our outstanding Series B 12% Cumulative Convertible Preferred (“Series B Preferred”), and \$.31 per share on our outstanding convertible, noncumulative preferred stock (“Noncumulative Preferred”). These dividends are not for the full amount of the required quarterly dividends pursuant to the terms of our outstanding series of preferred stock. We have not paid any dividends on our outstanding preferred stock in 2007.

As of July 26, 2007, there were approximately \$7.1 million of accrued and unpaid dividends on our outstanding preferred stock. We have given notice of redemption of all outstanding shares of our Series 2 Preferred. Except with respect to shares of our Series 2 Preferred that are converted on or prior to August 17, 2007, we intend to pay the accrued and unpaid dividends on our outstanding preferred stock utilizing a portion the net proceeds of our sale of \$60.0 million aggregate principal amount of our 5.5% Convertible Senior Subordinated Debentures due 2012 (the "5.5% debentures"), which was completed on June 28, 2007, including approximately \$2.1 million of accrued and unpaid dividends on our Series B Preferred and our Series D, 6% Cumulative, Convertible Class C Preferred Stock, no par value ("Series D Preferred"), all of which are owned by the Golsen Group. In addition, on July 12, 2007, we mailed a notice of redemption to all holders of record of our Series 2 Preferred. The redemption date is scheduled for August 27, 2007, and the redemption price is \$50.00 per share of Series 2 Preferred, plus \$26.25 per share in accrued and unpaid dividends pro-rata to the date of redemption, except no accrued and unpaid dividends will be paid on the shares of Series 2 Preferred converted into common stock. The Series 2 Preferred will be redeemed using a portion of the proceeds from our issuance of the 5.5% debentures.

## **Table of Contents**

There are no assurances that we will in the future pay any additional quarterly dividends on any of our outstanding shares of preferred stock. We do not anticipate paying cash dividends on our outstanding common stock in the foreseeable future, and until all accrued and unpaid dividends are paid on, or no dividends are required to be paid on, our outstanding cumulative preferred stock, no dividends may be paid on our common stock. In the event of our liquidation, winding up or dissolution, there can be no distributions on our common stock until all of the liquidation preference and stated value amounts of our outstanding preferred stock and all accrued and unpaid dividends due on our outstanding cumulative preferred stock are paid in full. Further, not paying all of cumulative accrued dividends on our outstanding preferred stock could adversely affect the marketability of our common stock and our ability to raise additional equity capital.

***Terrorist attacks and other acts of violence or war, including the military conflict in Iraq and natural disasters (such as hurricanes), have and could negatively impact U.S. and foreign companies, the financial markets, the industries where we operate and our operations and profitability.***

Terrorist attacks and natural disasters (such as hurricanes) have in the past, and can in the future, negatively affect our operations and your investment. We cannot predict further terrorist attacks and natural disasters in the United States and elsewhere. These attacks or natural disasters have contributed economic instability in the United States and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, and our business, results of operations and financial condition. In addition, terrorist attacks and natural disasters may directly impact our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could impact our sales, our production capability and our ability to deliver products to our customers. In the past, hurricanes affecting the Gulf Coast of the United States have resulted in damages to, or shutdown of, the gas pipeline to our Cherokee facility, resulting in that facility being shut down for several weeks. Terrorist attacks or hostilities or natural disasters and their consequences are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations or your investment.

***Our net loss carryovers are subject to various limitations and have not been approved by the Internal Revenue Service.***

Our net loss carryovers have resulted from certain losses in prior years, and we anticipate they may be used to reduce the federal income tax payments which we would otherwise be required to make with respect to income, if any, generated in future years. We had available regular-tax net operating loss carryovers of approximately \$51.2 million at December 31, 2006. The use of the net operating loss carryovers is, however, subject to certain limitations and will expire to the extent not utilized beginning in 2019. In addition, the amount of these carryovers has not been audited or approved by the Internal Revenue Service, and, accordingly, the amount of such carryovers could be reduced as a result of audits in the future.

***Restatements and amendments to our 2004 audited financial statements and certain matters related to our disclosure controls and procedures may lead to legal exposure.***

In response to comments from the SEC, and as a result of changes we made internally, we restated and amended our 2004 audited financial statements and on December 30, 2005 filed a Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004. As a result of the restatement and amendments to our 2004 audited financial statements and SEC comments, we also filed on December 30, 2005, an amended Form 10-Q/A for each of the quarters ended March 31, 2005 and June 30, 2005.

As a result of this restatement to our 2004 financial statements, we also revised our 2004 Form 10-K and first two quarters 2005 Form 10-Qs to provide that our disclosure controls and procedures were not effective as of December 31, 2004, March 31, 2005 and June 30, 2005, in our Form 10-K/A and Forms 10-Q/A, as a result of

assessing that the change from the LIFO method to the FIFO method of accounting was not material resulting in the decision at the time of the change not to disclose and not to restate the prior years financial statements. We believe that during December 2005, we addressed the weakness to our disclosure controls and procedures by, among other things, establishing a Disclosure Committee to maintain oversight activities and to examine and reevaluate our policies, procedures and criteria to determine materiality of items relative to our financial statements taken as a whole.

In addition, the SEC is conducting an informal inquiry of us relating to the change in inventory accounting from LIFO to FIFO resulting in the restatement of our financial statements, and, at this time, we do not know if the informal inquiry:

- will rise to the level of an investigation or proceeding, or
- will result in an enforcement action, if any, by the SEC.

## **Table of Contents**

***We are a holding company and depend, in large part, on receiving funds from our subsidiaries to fund our indebtedness.***

Because we are a holding company and operations are conducted through our subsidiaries, principally ThermaClime and its subsidiaries, our ability to make scheduled payments of principal and interest on our indebtedness depend on operating performance and cash flows of our subsidiaries and the ability of our subsidiaries to make distributions and pay dividends to us. Under its loan agreements, ThermaClime and its subsidiaries may only make distributions and pay dividends to us under limited circumstances and in limited amounts. If ThermaClime is unable to make distributions or pay dividends to us, or the amounts of such distributions or dividends are not sufficient for us to service our debts, we may not be able to pay the principal or interest, or both, due on our indebtedness.

***We are subject to a variety of factors that could discourage other parties from attempting to acquire us.***

Our certificate of incorporation provides for a staggered board of directors and, except in limited circumstances, a two-thirds vote of outstanding voting shares to approve a merger, consolidation or sale of all, or substantially all, of our assets. In addition, we have entered into severance agreements with our executive officers and some of the executive officers of our subsidiaries that provide, among other things, that if, within a specified period of time after the occurrence of a change in control of our company, these officers are terminated, other than for cause, or the officer terminates his employment for good reason, we must pay such officer an amount equal to 2.9 times the officer's average annual gross income for the last five years preceding the change in control. We have further adopted a preferred share purchase rights plan.

We have authorized and unissued (including shares held in treasury) 55,150,405 shares of common stock and 4,036,120 shares of preferred stock as of July 26, 2007. These unissued shares could be used by our management to make it more difficult, and thereby discourage, an attempt to acquire control of us.

We have further adopted a preferred share purchase plan, which is designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer. See "Description of Capital Stock – Preferred share purchase rights."

The foregoing provisions and agreements are designed to discourage a tender offer or proxy contest for control of us and could have the effect of making it more difficult to remove incumbent management.

Delaware has adopted an anti-takeover law which, among other things, will delay for three years business combinations with acquirers of 15% or more of the outstanding voting stock of publicly-held companies (such as us), unless (a) the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction, or (b) two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the board of directors, and (c) the stockholders decide to opt out of the statute.

***A substantial stockholder that we consider an "affiliate" has threatened to bring legal proceedings against us in connection with the scheduled redemption of our Series 2 Preferred.***

The redemption of our outstanding shares of Series 2 Preferred is scheduled for August 27, 2007. The terms of our Series 2 Preferred require us to pay, in cash, a redemption price for each share redeemed of \$50.00 per share (or \$9.7 million in the aggregate), plus \$26.25, representing accrued and unpaid dividends thereon pro-rata to the date of redemption. As of July 26, 2007, approximately \$4.9 million of dividends were accrued and unpaid on the outstanding Series 2 Preferred. If a holder of the Series 2 Preferred elects to convert the holder's shares of Series 2 Preferred into our common stock pursuant to the terms of the Series 2 Preferred, the Certificate of Designations for the Series 2 Preferred provides, and it is our position, that the holder that so converts will not be entitled to receive payment of any

accrued and unpaid dividends on the shares so converted.

Kent C. McCarthy, an individual, Jayhawk Capital Management Company, LLC, a Delaware limited liability company, Jayhawk Investments Company, L.P., a Delaware limited partnership, and Jayhawk Institutional Partners, L.P., a Delaware limited partnership and a Selling Security Holder under this prospectus ("Jayhawk Institutional") (collectively, the "Jayhawk Group"), is an affiliate and our second largest stockholder. As of July 12, 2007, the Jayhawk Group owned 155,012 shares of our Series 2 Preferred. The Jayhawk Group has advised us that, if the Jayhawk Group converts its holding of Series 2 Preferred in connection with the redemption of the Series 2 Preferred, the Jayhawk Group may bring legal proceedings against us for all accrued and unpaid dividends on the shares of Series 2 Preferred converted by the Jayhawk Group after receiving a notice of redemption. As of July 26, 2007, approximately \$4.0 million of dividends were accrued and unpaid on the Series 2 Preferred held by the Jayhawk Group. The Jayhawk Group has notified us that it has elected to convert its shares of Series 2 Preferred into shares of common stock. See "Recent Developments."



## **Table of Contents**

***We are a highly leveraged company, which could affect our ability to pay our outstanding indebtedness, obtain additional financing, and fund our operations, and may place us at a competitive disadvantage.***

We have a substantial amount of debt outstanding. At June 30, 2007, after giving effect to our sale of \$60 million aggregate principal amount of our 5.5% debentures on June 28, 2007, our aggregate consolidated debt was approximately \$124.5 million, resulting in total debt as a percentage of total capitalization of 63.2%. The amounts of our indebtedness and the indebtedness of our subsidiaries and our total debt as a percentage of total capitalization, as of June 30, 2007, are based on unaudited numbers.

The degree to which we are leveraged could have important consequences to us, including the following:

- our ability to obtain additional financing in the future for refinancing indebtedness, acquisitions, working capital, capital expenditures or other purposes may be impaired;
- funds available to us for our operations and general corporate purposes or for capital expenditures will be reduced because a substantial portion of our consolidated cash flow from operations could be dedicated to the payment of the principal and interest on our indebtedness;
- we may be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
  - the agreements governing our long-term indebtedness, including indebtedness under the 5.5% debentures, and those of our subsidiaries and bank loans contain certain restrictive financial and operating covenants;
- an event of default, which is not cured or waived, under financial and operating covenants contained in these debt instruments could occur and have a material adverse effect on us; and
  - we may be more vulnerable to a downturn in general economic conditions.

Our ability to make principal and interest payments or to refinance indebtedness will depend on our future operating performance and cash flow, which are subject to prevailing economic conditions and other factors affecting us, many of which are beyond our control.

***The price of our common stock may fluctuate significantly; and this may make it difficult for you to resell our common stock when you want or at prices you find attractive.***

The price of our common stock on the American Stock Exchange constantly changes. We expect that the market price of our common stock will continue to fluctuate. This may make it difficult for you to resell the debentures and/or our common stock when you want or at prices you find attractive.

***Future sales of our common stock in the public market or the issuances of common stock could adversely affect the trading price of our common stock, our ability to raise funds in new stock offerings and may dilute your percentage interest in our common stock.***

Future sales or issuances of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale, will have on the trading price of our common stock. Such issuance could include the issuance of 836,774 shares of common stock if all of the shares of Series 2 Preferred scheduled to be redeemed on

August 27, 2007, are converted prior to the date of redemption in accordance with the terms of the Series 2 Preferred. Such future sales and issuances could also significantly reduce the percentage ownership of our existing common stockholders. See "Recent Developments."

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus and the documents incorporated by reference into this prospectus contain forward-looking statements. All statements in this prospectus and such incorporated information other than statements of historical fact are forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. Such forward-looking statements relate to statements about our business strategies, our expected financial position and operating results, the projected size of our markets and our financing plans and similar matters, including but not limited to, the forward-looking statements described the following, under the heading “Special Note Regarding Forward Looking Statements,” each of which is hereby incorporated herein by reference:

- (a) the “Special Note Regarding Forward Looking Statements” contained in our Annual Report on Form 10-K for the year ended December 31, 2006;
- (b) the “Special Note Regarding Forward Looking Statements” contained in our Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2006;
- (c) the “Special Note Regarding Forward-Looking Statements” contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007; and
- (d) the “Special Note Regarding Forward-Looking Statements” contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

While we believe the expectations reflected in such forward-looking statements are reasonable, we can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this prospectus, including but not limited to, the factors described in the above sections of our Annual Report on Form 10-K for the year ended December 31, 2006, Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2006, Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “project” and similar expressions relate to us, our management, and our industry are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions about us that may cause actual results to differ from the results in these forward-looking statements are described in “Risk Factors” contained herein and/or in our Form 10-K for the year ended December 31, 2006, our Form 10-K/A for the year ended December 31, 2006, our Form 10-Q for the quarter ended March 31, 2007, or our Form 10-Q for the quarter ended June 30, 2007, each of which is incorporated by reference herein.

All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus might not transpire.

**Table of Contents**

**INCORPORATION BY REFERENCE**

We have elected to incorporate by reference certain information into this prospectus. By incorporating by reference, we can disclose important information to you by referring you to another document we have filed separately with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. We incorporate by reference the documents listed below that we previously filed with the SEC:

Our 2006 Annual Report on Form 10-K, for the fiscal year ended December 31, 2006 (“2006 10-K”), which includes, without limitation, information with respect to our business, properties, legal proceedings, certain stockholder matters, financial statements, selected financial data, supplementary financial information, management’s discussion and analysis of financial condition and results of operations, dividend policy, and quantitative and qualitative disclosures about market risk;

- Our Amendment No. 1 to 2006 Annual Report on Form 10-K/A, for the fiscal