

TPC GROUP INC.

FORM 10-Q (Quarterly Report)

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Table of Contents

<u>Item</u>	<u>Page</u>
PART I. FINANCIAL INFORMATION	1
Item 1 - Financial Statements	1
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	34
Item 4 - Controls and Procedures	34
PART II. OTHER INFORMATION	34
Item 1 - Legal Proceedings	34
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 6 - Exhibits	35

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TPC Group Inc.
Condensed Consolidated Balance Sheets
(Dollars in thousands, except share amounts)

	<u>March 31,</u> <u>2010</u> <u>(Unaudited)</u>	<u>June 30,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,215	\$ 6,588
Accounts receivable	163,088	98,515
Inventories	97,317	36,884
Other current assets	17,026	20,264
Total current assets	<u>303,646</u>	<u>162,251</u>
Property, plant and equipment, net	492,871	516,377
Investment in limited partnership	2,800	2,782
Intangible assets, net	5,985	6,018
Other assets, net	20,701	22,415
Total assets	<u>\$ 826,003</u>	<u>\$ 709,843</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 135,242	\$ 86,731
Accrued liabilities	22,458	19,241
Current portion of long-term debt	3,098	2,715
Total current liabilities	<u>160,798</u>	<u>108,687</u>
Long-term debt	267,454	269,855
Deferred income taxes	101,709	52,090
Total liabilities	<u>529,961</u>	<u>430,632</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 25,000,000 authorized and 18,134,597 and 17,863,030 shares issued and 17,957,252 and 17,685,685 shares outstanding at March 31, 2010 and June 30, 2009, respectively	182	179
Additional paid-in capital	193,799	193,102
Accumulated earnings	105,991	89,860
Accumulated other comprehensive loss	(611)	(611)
Treasury stock, at cost, 177,345 shares	(3,319)	(3,319)
Stockholders' equity	<u>296,042</u>	<u>279,211</u>
Total liabilities and stockholders' equity	<u>\$ 826,003</u>	<u>\$ 709,843</u>

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

Table of Contents

TPC Group Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2010	2009	2010	2009
Revenue	\$400,725	\$162,619	\$1,156,651	\$1,115,963
Cost of sales	341,012	126,956	990,181	995,472
	<u>59,713</u>	<u>35,663</u>	<u>166,470</u>	<u>120,491</u>
Operating expenses:				
Operating expenses	33,656	29,403	98,666	99,076
General and administrative expenses	7,484	7,348	20,773	25,363
Depreciation and amortization	9,841	10,699	29,958	31,352
Unauthorized freight payment recoveries	—	(4,694)	—	(4,694)
Business interruption insurance recoveries	—	—	(17,051)	—
	<u>50,981</u>	<u>42,756</u>	<u>132,346</u>	<u>151,097</u>
Income (loss) from operations	<u>8,732</u>	<u>(7,093)</u>	<u>34,124</u>	<u>(30,606)</u>
Other (income) expense:				
Interest expense	3,510	3,945	11,005	13,187
Unrealized (gain) loss on derivatives	(1,030)	(1,366)	(2,402)	3,988
Other, net	(463)	(211)	(1,510)	(1,099)
	<u>2,017</u>	<u>2,368</u>	<u>7,093</u>	<u>16,076</u>
Income (loss) before income taxes	6,715	(9,461)	27,031	(46,682)
Income tax expense (benefit)	2,663	(4,170)	10,900	(16,082)
Net income (loss)	<u>\$ 4,052</u>	<u>\$ (5,291)</u>	<u>\$ 16,131</u>	<u>\$ (30,600)</u>
Earnings per share:				
Basic	<u>\$ 0.23</u>	<u>\$ (0.30)</u>	<u>\$ 0.90</u>	<u>\$ (1.73)</u>
Diluted	<u>\$ 0.23</u>	<u>\$ (0.30)</u>	<u>\$ 0.90</u>	<u>\$ (1.73)</u>
Weighted average shares outstanding:				
Basic	17,957	17,686	17,906	17,723
Diluted	17,957	17,686	17,906	17,723

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

TPC Group Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited, in thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock at Cost</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balances - June 30, 2009	<u>17,686</u>	<u>\$ 179</u>	<u>\$193,102</u>	<u>\$ 89,860</u>	<u>\$ (611)</u>	<u>\$(3,319)</u>	<u>\$ 279,211</u>
Net income	—	—	—	16,131	—	—	16,131
Comprehensive income							16,131
Vesting of restricted stock	217	2	(2)	—	—	—	—
Issued restricted stock	54	1	(1)	—	—	—	—
Stock compensation expense	—	—	700	—	—	—	700
Balances - March 31, 2010	<u>17,957</u>	<u>\$ 182</u>	<u>\$193,799</u>	<u>\$ 105,991</u>	<u>\$ (611)</u>	<u>\$(3,319)</u>	<u>\$ 296,042</u>

The accompanying notes are an integral part of this condensed consolidated financial statement.

Table of Contents

TPC Group Inc. Condensed Consolidated Statements of Cash Flows (Unaudited, dollars in thousands)

	Nine Months Ended	
	March 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 16,131	\$ (30,600)
Adjustments to reconcile net income (loss) to cash flows provided by operating activities		
Depreciation and amortization	29,958	31,352
Turnaround amortization	3,936	3,163
Provision for bad debt expense	132	—
Amortization of debt issuance costs	1,152	974
Pension expense	1,098	1,044
Pension plan contributions	(1,495)	(596)
Income tax refund	39,777	—
Deferred income taxes	10,222	(9,585)
Non-cash stock compensation expense	700	4,751
Unrealized (gain) loss on derivatives	(2,402)	3,988
Distributions received from joint venture	1,153	550
Earnings from joint venture	(1,170)	(932)
Changes in assets and liabilities:		
Accounts receivable	(64,705)	126,892
Inventories	(60,433)	62,301
Other assets	(535)	(4,180)
Accounts payable and accrued liabilities	54,525	(166,803)
Net cash provided by operating activities	<u>28,044</u>	<u>22,319</u>
Cash flows from investing activities:		
Capital expenditures	(6,401)	(15,057)
Net cash used in investing activities	<u>(6,401)</u>	<u>(15,057)</u>
Cash flows from financing activities:		
Repayments on term loan	(2,424)	(2,060)
Net payments on revolving credit facility borrowings	—	(2,800)
Proceeds from insurance debt	7,669	5,922
Payments on insurance debt	(7,261)	(4,834)
Debt issuance costs	—	(747)
Exercise of stock options	—	46
Repurchase of common stock	—	(3,019)
Net cash used in financing activities	<u>(2,016)</u>	<u>(7,492)</u>
Increase (decrease) in cash and cash equivalents	19,627	(230)
Cash and cash equivalents, beginning of period	6,588	615
Cash and cash equivalents, end of period	<u>\$ 26,215</u>	<u>\$ 385</u>

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

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2010 and 2009

NOTE A – BASIS OF PRESENTATION

1. Organization

The accompanying unaudited condensed consolidated financial statements include the accounts of TPC Group Inc., a Delaware corporation, and its wholly owned subsidiary, TPC Group LLC, a Texas limited liability company (collectively referred to as the “Company,” “our,” “we” or “us”). TPC Group Inc., formerly known as Texas Petrochemicals Inc., was incorporated on March 15, 2004. TPC Group Inc. owned a 1% interest in Texas Petrochemicals LP, a Texas limited partnership (the “Partnership”), and was its sole general partner. Texas Petrochemicals LLC, a Delaware limited liability company (the “Delaware LLC”), owned the remaining 99% ownership interest in, and was the limited partner of, the Partnership. On December 16, 2008, the Delaware LLC merged into TPC Group Inc., and the Partnership was converted to a Texas limited liability company named Texas Petrochemicals LLC, now known as TPC Group LLC.

2. Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of TPC Group Inc. and its wholly owned subsidiary, TPC Group LLC, after the elimination of all significant intercompany balances and transactions. Our investment in Hollywood/Texas Petrochemicals LP is accounted for under the equity method.

3. Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions prescribed by the Securities and Exchange Commission (“SEC”) for interim financial reporting and do not include all disclosures required by United States generally accepted accounting principles (“US GAAP”). Our June 30, 2009 year-end condensed consolidated balance sheet data was derived from audited financial statements.

The unaudited condensed consolidated financial statements contained in this report include all material adjustments of a normal and recurring nature that, in the opinion of management, are necessary for a fair statement of the results for the interim periods. The results of operations for the interim periods presented in this Form 10-Q are not necessarily indicative of the results to be expected for the fiscal year or any other interim period.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Texas Petrochemicals Inc., now known as TPC Group Inc., included in Amendment No. 1 to our registration statement on Form 10, filed with the SEC on January 8, 2010.

4. Business Interruption Insurance Recoveries

In the second quarter of fiscal 2010 we received a net amount of \$17.1 million as the second and final installment of our business interruption insurance recovery related to Hurricane Ike, which is shown as a separate line item on the Condensed Consolidated Statements of Operations for nine months ended March 31, 2010. The total amount of our settlement of \$47.0 million consisted of a \$19.5 million deductible, a \$10.0 million payment received in fourth quarter of fiscal 2009 and the final payment of \$17.5 million, before expenses, received in second quarter of fiscal 2010.

5. Unauthorized Freight Payment Recoveries

In July 2007, we discovered that a former employee, with the assistance of a non-employee conspirator, had directed unauthorized payments from our accounts to a fictitious vendor in various amounts in years prior to fiscal 2009. In August 2008, the former employee and his non-employee conspirator were convicted of certain crimes related to the unauthorized freight payments. As part of their convictions, the former employee and his non-employee conspirator were required to forfeit assets to the Office of the U.S. Attorney for restitution. The majority of these assets were liquidated by the U.S. government and in the third quarter of fiscal 2009 we received \$4.7 million as restitution of losses represented by the unauthorized freight payments.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

6. *Deferred Revenue*

Under certain contractual arrangements with a small number of customers, primarily related to butadiene, we invoice the customer prior to when title and risk of loss transfer to the customer. When these invoices are issued to the customer, typically at month-end, we record a customer receivable with an offsetting credit to deferred revenue. The customer will settle the liability based on credit terms independent of when the product actually ships. Deferred revenue is subsequently recognized as revenue at the time title and risk of loss transfer to the customer. The time lag between invoicing and shipping product for these deferred revenue transactions depends on when the customer has nominated delivery, which is normally the following month and seldom extends beyond two months. Product to be delivered under these deferred revenue arrangements remains in inventory until title and risk of loss transfer to the customer. The balance of deferred revenue can fluctuate significantly from period to period depending on the volume and pricing of the inventory and the timing of the customer's needs. The balance in deferred revenue is reflected in the Condensed Consolidated Balance Sheet in Accrued Liabilities and was \$8.7 million and \$0.0 million at March 31, 2010 and June 30, 2009, respectively.

7. *Seasonality*

The pricing under our supply contracts and sales contracts is usually tied to a commodity price index, such as indices based on the price of unleaded regular gasoline, butane, isobutane or refinery grade propylene, or to the price at which we sell the finished product. The price for unleaded regular gasoline, typically used in pricing for butene-1, MTBE and raffinates, varies seasonally as a result of increased demand during the spring and summer months of the year and decreased demand during the fall and winter months of the year. In addition, we typically have greater demand for our raffinates and MTBE products during the spring and summer months. As a result, we generally have increased volumes and margins for these products during the spring and summer and decreased volumes and margins during the fall and winter.

NOTE B – DESCRIPTION OF BUSINESS

We have three principal processing facilities, located in Houston, Texas, Port Neches, Texas and Baytown, Texas. The Houston and Port Neches facilities, which process crude C4 into butadiene and related products, are strategically located near most of the significant petrochemical consumers in Texas and Louisiana. Our Baytown facility primarily produces nonene and tetramer. All three locations provide convenient access to other Gulf Coast petrochemical producers and are connected to several of our customers and raw materials suppliers through an extensive pipeline network. In addition, our Houston and Port Neches facilities are serviced by rail, tank truck, barge and ocean-going vessel.

The products in our C4 Processing segment include butadiene, primarily used to produce synthetic rubber that is mainly used in tires and other automotive products; butene-1, primarily used in the manufacture of plastic resins and synthetic alcohols; raffinates, primarily used in the manufacturing of alkylate, a component of premium unleaded gasoline; and methyl tertiary butyl ether ("MTBE"), primarily used as a gasoline blending stock. The products in our Performance Products segment include high purity isobutylenes ("HPIB"), primarily used in the production of synthetic rubber, lubricant additives, surfactants and coatings; conventional polyisobutylenes ("PIB") and highly reactive polyisobutylenes ("HR-PIB"), primarily used in the production of fuel and lubricant additives, caulks, adhesives, sealants and packaging; diisobutylene ("DIB"), primarily used in the manufacture of surfactants, plasticizers and resins; and nonene and tetramer, primarily used in the production of plasticizers, surfactants and lubricant additives. We sell our products primarily to chemical and petroleum based companies in North America.

Our principal raw material feedstocks are crude C4, crude isobutylene and refinery grade propylene. The pricing under our supply contracts and sales contracts is usually tied to a commodity price index, such as indices based on the price of unleaded regular gasoline, butane, isobutane or refinery grade propylene, or to the price at which we sell the finished product.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

NOTE C – DETAIL OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

1. Inventories (in thousands):

	March 31, <u>2010</u>	June 30, <u>2009</u>
Finished goods	\$67,922	\$24,913
Raw materials and chemical supplies	<u>29,395</u>	<u>11,971</u>
	<u>\$97,317</u>	<u>\$36,884</u>

2. Other Current Assets (in thousands):

	March 31, <u>2010</u>	June 30, <u>2009</u>
Prepaid expense and other	\$ 4,183	\$ 7,164
Repair parts inventory	8,857	8,735
Deferred taxes, net	<u>3,986</u>	<u>4,365</u>
	<u>\$17,026</u>	<u>\$20,264</u>

3. Property, Plant and Equipment (in thousands):

	March 31, <u>2010</u>	June 30, <u>2009</u>
Land and land improvements	\$ 41,803	\$ 41,803
Plant and equipment	579,557	573,911
Construction in progress	9,061	9,005
Other	<u>16,439</u>	<u>15,755</u>
	646,860	640,474
Less accumulated depreciation	<u>153,989</u>	<u>124,097</u>
	<u>\$492,871</u>	<u>\$516,377</u>

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

4. Intangible Assets (in thousands):

Changes in the carrying amount of our intangible assets for the nine months ended March 31, 2010 were as follows:

	Intangible assets	Accumulated amortization	Carrying value
Balance at June 30, 2009	\$ 6,220	\$ (202)	\$ 6,018
Amortization	—	(33)	(33)
Balance at March 31, 2010	<u>\$ 6,220</u>	<u>\$ (235)</u>	<u>\$ 5,985</u>

The following summarizes the gross carrying amounts and accumulated amortization of intangible assets as of March 31, 2010:

	Gross carrying value	Accumulated amortization	Net carrying value
Technology license	\$5,499	\$ —	\$5,499
Patents	<u>721</u>	<u>(235)</u>	<u>486</u>
	<u>\$6,220</u>	<u>\$ (235)</u>	<u>\$5,985</u>

5. Accrued Liabilities (in thousands):

	March 31, 2010	June 30, 2009
Accrued payroll and benefits	\$ 6,293	\$ 7,009
Nonretirement postemployment benefits	671	—
Accrued interest	1,844	854
Income, property and sales taxes	2,777	4,444
Fair value of derivative financial instruments	1,062	3,464
Deferred revenue	8,707	—
Other	<u>1,104</u>	<u>3,470</u>
	<u>\$22,458</u>	<u>\$19,241</u>

NOTE D – INVENTORY EXCHANGE BALANCES

We may enter into product exchange agreements with suppliers and customers for raw materials and finished goods. Exchange balances due to or from exchange partners are recorded in inventory at the lower of average cost or market. Gains or losses realized from the utilization of these exchanges are reflected in cost of sales. At March 31, 2010 and June 30, 2009, we had exchange receivable positions of \$0.5 million and \$0.2 million, respectively, and exchange payable positions of \$0.4 million and \$0.2 million, respectively.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

NOTE E – INVESTMENT IN LIMITED PARTNERSHIP

We have a 50% limited partnership interest in Hollywood/Texas Petrochemicals LP. We and Kirby Inland Marine, Inc. formed this limited partnership to operate four barges capable of transporting chemicals. We account for this investment under the equity method and report our portion of the limited partnership's net income as other income in the accompanying Condensed Consolidated Statements of Operations. The amounts attributable to this investment recorded in other income in the three and nine months ended March 31, 2010 and 2009 were \$0.3 million and \$0.2 million, respectively, and \$1.2 million and \$0.9 million, respectively. The amounts of cash distributions received in the three and nine months ended March 31, 2010 and 2009 were \$0.5 million and \$0.3 million, respectively, and \$1.2 million and \$0.6 million, respectively.

NOTE F – PURCHASE OF TREASURY STOCK

As of March 31, 2010, we had a total of 177,345 shares of common stock held as treasury stock. Of the treasury shares, 167,000 shares were acquired during the first nine months of fiscal 2009 at a cost of \$3.0 million. We account for treasury stock under the cost method.

NOTE G – SUBSEQUENT EVENTS

In accordance with FASB ASC 855, *Subsequent Events* ("FASB ASC 855"), we determined there were no subsequent events that should be disclosed or recognized in the financial statements.

NOTE H – RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In February 2010 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events (Topic 855); Amendments to Certain Recognition and Disclosure Requirements*, effective upon issuance, which removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements.

In June 2009 the FASB issued the Accounting Standards Codification ("FASB ASC") as the sole source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements and is effective for interim and annual periods ending after September 15, 2009. FASB ASC does not change GAAP but changes the way accounting principles are referenced in financial statements and notes to financial statements. As required, we adopted FASB ASC in the first quarter of fiscal 2010 and, other than accounting principle resource referencing, FASB ASC had no impact on our financial statements at March 31, 2010.

In December 2007, the FASB issued changes in accounting requirements for business combinations prescribed by FASB ASC 815, *Business Combinations* ("FASB ASC 805"). The requirements retain the purchase method of accounting for acquisitions, but require a number of changes, including changes in the way assets and liabilities are recognized in purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. The above provisions for changes in accounting requirements prescribed by FASB ASC 805, effective for the Company beginning July 1, 2009, were adopted in the first quarter of fiscal 2010 with no impact on our financial statements at March 31, 2010.

FASB ASC 820, Fair Value Measurements and Disclosures ("FASB ASC 820") establishes a standard definition of fair value, and a framework under generally accepted accounting principles to measure fair value and expands disclosure requirements for fair value measurements. On July 1, 2008, the Company adopted the provisions of FASB ASC 820 for assets and liabilities measured or disclosed at fair value on a recurring basis. The provisions of FASB ASC 820 were adopted for nonfinancial assets and liabilities measured on a non-recurring basis on July 1, 2009 and had no impact on our financial statements at March 31, 2010 as we currently have no nonfinancial assets and liabilities measured on a non-recurring basis at fair value.

In June 2008, the FASB issued revisions to FASB ASC 260, Earnings Per Share ("FASB ASC 260") which prescribe guidelines on determining whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. Further, the revisions clarify that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

participating securities and shall be included in the computation of earnings per share pursuant to the two class method. The above provisions are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. In December 2009 we issued 54,348 participating restricted shares, which have been included as shares outstanding for purposes of calculating earnings per share.

NOTE I – DEBT

Outstanding debt (in thousands):

	<u>March 31,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Term loan	\$270,146	\$272,570
Revolving credit facility	—	—
Note payable for insurance premium	406	—
	<u>270,552</u>	<u>272,570</u>
Less current maturities	<u>3,098</u>	<u>2,715</u>
Total long-term debt	<u>\$267,454</u>	<u>\$269,855</u>

1. Term Loan

The \$280.0 million Term Loan has a seven-year term, maturing June 27, 2013. The Term Loan provides for quarterly principal repayments of 0.25% of the outstanding principal balance thereof. Furthermore, the Term Loan requires annual prepayments equal to a specified percentage, which varies depending upon our calculated Leverage Ratio, of excess cash flow. For excess cash flow generated in fiscal year ended June 30, 2009, we made a payment of \$0.4 million in October 2009. No such prepayment was required for fiscal 2008.

The Term Loan bears interest at a floating rate, which, at our option, is based on LIBOR or the prime rate plus a spread. At March 31, 2010, our Term Loan spread and total interest rate was 2.50% and 2.8125%, respectively. The Term Loan is secured by a first priority lien on all tangible and intangible fixed assets and is cross collateralized with the Revolving Credit Facility. The Term Loan agreement includes certain restrictive covenants, including but not limited to, limitations on debt, mergers and acquisitions, restricted payments, investments, asset sales, liens and transactions with affiliates. As of March 31, 2010, we were in compliance with Term Loan covenants.

2. Revolving Credit Facility

The asset-based revolving credit facility in effect as of March 31, 2010 had a five-year term, maturing on June 27, 2011, bearing interest at a floating rate based on LIBOR or the prime rate plus a spread. At March 31, 2010, the spread on our Revolving Credit Facility was 2.5%. Availability under the \$140 million facility was limited to our borrowing base (comprised of 85% of eligible accounts receivable and 65% of eligible inventory), reduced by a \$20 million availability block. As of March 31, 2010, there were no borrowings under the facility, and the amount available was \$120.0 million.

On April 29, 2010 we entered into an Amended and Restated Revolving Credit Agreement (the “Revolving Credit Facility”), increasing the amount of the facility to \$175 million, subject to borrowing base calculations, and extending the maturity to the earlier of April 29, 2014, or if more than \$25 million remains outstanding under the Term Loan, March 29, 2013.

Availability under the Revolving Credit Facility is limited to the borrowing base, comprised of 85% of eligible accounts receivable and 65% of eligible inventory, as redetermined monthly. Up to \$30 million of the facility may be used for the issuance of letters of credit. The Revolving Credit Facility also includes an accordion feature under which the lenders may agree, upon our request, to increase their commitments to an aggregate amount not to exceed \$200 million.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

Amounts borrowed under the Revolving Credit Facility bear interest, at our option, at a rate equal to either (a) the Eurodollar Rate (as defined in the credit agreement) plus 3.00% to 3.75%, or (b) the base rate (as described below) plus 2.00% to 2.75%, in each case depending on the ratio of our consolidated debt to consolidated EBITDA (as defined in the credit agreement), with a lower leverage ratio resulting in lower rates. The base rate equals the highest of (i) the administrative agent's prime lending rate, (ii) the Federal Funds Rate plus $\frac{1}{2}$ of 1%, or (iii) the one-month Eurodollar Rate (as defined in the credit agreement) plus 1%.

A commitment fee is payable on the unused portion of the Revolving Credit Facility in an amount equal to 0.50% per annum if average availability is less than 50% of the total commitments, or 0.75% per annum if average availability is 50% or more of the total commitments, in each case based on average availability during the previous fiscal quarter.

The Revolving Credit Facility is secured with a first priority lien on cash, accounts receivable, inventory and certain intangibles, and through cross-collateralization with the Term Loan, a second priority lien on all other assets, including fixed assets. The Revolving Credit Facility is guaranteed by all of our material domestic subsidiaries and provides for customary events of default.

The Revolving Credit Facility includes covenants that restrict, subject to specified exceptions, our ability to:

- create or permit liens on assets;
- incur additional indebtedness or issue redeemable equity securities;
- guarantee indebtedness;
- merge or consolidate with a third party;
- sell or otherwise dispose of assets;
- pay dividends or effect stock buy-backs;
- issue or sell stock of subsidiaries;
- make loans, investments and acquisitions;
- enter into transactions with affiliates;
- change the lines of business in which we are engaged;
- change our fiscal year;
- make voluntary prepayments or redemptions of subordinated indebtedness;
- enter into agreements that limit our subsidiaries' ability to pay distributions to or enter into transactions with us;
- maintain cash balances in excess of \$15 million without using such excess cash to prepay loans under the Revolving Credit Facility; and
- enter into receivables financings or securitization programs.

Although the Revolving Credit Facility restricts acquisitions, investments and the payment of dividends, respectively, acquisitions, investments and dividends are permitted, subject to restrictions under the existing term loan agreement, if (a) pro forma current and average 90-day historical availability each exceed the greater of \$50 million or 50% of the total commitments, or (b) pro forma projected, current and average 90-day historical availability each exceed the greater of \$25 million or 25% of the total commitments and we meet a minimum consolidated fixed charge coverage ratio. Finally, the Revolving Credit Agreement includes a covenant requiring a minimum consolidated fixed charge coverage ratio should availability be less than the greater of \$15 million or 15% of the total commitments.

NOTE J – FAIR VALUE AND DERIVATIVE FINANCIAL INSTRUMENTS

1. Fair Value

Within the framework for measuring fair value, FASB ASC 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines the three levels of inputs used to measure fair value as follows:

- Level 1: Inputs are unadjusted quoted prices for identical assets or liabilities in active markets, which primarily consist of financial instruments traded on exchange or futures markets.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

- Level 2: Inputs are other than quoted prices in active markets (included in Level 1), which are directly or indirectly observable as of the financial reporting date, which includes derivative instruments transacted primarily in over-the-counter markets.
- Level 3: Unobservable inputs, which include inputs derived through extrapolation or interpolation that cannot be corroborated by observable market data.

The table below presents the balance of liabilities measured at fair value on a recurring basis at the dates indicated (in thousands):

<u>Description</u>	<u>Significant other observable inputs (Level 2)</u>	
	<u>March 31,</u>	<u>June 30,</u>
	<u>2010</u>	<u>2009</u>
Derivative liabilities	<u>\$ 1,062</u>	<u>\$3,464</u>

Our only financial instrument as of March 31, 2010 and June 30, 2009 was an interest rate swap, for which the fair value is measured based on significant other observable inputs (i.e., Level 2 inputs). Since this financial instrument was in a liability position, we evaluated risk of non-performance as a component of the recorded fair value.

2. Derivative Financial Instruments

The nature of our business involves market and financial risks. Specifically we are exposed to commodity price risks and interest rate fluctuations. We seek to manage commodity price risks and interest rate fluctuations, from time to time, with commodity swap and interest rate swap instruments. Under interest rate swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated using an agreed-upon notional principal amount. The counter-parties to the interest rate swap agreements are financial institutions with investment grade ratings.

None of our derivative instruments were designated as hedges; consequently, changes in the fair values have been recognized in earnings in the period the changes occur.

The following table shows the location and fair value of our derivative instrument reported in the consolidated balance sheets at the dates indicated (in thousands):

<u>Derivative description:</u>	<u>Balance Sheet Location</u>	<u>March 31,</u>	<u>June 30,</u>
		<u>2010</u>	<u>2009</u>
Interest Rate Swap	Accrued liabilities	<u>\$ 1,062</u>	<u>\$3,464</u>

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

For the periods shown, the amount of all gains and losses recognized in income on derivatives not designated as hedging instruments are as follows (in thousands):

Derivative description:	Location of (Gains) Losses Recognized in Income on Derivatives	Amount of All (Gains) Losses Recognized in Income on Derivatives for the Three Months Ended March 31,	
		2010	2009
		Interest Rate Swap	Unrealized (gain) loss on derivatives
	Interest expense	1,065	534
Commodity Swaps	Cost of sales	—	1,211
	Unrealized (gain) loss on derivatives	—	(874)
		<u>\$ 35</u>	<u>\$ 379</u>

Derivative description:	Location of (Gains) Losses Recognized in Income on Derivatives	Amount of All (Gains) Losses Recognized in Income on Derivatives for the Nine Months Ended March 31,	
		2010	2009
		Interest Rate Cap	Unrealized (gain) loss on derivatives
Interest Rate Swap	Unrealized (gain) loss on derivatives	(2,402)	3,966
	Interest expense	3,112	743
Commodity Swaps	Cost of sales	652	(3,641)
		<u>\$ 1,362</u>	<u>\$ 1,090</u>

In June 2008, we entered into a two-year interest rate swap whereby we effectively fixed the interest rate at 3.406% plus a spread of 2.5% (total fixed rate of 5.906%) on \$135.0 million of our outstanding variable rate debt. The interest rate swap expires on June 30, 2010.

In October 2006, as required under our Term Loan, we entered into an interest rate cap agreement for a one-time expense of approximately \$0.3 million. The interest rate cap provided protection on \$120.0 million of our Term Loan over a three year period, which ended October 31, 2009, if LIBOR exceeded 6.0%.

During the first quarter of fiscal 2010 we entered into a series of commodity swaps to mitigate risk on our fuel-related products inventory. All of the commodity swaps matured by December 31, 2009 and the resulting aggregate net realized losses of \$0.7 million are reflected in cost of sales in the nine months ending March 31, 2010. During the second quarter of fiscal 2009 we entered into a series of commodity swaps also to mitigate risk of loss on our fuel-related products inventory. The swaps matured at various dates through December 2008 resulting in aggregate net realized losses of \$1.2 million and gains of \$3.6 million, reflected in cost of sales, in the three and nine months ended March 31, 2009, respectively.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

NOTE K – EARNINGS PER SHARE

Basic income per share is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted income per share reflects potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company.

Basic and diluted earnings per share are computed as follows (in thousands, except per share amounts):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
	(Unaudited)			
Basic earnings per share:				
Net income (loss) available to common shareholders	\$ 4,052	\$ (5,291)	\$16,131	\$(30,600)
Average common shares outstanding, including nonvested restricted stock	17,957	17,686	17,906	17,723
Basic earnings per share	\$ 0.23	\$ (0.30)	\$ 0.90	\$ (1.73)
Diluted earnings per share:				
Net income (loss) available to common shareholders	\$ 4,052	\$ (5,291)	\$16,131	\$(30,600)
Average common shares outstanding	17,957	17,686	17,906	17,723
Add: common stock equivalents:				
Stock options and restricted stock	—	—	—	—
Diluted average common shares outstanding	17,957	17,686	17,906	17,723
Diluted earnings per share	\$ 0.23	\$ (0.30)	\$ 0.90	\$ (1.73)
Anti-dilutive stock options and restricted stock not included in the treasury stock method	1,166	1,172	1,166	1,172
Average grant price of stock options and restricted stock not included in the treasury stock method	\$ 17.37	\$ 17.41	\$ 17.37	\$ 17.41

NOTE L – INCOME TAXES

Our effective income tax rate for the fiscal 2010 third quarter was 40%, compared to 44% for fiscal 2009 third quarter. The effective rates for both quarters reflected federal tax provisions at 35% and Texas and Delaware franchise taxes. The higher effective rate in the prior year quarter reflected a true-up as a result of an increase in the projected annual effective tax rate.

Our effective income tax rate for the nine months ended March 31, 2010 was 40.1%, compared to 34.5% for the comparable fiscal 2009 period. The effective rates for the first nine months of both fiscal years reflected federal tax provisions at 35% and Texas and Delaware franchise taxes; however, the current year provision includes the impact of a Domestic Production Deduction of \$1.0 million originally taken on our fiscal 2006 tax return that was permanently lost as a result of carry back of our fiscal 2009 net operating loss, which eliminated fiscal 2006 taxable income. In December 2009, as a result of the Worker, Homeownership, and Business Assistance Act of 2009 that was signed into law on November 6, 2009, we applied for a refund of income taxes paid for fiscal years 2004, 2005 and 2006. Of the total amount of the fiscal 2009 net operating loss of \$132.6 million, we applied to carry back \$124.3 million, which resulted in a refund of \$39.8 million received in February 2010. The remaining \$8.3 million of the fiscal 2009 net operating loss is available to be carried forward to offset future taxable income.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

NOTE M – COMMITMENTS AND CONTINGENCIES

1. Legal Matters

From time to time, we are party to routine litigation incidental to the normal course of our business, consisting primarily of claims for personal injury or exposure to our chemical products or feedstocks, and environmental matters. We intend to defend these actions vigorously and believe, based on currently available information, that adverse results or judgments from such actions, if any, will not be material to our financial condition or results of operations. We record reserves for contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable. Management's judgment may prove materially inaccurate, and such judgment is subject to the uncertainty of litigation. Many of the personal injury or product exposure lawsuits to which we are a party are covered by insurance and are being defended by our insurance carriers. To the extent that we are named in any legal proceedings relating to the assets acquired from Huntsman Petrochemical Corporation and Huntsman Fuels, LP (collectively, "Huntsman") on June 27, 2006 (the "Port Neches Assets") where the alleged events giving rise to the proceeding occurred prior to our ownership of the assets we acquired from Huntsman, we should be indemnified in such proceedings by Huntsman, subject to the terms and limitations contained in the Purchase and Sale Agreement with Huntsman.

Our contractual arrangements with our customers and suppliers are typically very complicated and can include, for example, complex index-based pricing formulas that determine the price for our feedstocks or finished products. Due to the complicated nature of our contractual arrangements, we can, from time to time, be involved in disputes with our customers and suppliers regarding the interpretation of these contracts, including the index-based pricing formulas. These disputes occur in the normal course of our business, seldom result in actual formal litigation and are typically resolved in the context of the broader commercial relationship that we have with the customer or supplier. As described above, we record reserves for contingencies when information available indicates that a loss is probable and the amount of the loss is reasonably estimable. Management's judgment may prove materially inaccurate, and such judgment is subject to the uncertainty of the dispute resolution or litigation process. Consistent with the foregoing, we currently have a difference of opinion with a supplier regarding the interpretation of an index-based pricing formula in certain feedstock contracts. No claim has been asserted, and we are engaged in commercial discussions to resolve this matter in the context of our broader commercial relationship with this supplier. If such discussions prove to be unsuccessful, we would vigorously defend any resulting claim against us and believe, based on currently available information, that adverse results or judgments from such actions, if any, will not be material to our financial condition or results of operations.

2. MTBE Litigation

In March 2007, four local governmental authorities in the United States (City of Inverness Water District, City of Tampa Bay Water District, Homosassa Water District and the City of Crystal River) filed separate suits against our company and other co-defendants in the United States District Court for the Southern District of New York alleging that MTBE, a product made by several petrochemicals companies including our company, may have contaminated the soil and groundwater of their respective jurisdictions. Each of these governmental authorities is seeking more than \$1.5 billion in compensatory and punitive damages from all of the defendants in the aggregate. There is no specific amount of damages sought from our company in particular.

On March 31, 2009, eight local governmental authorities in the United States (South Farmingdale Water District, Plainview Water District, Oyster Bay Water District, Manhasset-Lakeville Water District, City of Glen Cove Water District, Garden City Park Water District, Incorporated Village of Garden City and Bethpage Water District) each filed additional separate suits against our company and other co-defendants alleging similar damages in the Supreme Court of the State of New York, County of Nassau. On March 31, 2009, four local governmental authorities in the United States (Town of Riverhead Water District, Town of Huntington/Dix Hills Water District, City of Greenlawn Water District and South Huntington Water District) each filed additional separate suits against our company and other co-defendants alleging similar damages in the Supreme Court of the State of New York, County of Suffolk. On May 12, 2009, Aqua New York of Sea Cliff, Inc., a local governmental authority in the United States, filed an additional separate suit against our company and other co-defendants alleging similar damages in the Supreme Court of the State of New York, County of Nassau. On August 31, 2009, Hampton Bays Water District, a local governmental authority in the United States, filed an additional separate suit against our company and other co-defendants alleging similar damages in the Supreme Court of the State of New York, County of Suffolk. Each of these governmental authorities is seeking more than \$1.5 billion in compensatory and punitive damages from all of the defendants in the aggregate. There is no specific amount of damages sought from our company in particular.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

MTBE, or Methyl Tertiary Butyl Ether, is a product formerly made by our company at our Houston and Port Neches facilities. Our Houston facility still produces MTBE as an intermediary step for the production of some of our Performance Products and for limited sales in markets outside of the United States.

We intend to defend our company against these claims vigorously. The dates of potential contamination alleged by the petitions also may predate the Chapter 11 bankruptcy proceedings of Texas Petrochemicals LP (now TPC Group LLC) and thus may also be barred by virtue of those bankruptcy proceedings. In addition, the Port Neches acquisition agreement with Huntsman includes an obligation of Huntsman to indemnify us for claims related to MTBE without monetary limitation for up to eight years from the June 2006 closing date for any claims arising from an act predating the acquisition, subject to time limitations. The date(s) of contamination alleged by plaintiffs' petitions all predate the plant's acquisition by us, and accordingly we have notified Huntsman of the suits and their obligation to defend and indemnify us from and against these claims.

Reserves have been provided in an aggregate amount we consider reasonable with respect to these claims. There can be no assurance, however, as to when these lawsuits and related issues may be resolved or the degree of any adverse effect these matters may have on our financial condition and results of operations. A substantial settlement payment or judgment could result in a significant decrease in our working capital and liquidity and recognition of a loss in our consolidated statement of operations.

3. Environmental and Safety Matters

We are subject to extensive federal, state, local and foreign environmental laws, regulations, rules and ordinances. These include, for example:

- the federal Resource Conservation and Recovery Act ("RCRA") and comparable state laws that impose requirements for the generation, handling, transportation, treatment, storage, disposal and cleanup of waste from our facilities;
- the federal Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") also known as "Superfund," and comparable state laws that regulate the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent waste for disposal;
- the federal Clean Water Act ("CWA") and analogous state laws and regulations that impose detailed permit requirements and strict controls on discharges of waste water from our facilities;
- the federal Clean Air Act ("CAA") and comparable state laws and regulations that impose obligations related to air emissions; and
- federal and state laws and regulations currently under development to address greenhouse gas ("GHG") emissions.

In the ordinary course of business, we undertake frequent environmental inspections and monitoring and are subject to occasional investigations by governmental enforcement authorities. In addition, our production facilities require a number of environmental permits and authorizations that are subject to renewal, modification and, in certain circumstances, revocation. Actual or alleged violations of environmental laws or permit requirements or the discovery of releases of hazardous substances at or from our facilities could result in restrictions or prohibitions on plant operations, significant remedial expenditures, substantial civil or criminal sanctions, as well as, under some environmental laws, the assessment of strict and/or joint and several liabilities. Moreover, changes in environmental regulations could inhibit or interrupt our operations, or require us to modify our facilities or operations. Accordingly, environmental or regulatory matters may cause us to incur significant unanticipated losses, costs or liabilities.

We are committed to establishing and maintaining compliance with applicable environmental, health, safety (including process safety) and security ("EHS&S") legal requirements, and we have developed policies and management systems intended to identify the

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

various EHS&S legal requirements applicable to our operations and facilities, enhance and assure compliance with applicable requirements, ensure the safety of our employees, contractors, community neighbors and customers, and minimize the generation of wastes, the emission of air contaminants and the discharge of pollutants. These EHS&S management systems also serve to foster efficiency and improvement and to reduce operating risks.

The following is a summary of some of the existing laws, rules and regulations to which our business operations are subject.

Waste Management. The federal RCRA and comparable state statutes, laws and regulations regulate the generation, handling, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous solid wastes. In the course of our operations, we generate industrial wastes that are regulated as hazardous wastes.

Comprehensive Environmental Response, Compensation, and Liability Act. The federal CERCLA and comparable state statutes, laws and regulations impose joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the current and past owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA and comparable statutes, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain environmental studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

Although we believe that we have utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes or hydrocarbons may have been released on or under the properties owned or operated by us, or on or under other locations, including off-site locations, where such substances have been taken for disposal. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA, and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes, or remediate contaminated property to prevent future contamination.

To the extent that liabilities arise from operations or events relating to our Port Neches facility that occurred prior to our ownership of the facility, we will generally be entitled to be indemnified by Huntsman for eight years after the June 2006 closing, subject to the terms and limitations of the indemnity provisions contained in the Purchase and Sale Agreement with Huntsman. We can provide no assurance, however, that all of such matters will be covered by the indemnity, that the indemnifying party will honor its obligations, or that the existing indemnities will be sufficient to cover the liabilities for such matters.

Water Discharges. The federal CWA and comparable state statutes, laws, and regulations impose restrictions and strict controls with respect to the discharge of pollutants in waste water and storm water, including spills and leaks of oil and other substances, into regulated waters. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the United States Environmental Protection Agency (“EPA”) or an analogous state agency. Spill prevention, control and countermeasure requirements may require appropriate containment berms and similar structures to help prevent the contamination of regulated waters in the event of a petroleum hydrocarbon tank spill, rupture or leak. Regulatory agencies can also impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

Air Emissions. The federal CAA and comparable state statutes, laws and regulations regulate emissions of various air pollutants or contaminants through air emissions permitting programs and the imposition of other requirements. Such laws and regulations may require a facility to obtain pre-approval for the construction or modification of projects or facilities expected to emit air contaminants or result in the increase of existing emissions of air contaminants, and to obtain and strictly comply with air permits containing various emissions limitations and operational requirements, including the utilization of specific emission control technologies to limit emissions of particular pollutants. In addition, the EPA and state regulatory agencies have developed, and continue to develop, stringent regulations governing emissions of air contaminants at specified sources. Regulatory agencies can also impose administrative, civil and criminal penalties for non-compliance with air permits or other legal requirements regarding air emissions. Depending on the state-specific statutory authority, individual states may be able to impose air emissions limitations that are more stringent than the federal standards imposed by the EPA.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

Permits and related compliance obligations under the CAA, as well as changes to state implementation plans for controlling air emissions in regional non-attainment areas, including the Houston-Galveston-Brazoria ozone non-attainment area, may require our operations to incur future capital expenditures in connection with the addition or modification of existing air emission control equipment and strategies. For example, as part of our efforts to comply with rules changes related to the emissions of nitrogen oxides (“NOx”) from our facilities, we installed two new, low-NOx boilers at each of our Houston and Port Neches facilities in fiscal 2006 through 2008, for a total capital investment of more than \$40 million. Failure to comply with these emission control requirements could subject us to monetary penalties, injunctions, conditions or restrictions on operations and enforcement actions. Our facilities may also be required to incur certain capital expenditures in the future for air pollution control equipment in connection with obtaining and maintaining operating permits and approvals for air emissions.

Legislative and regulatory measures to address concerns that emissions of certain gases, commonly referred to as GHGs, including carbon dioxide, may be contributing to warming of the Earth’s atmosphere are in various phases of discussions or implementation at the international, national, regional and state levels. The petrochemical industry is a direct source of certain GHG emissions, namely carbon dioxide, and future restrictions on such emissions could impact our future operations. In the United States, federal legislation imposing restrictions on GHG is under consideration. In addition, the EPA is taking steps that would result in the regulation of GHGs as pollutants under the CAA. Furthermore, in September 2009 the EPA finalized regulations taking effect in 2010 that require monitoring and reporting of GHG emissions on an annual basis, including extensive GHG monitoring and reporting requirements. Although this new rule does not control GHG emission levels from any facilities, it will cause us to incur monitoring and reporting costs. In December 2009, the EPA issued a finding that GHGs in the atmosphere endanger public health and welfare, and that emissions from mobile sources cause or contribute to GHGs in the atmosphere. The endangerment finding will not immediately affect our operations, but standards eventually promulgated pursuant to these findings could affect our operations and ability to obtain air permits for new or modified facilities. Moreover, lawsuits have been filed seeking to force the federal government to regulate GHG emissions under the CAA and to require individual companies to reduce GHG emissions from their operations. These and other lawsuits relating to GHG emissions may result in decisions by state and federal courts and agencies that could impact our operations and ability to obtain certifications and permits to construct future projects.

Passage of climate change legislation or other federal or state legislative or regulatory initiatives that regulate or restrict GHG emissions in areas in which we conduct business could adversely affect the demand for our products, and depending on the particular program adopted, could increase the costs of our operations, including costs to operate and maintain our facilities, to install new emission controls on our facilities, to acquire allowances to authorize our GHG emissions, to pay any taxes related to our GHG emissions and/or to administer and manage a GHG emissions program. At this time, it is not possible to accurately estimate how laws or regulations addressing GHG emissions would impact our business, but we do not believe that the impact on us will be any more burdensome to us than to any other similarly situated companies.

In addition to potential impacts on our business resulting from climate-change legislation or regulations, our business also could be negatively affected by climate-change related physical changes or changes in weather patterns. A loss of coastline in the vicinity of our facilities, which are located near the Gulf of Mexico, or an increase in severe weather patterns could result in damages to or loss of our physical assets and/or a disruption of our supply and distribution channels. Changes of this nature could have a material adverse impact on our business. In addition to potential direct impacts on us, climate change legislation or regulation and climate change related physical changes could affect entities that provide goods and services to us and indirectly have an adverse effect on our business as result of increases in the costs or availability of such goods or services. At this time, it is not possible to accurately project the effects of any such indirect impacts.

In addition to the requirements imposed upon us by law, we also enter into other agreements from time to time with state and local environmental agencies either to avoid the risks of potential regulatory action against us or to implement improvements that exceed current legal requirements. To that end, we have entered into the following agreements that will require us to reduce our emissions of butadiene and other volatile organic compounds at our Houston facility as described below:

- In June 2005, we executed a Voluntary Emissions Reduction Agreement (“VERA”) with the Texas Commission on Environmental Quality (“TCEQ”), in which we agreed to reduce emissions of butadiene from three main sources at our Houston facility by fifty percent by the end of December 2008. We were in substantial compliance with the reduced emissions threshold by the agreed deadline, and are in on-going discussions on continued emission reductions. In addition to the emissions reductions, we committed to a series of operational initiatives, including the installation of a state-of-the-art fence line monitoring system to detect emissions at our Houston facility. Similarly, in December 2005, we entered into a

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

Settlement Agreement with the City of Houston (“COH”), in which we agreed to many of the same emissions reductions and operational commitments contained in the VERA in exchange for a global release by COH of potential claims that could be asserted against us related to past emissions events.

- In January 2009, we signed an Agreed Corrective Action Order (“ACAO”) with TCEQ related to our Houston facility. The ACAO was approved by the TCEQ Commissioners in April 2009 following a public agenda hearing. The ACAO obligates us to undertake a five-year, \$20 million incremental spending program on projects designed to enhance environmental performance that would not normally have been done as part of routine maintenance at our Houston facility. We expect to implement the required measures and incur the incremental spending through a combination of (a) increases in our annual maintenance and capital expenditures throughout the five-year period and (b) additional expenditures in connection with our regularly scheduled turnarounds (typically occurring every three to four years). We expect to fund the incremental expenditures from our operations and/or from borrowings under our Revolving Credit Facility and do not expect the expenditures to have a material impact on our operations or liquidity. In the ACAO, we also commit to reduce emissions of volatile organic compounds from discrete emissions events at our Houston facility on a rolling twelve-month basis by more than thirty-five percent of annual pre-ACAO levels.

Chemical Product Safety Regulation. The products we make are subject to laws and regulations governing chemical product safety, including the federal Toxic Substances Control Act (“TSCA”) and chemical product safety laws in jurisdictions outside the United States where our products are distributed. The goal of TSCA is to prevent unreasonable risks of injury to health or the environment associated with the manufacture, processing, distribution in commerce, use or disposal of chemical substances. Under TSCA, the EPA has established reporting, record-keeping, testing and control-related requirements for new and existing chemicals with which we must comply. In December 2006, the European Union adopted a new regulatory framework concerning the Registration, Evaluation and Authorization of Chemicals (known as REACH), which became effective on June 1, 2007. One of its main objectives is the protection of human health and the environment. REACH requires manufacturers and importers to gather information on the properties of their substances that meet certain volume or toxicological criteria and register the information in a central database to be maintained by a Chemical Agency in Finland. REACH also contains a mechanism for the progressive substitution of the most dangerous chemicals when suitable alternatives have been identified. We met the deadline of December 1, 2008 for the pre-registration of those chemicals manufactured in, or imported into, the European Economic Area in quantities of one metric ton or more that were not otherwise exempted. Complete registrations containing extensive data on the characteristics of the chemicals will be required in three phases, depending on production usage or tonnage imported per year, and the toxicological criteria of the chemicals. The first registrations are required in 2010; subsequent registrations are due in 2013 and 2018. The toxicological criteria considered for registration determinations are carcinogenicity, mutagenicity, reproductive toxicity (category 1 and 2), and aquatic toxicity. By June 1, 2013, the European Commission will review whether substances with endocrine disruptive properties should be authorized if safer alternatives exist. By June 1, 2019, the European Commission will determine whether to extend the duty to warn from substances of very high concern to those that could be dangerous or unpleasant. We do not expect that the costs to comply with current chemical product safety requirements or REACH will be material to our operations or financial position. It is possible that other regions in which we operate could follow the European Union approach and adopt more stringent chemical product safety requirements.

Health and Safety Regulation. We are subject to the requirements of the federal Occupational Safety and Health Act (“OSHA”) and comparable state statutes, laws and regulations. These laws and the implementing regulations strictly govern the protection of the health and safety of employees. The Occupational Safety and Health Administration’s hazard communication standard, the EPA’s community right-to-know regulations under the Title III of CERCLA and similar state laws require that we organize and/or disclose information about hazardous materials used or produced in our operations.

Our operations are also subject to standards designed to ensure the safety of our processes, including OSHA’s Process Safety Management standard. The Process Safety Management standard imposes requirements on regulated entities relating to the management of hazards associated with highly hazardous chemicals. Such requirements include conducting process hazard analyses for processes involving highly hazardous chemicals, developing detailed written operating procedures, including procedures for managing change, and evaluating the mechanical integrity of critical equipment. As a result of a process safety audit of our Houston plant conducted by OSHA’s local office under its process safety Regional Emphasis Program, we entered into a compliance agreement on October 6, 2007 with OSHA, which agreement requires us to implement certain corrective actions on a three-year timetable through approximately June 2010. We are currently in compliance with all deadlines in the compliance agreement.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

Security Regulation. We are subject to the requirements of the United States Department of Homeland Security's Chemical Facility Anti-Terrorism Standard at our Baytown facility and the Marine Transportation Security Act at our Houston, Port Neches, and Lake Charles facilities. These requirements establish minimum standards for security at chemical facilities and marine-based chemical facilities, respectively. We are currently in the process of scope definition and engineering design of facility modifications for compliance with these requirements. Under the Marine Transportation Security Act, we have been awarded partial grants to assist with compliance at the Port Neches and Houston facilities.

NOTE N – EMPLOYEE BENEFITS

1. Retirement Plan

We sponsor a defined contribution plan that is available to all full-time employees after the first day of the month following their employment date. Employees can contribute up to 25%, not to exceed \$16,500 for both 2010 and 2009, of their base compensation to a tax-deferred fund. We match at the rate of one dollar for each dollar contributed by the employee up to 5% of such employee's base compensation, and contributions vest immediately. Our expense to match employee contributions was \$0.7 million and \$0.5 million for the three months ended March 31, 2010 and 2009, respectively, and \$1.6 million and \$1.5 million for the nine months ended March 31, 2010 and 2009, respectively. Additionally, we made discretionary contributions to the plan of \$0.1 million and \$0.0 million for the three months ended March 31, 2010 and 2009, respectively, and \$0.8 million and \$0.5 million for the nine months ended March 31, 2010, and 2009, respectively.

2. Stock Compensation Plans

In December 2004, our stockholders approved the 2004 Stock Award Plan (the "Plan"). In March 2006, we amended the Plan to reserve up to an additional 788,433 shares of common stock under the Plan. The Plan reserves 2,613,317 shares of our common stock in the form of 1,331,722 stock options and 1,281,595 restricted stock awards for issuance to certain of our directors, officers and employees. The stock option and restricted stock awards under the Plan vest over a period of five years or less. While the Plan expires on its own terms effective December 15, 2010 for purposes of new grants, outstanding awards remain in effect after the Plan's expiration date, per the terms of the award agreements.

In November 2008, our stockholders approved the 2009 Long Term Incentive Plan (the "2009 Plan"), which reserves up to 1,250,000 shares of common stock for awards granted, in whole or in part, in common stock, including rights or options which may be exercised for or settled in common stock. Awards under the 2009 Plan vest over a period of ten years or less, per the terms of the award agreements. The 2009 Plan expires on its own terms effective November 11, 2018 for purposes of new grants. In December 2009 we issued the first awards from the 2009 Plan, consisting of 54,348 shares of participating restricted stock.

Stock-based compensation expense for the three months ended March 31, 2010 and 2009 was \$0.1 million and \$1.8 million, respectively, and for the nine months ended March 31, 2010 and 2009 was \$0.7 million and \$5.4 million, respectively. Stock-based compensation expense was recorded as a component of general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. For purposes of calculating stock-based compensation expense, the expected term of the options is based on evaluations of historical and expected future employee exercise behavior, the risk-free interest rate is based on the U.S. Treasury rate at the date of grant with maturity dates approximately equal to the expected life at the grant date, and volatility is based on historical volatility of the market price of our stock. We have not historically paid any dividends.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

The following table summarizes the components of our stock-based compensation programs recorded as expense (in thousands):

	Three Months Ending March 31,		Nine Months Ending March 31,	
	2010	2009	2010	2009
Restricted stock:				
Pretax compensation expense	\$ 89	\$ 1,370	\$ 499	\$ 4,109
Tax benefit	(31)	(479)	(175)	(959)
Restricted stock expense, net of tax	<u>58</u>	<u>891</u>	<u>324</u>	<u>3,150</u>
Stock options:				
Pretax compensation expense	(17)	421	189	1,264
Tax benefit	6	(148)	(66)	(295)
Stock option expense, net of tax	<u>(11)</u>	<u>273</u>	<u>123</u>	<u>969</u>
Total stock based compensation:				
Pretax compensation expense	72	1,791	688	5,373
Tax benefit	(25)	(627)	(241)	(1,254)
Total stock based compensation expense, net of tax	<u>\$ 47</u>	<u>\$ 1,164</u>	<u>\$ 447</u>	<u>\$ 4,119</u>

In the third quarter of fiscal 2010, we recognized a forfeiture of stock options and restricted stock that had the effect of reducing fiscal 2010 expense by \$0.2 million.

As of March 31, 2010, we had unrecognized compensation cost related to restricted stock and stock options of \$0.7 million and \$0.1 million, respectively.

3. Defined Benefit Pension Plan

On January 1, 2007, we established a cash balance plan for the benefit of represented employees at the Port Neches facility acquired from Huntsman in June 2006. Participation in the cash balance plan is subject to terms of negotiated contracts. For participating employees, the cash balance plan benefit formula provides annual pay credits from 4% to 12% of eligible pay, depending on age and service, plus accrued interest. Participants with service under the Huntsman defined benefit plan may be eligible for additional annual pay credits from 1% to 8%, depending on their age and service as of that date, for up to five years. The plan's assets are maintained by trustees in separately managed portfolios consisting of equity and fixed income securities.

Net periodic pension cost consists of the following components (in thousands):

	Three Months Ending March 31,		Nine Months Ending March 31,	
	2010	2009	2010	2009
Components of net periodic pension cost:				
Service cost	\$ 332	\$ 333	\$ 996	\$ 999
Interest cost	55	32	165	96
Expected return on assets	(35)	(20)	(105)	(60)
Amortization of actuarial loss	14	3	42	9
	<u>\$ 366</u>	<u>\$ 348</u>	<u>\$ 1,098</u>	<u>\$ 1,044</u>

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

NOTE O – SEGMENT INFORMATION

We manage our core business as two operating segments based on the products we offer and the markets we serve. Our organizational structure is designed to most effectively manage our business segments and service the needs of our customers. Our operating segments are the C4 Processing business and the Performance Products business.

In the C4 Processing business, we process the crude C4 stream into several higher value components, namely butadiene, butene-1, raffinates and MTBE. In our Performance Products business, we produce high purity isobutylene, process isobutylene to produce higher value derivative products such as polyisobutylene and diisobutylene, and produce nonene and tetramer at our Baytown facility. With the completion of our isobutylene processing unit in the first quarter of fiscal 2008, we idled our Houston dehydrogenation units and stopped production of MTBE from those units. After idling the dehydrogenation units, MTBE has been produced only from our C4 processing activities at significantly reduced volumes, and is used either as a feedstock to the Performance Products segment or sold opportunistically into overseas markets. From the third quarter of fiscal 2008 forward, MTBE revenues and operating results are included in our C4 Processing segment category for reporting purposes.

We produce steam and electricity for our own use at our Houston facility and we sell a portion of our steam production as well as excess electricity. The revenues and expenses related to sale of steam and electricity are not significant and are included in the C4 Processing segment.

The primary products produced in our C4 Processing segment and their primary uses are as follows:

- Butadiene - primarily used to produce synthetic rubber that is mainly used in tires and other automotive products;
- Butene-1 - primarily used in the manufacture of plastic resins and synthetic alcohols;
- Raffinates - primarily used in the manufacturing of alkylate, a component of premium unleaded gasoline;
- Methyl Tertiary Butyl Ether (“MTBE”) - primarily used as a gasoline blending stock.

The primary products produced in our Performance Products segment and their primary uses are as follows:

- High purity isobutylene (“HPIB”) - primarily used in the production of synthetic rubber, lubricant additives, surfactants and coatings;
- Conventional polyisobutylenes (“PIB”) and highly reactive polyisobutylenes (“HR-PIB”) - primarily used in the production of fuel and lubricant additives, caulks, adhesives, sealants and packaging;
- Diisobutylene - primarily used in the manufacture of surfactants, plasticizers and resins;
- Nonene and tetramer - primarily used in the production of plasticizers, surfactants, and lubricant additives.

1. Reportable Segments

The following table provides sales volumes, revenues, cost of sales and Adjusted EBITDA by reportable segment for the periods presented. The table also provides a reconciliation of Adjusted EBITDA to Net Income (Loss), the most direct comparative GAAP measure reported in the Consolidated Statements of Operations. Adjusted EBITDA is not a measure computed in accordance with GAAP. Accordingly it does not represent cash flow from operations, nor is it intended to be presented herein as a substitute to operating income or net income as indicators of our operating performance. We calculate Adjusted EBITDA in accordance with our credit facilities, meaning earnings before interest, taxes, depreciation and amortization (EBITDA), then adjusted to add back certain additional items. Such additional items include certain non-cash items defined by the credit facilities and reflected in the Reconciliation of Adjusted EBITDA to Net Income (Loss). Our calculation of Adjusted EBITDA may be different from the calculation used by other companies; therefore, it may not be comparable to other companies.

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

Adjusted EBITDA is the primary performance measurement used by senior management and our Board of Directors to evaluate operating results and to allocate capital resources between our business segments. We also are presenting Adjusted EBITDA because our lenders require us to report this measure (referred to as Consolidated EBITDA in the credit facilities) to them, and the measure is used in ratio calculations that affect our ability to pay dividends and other distributions, and to make certain investments and acquisitions, in compliance with covenants under our credit facilities.

Sales volumes and financial results by operating segment are as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Sales volumes (lbs):				
C4 Processing	531,037	485,010	1,796,637	1,581,116
Performance Products	153,663	108,260	443,587	448,439
	<u>684,700</u>	<u>593,270</u>	<u>2,240,224</u>	<u>2,029,555</u>
Revenues:				
C4 Processing	\$299,731	\$119,111	\$ 904,142	\$ 856,377
Performance Products	100,994	43,508	252,509	259,586
	<u>\$400,725</u>	<u>\$162,619</u>	<u>\$1,156,651</u>	<u>\$1,115,963</u>
Cost of sales (1):				
C4 Processing	\$260,448	\$ 93,804	\$ 784,832	\$ 786,305
Performance Products	80,564	33,152	205,349	209,167
	<u>\$341,012</u>	<u>\$126,956</u>	<u>\$ 990,181</u>	<u>\$ 995,472</u>
Adjusted EBITDA (2)(3):				
C4 Processing	\$ 14,657	\$ 7,605	\$ 65,064	\$ 46
Performance Products	11,401	3,351	19,792	26,063
Corporate	(6,952)	(5,555)	(18,564)	(19,513)
	<u>\$ 19,106</u>	<u>\$ 5,401</u>	<u>\$ 66,292</u>	<u>\$ 6,596</u>

(1) Excludes depreciation and amortization and operating expenses.

(2) See above for further discussion of Adjusted EBITDA.

(3) Reconciliation of Adjusted EBITDA to Net Income (Loss) for the three and nine months ended March 31 is as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Net income (loss):	\$ 4,052	\$(5,291)	\$16,131	\$(30,600)
Income tax expense (benefit)	2,663	(4,170)	10,900	(16,082)
Interest expense, net	3,510	3,945	11,005	13,187
Depreciation and amortization	9,841	10,699	29,958	31,352
EBITDA	20,066	5,183	67,994	(2,143)
Non-cash stock-based compensation	70	1,584	700	4,751
Unrealized (gain) loss on derivatives	(1,030)	(1,366)	(2,402)	3,988
Adjusted EBITDA:	<u>\$19,106</u>	<u>\$ 5,401</u>	<u>\$66,292</u>	<u>\$ 6,596</u>

TPC Group Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)
March 31, 2010 and 2009

2. *Segment Assets*

We do not identify and report assets by segment internally; consequently, such information is not presented herein.

3. *Intersegment Sales*

Inter-segment product transfers from the C4 Processing segment to the Performance Products segment are not significant and, as such, are not reported as inter-segment revenues.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this Form 10-Q, as well as our audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Amendment No. 1 to our registration statement on Form 10 filed on January 8, 2010.

Overview

We manage our business and conduct our activities in two operating segments, our C4 Processing segment and our Performance Products segment. These two operating segments are our primary reporting segments. In the C4 Processing segment, we process the crude C4 stream into several higher value components, namely butadiene, butene-1, raffinates and MTBE. In our Performance Products segment, we produce high purity isobutylene and we process isobutylene to produce higher value derivative products, such as polyisobutylene and diisobutylene. We also process refinery grade propylene into nonene, tetramer and associated by-products as a part of our Performance Products segment. We produce steam and electricity for our own use at our Houston facility, and we sell a portion of our steam production as well as excess electricity, which are reported as part of our C4 Processing segment.

The primary driver of our businesses is general economic and industrial growth. Our results are impacted by the effects of economic upturns or downturns on our customers and our suppliers, as well as on our own costs to produce, sell and deliver our products. Our customers use most of our products in their production processes; therefore, factors that impact their industries could significantly affect our results across all our product lines. In particular, our feedstock costs and product prices are susceptible to volatility in pricing and availability of crude oil, natural gas and oil-related products such as unleaded regular gasoline.

The petrochemicals industry is very competitive. We compete with companies of varying size, financial strength and availability of resources.

Material Industry Trends

The economic crisis that began during the latter part of the first quarter of fiscal 2009 continued to develop through the remainder of the first half of fiscal 2009, resulting in a significant decline in the prices for our products during the second quarter of fiscal 2009. In response to these developments, in order to reduce operating costs and match production to the reduced needs of our customers and suppliers, we temporarily idled various production units at both our Houston and Port Neches facilities in December 2008. We also released a portion of our contractor workforce to further reduce costs.

During the third quarter of fiscal 2009, we noticed improvement in demand for some products relative to the previous months, and we restarted all of the production facilities that we idled in December 2008. However, our butadiene production was negatively impacted by reduced supply of crude C4, the raw material input for our C4 Processing extraction process. We receive most of our crude C4 from steam crackers, which are designed to process naphtha and natural gas liquids into ethylene. Crude C4 is a byproduct of the ethylene production process. The volume of crude C4 produced by the ethylene producers is driven by the amount of ethylene production and the composition of the steam cracker's feedstock. Some major ethylene producers have the flexibility to vary from light feedstocks, such as natural gas liquids (NGLs), to heavier feedstocks, such as naphtha, or vice versa depending on the economics of the feedstock. When ethylene producers process heavier feedstock, greater volumes of crude C4 are produced. However, when light feedstocks are inexpensive relative to heavy feedstocks, the producers may choose to process those light feedstocks instead, a process referred to as "light cracking," which results in lower volumes of crude C4 production. Since the third quarter of fiscal 2008 and through the first nine months of fiscal 2010, NGL prices have been attractive relative to naphtha. Consequently, light cracking has been prevalent throughout this time period, reducing our crude C4 supply and thereby decreasing our butadiene production and sales volumes.

In sharp contrast to the first nine months of fiscal 2009, the first nine months of fiscal 2010 have been characterized by continuously improving market conditions as well as increasing petroleum prices and related commodity market indices. Since a substantial portion of our raw material costs and product selling prices are tied to these commodity indices (such as indices based on the price of unleaded regular gasoline, butane, isobutane or refinery grade propylene), during the first nine months of fiscal 2010 we experienced upward trends in both our raw material costs and our selling prices. Although both raw material costs and selling prices have increased over the first nine months of fiscal 2010, selling price increases have outpaced raw material cost increases, resulting in profit margin improvement over the course of the period. Supply shortages for some of our products have also contributed to margin improvement over the course of the period.

Table of Contents

Recent Developments

On May 4, 2010, our shares began trading on The NASDAQ Capital Market under the symbol “TPCG”.

On April 29, 2010, we amended and extended our revolving credit facility. The amended facility increases overall capacity from \$140 million to \$175 million, subject to borrowing base calculations, and extends the maturity date from June 2011 to at least March 2013. In addition the amended credit agreement includes an accordion feature that could facilitate access to additional capacity if necessary for continued growth.

In February 2010, we completed a major scheduled plant turnaround at the Houston facility . The turnaround was completed on time, on budget and without incident, and the facility operated at expected high and efficient production rates throughout the remainder of the third quarter. With the plants operating at high rates, we believe we are positioned well to address customer demand in the seasonally strong fourth quarter, subject to crude C4 supply.

In February 2010, we received a \$39.8 million refund of federal income taxes paid for fiscal 2004 through fiscal 2006. As a result of the Worker, Homeownership, and Business Assistance Act of 2009, which was signed into law on November 6, 2009 and extended the carry-back period from two to three, four or five years, we applied for a refund of income taxes paid for fiscal years 2004, 2005 and 2006. Of the total amount of the fiscal 2009 net operating loss, we applied to carry back \$124.3 million, which resulted in a refund of \$39.8 million received in February 2010. The remaining portion of the fiscal 2009 net operating loss of \$8.3 million is available to be carried forward to offset future taxable income. We are continuing to evaluate options for use of the cash proceeds in a strategic manner designed to maximize value to our stockholders.

In November 2009, we received the second and final installment of our claim under our business interruption insurance policy related to damages incurred from Hurricane Ike in September 2008. On or about September 11, 2008, in anticipation of Hurricane Ike, we shut down all three of our major operating facilities. Our facilities sustained relatively minor damage but remained shut down for approximately one week. However, many of our customers and suppliers suffered greater damage than we suffered and were in some cases significantly slower to recommence operations, resulting in significantly curtailed sales volume. As a result of losses we incurred, we made a claim against our business interruption insurance policy. Our total claim settlement of \$47.0 million consisted of a \$19.5 million deductible, a \$10.0 million payment received in fourth quarter of fiscal 2009 and a second and final payment of \$17.1 million (net of recovery expenses of \$0.4 million) in the second quarter of fiscal 2010.

In order to preserve liquidity in response to the ongoing global economic crisis and to align our expenditures with our decreased sales volumes, in the fourth quarter of fiscal 2009 we undertook initiatives to reduce our operating and general and administrative expenses and our capital spending. These initiatives included a reduction of our active C4 processing and butadiene production capacity as well as headcount reductions at our corporate headquarters and at our operating facilities. We reduced our capital spending to baseline levels, given that our major capital investment program was substantially complete. Actions taken to reduce our active crude C4 and butadiene production capacity included shutting down one of the two trains processing crude C4 at our Port Neches facility and temporarily idling some capacity at our Houston facility. From time to time we reactivate the idled production capacity at our Houston facility, but we do not expect to operate both trains at Port Neches again until feedstock supply conditions improve.

Table of Contents

Results of Operations

Selected financial and operating data for our reportable business segments for the three and nine month periods ended March 31, 2010 and 2009 is summarized below (in thousands).

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Sales volumes (lbs):				
C4 Processing	531,037	485,010	1,796,637	1,581,116
Performance Products	153,663	108,260	443,587	448,439
	<u>684,700</u>	<u>593,270</u>	<u>2,240,224</u>	<u>2,029,555</u>
Revenues:				
C4 Processing	\$299,731	\$119,111	\$ 904,142	\$ 856,377
Performance Products	100,994	43,508	252,509	259,586
	<u>\$400,725</u>	<u>\$162,619</u>	<u>\$1,156,651</u>	<u>\$1,115,963</u>
Cost of sales (1):				
C4 Processing	\$260,448	\$ 93,804	\$ 784,832	\$ 786,305
Performance Products	80,564	33,152	205,349	209,167
	<u>\$341,012</u>	<u>\$126,956</u>	<u>\$ 990,181</u>	<u>\$ 995,472</u>
Operating expenses:				
C4 Processing	\$ 24,627	\$ 22,397	\$ 71,297	\$ 74,721
Performance Products	9,029	7,006	27,369	24,355
	<u>\$ 33,656</u>	<u>\$ 29,403</u>	<u>\$ 98,666</u>	<u>\$ 99,076</u>

(1) Excludes depreciation and amortization and operating expenses. See further discussion below under "Cost of sales".

Third Quarter of Fiscal 2010 versus Third Quarter of Fiscal 2009

Revenues

Total revenues for the third quarter of fiscal 2010 were \$400.7 million, which represents an increase of \$238.1 million, or 146%, compared to total revenues of \$162.6 million for the corresponding quarter of fiscal 2009. The increase in revenues reflected an overall 15% increase in sales volumes and a 118% increase in overall average selling prices. The positive impact of higher sales volumes was \$35 million and the positive impact of the higher average selling prices was \$203 million. The substantial improvement reflected more favorable market conditions in the current year quarter, in which customer demand and selling prices have increased, compared to the prior year quarter. The prior year quarter was characterized by depressed commodity prices and customer demand attributable in part to the global economic recession that started in the latter part of calendar 2008.

C4 Processing segment revenues for the third quarter of fiscal 2010 were up \$180.6 million, or 152%, compared to the comparable prior year quarter. The improvement reflected 9% higher sales volumes and average selling prices that were more than double (up 136%) the prior year quarter average. The positive impacts on segment revenues of the higher sales volumes and higher average selling prices were \$9 million and \$172 million, respectively.

Performance Products segment revenues for the fiscal 2010 third quarter were up \$57.5 million, or 132%, compared to the prior year quarter on 42% higher sales volumes and 64% higher average selling prices. The positive impact of the higher sales volumes, which reflected increases for all products, was \$27 million and the positive impact of the higher average selling prices was \$30 million.

Table of Contents

Cost of sales

Cost of sales includes variable production and distribution costs, including raw materials and related inbound freight, energy, catalyst and chemicals used in the manufacturing process, waste disposal and outbound product distribution costs. Manufacturing and related operating overhead expenses, excluding depreciation and amortization, are included in operating expenses discussed below.

Total cost of sales was \$341.0 million for the third quarter of fiscal 2010 compared to \$127.0 million in the third quarter of fiscal 2009. The overall \$214.0 million, or 169%, increase in cost of sales reflected the combined impact of 15% higher sales volumes and average raw material costs that were 183% higher than the prior year quarter. Consistent with the discussion of selling prices above, the overall improvement in economic and market conditions in fiscal 2010 has also resulted in steadily increasing raw material costs. Total cost of sales represented 85% and 78% of total revenues for the current and prior year third quarter, respectively.

C4 Processing segment cost of sales for the third quarter of fiscal 2010 increased \$166.6 million, or 178%, compared to the prior year quarter resulting from 9% higher sales volumes and 226% higher average raw material costs. C4 Processing segment cost of sales as a percentage of segment revenues was 87% in the third quarter of fiscal 2010 and 79% in the third quarter of fiscal 2009.

Performance Products segment cost of sales for the third quarter of fiscal 2010 were up \$47.4 million, or 143%, compared to the comparable prior year quarter. The increase reflected the impact of 42% higher sales volumes and 85% higher average raw material costs. Performance Products segment cost of sales as a percentage of segment revenues were 80% and 76% for the current and prior year third quarters, respectively.

Operating expenses

Operating expenses include plant manufacturing overhead, supply chain services, environmental, health and safety costs, research and development, sales overhead, customer support, property taxes and property and casualty insurance expense.

Operating expenses incurred in the third quarter of fiscal 2010 were \$33.7 million, which were \$4.2 million, or 14%, higher than the \$29.4 million incurred in the corresponding fiscal 2009 quarter. The primary components of the increase were higher routine and renewal maintenance costs of \$2.6 million and higher compensation and benefit costs of \$2.4 million, partially offset by the absence of hurricane damage repair expense incurred in the prior year quarter of \$0.7 million. The increase in plant operating expenses reflected curtailed operations in the prior year quarter as a result of the depressed market conditions as well as deferral of discretionary spending to preserve liquidity.

General and administrative expense

General and administrative expense in the fiscal 2010 third quarter was \$7.5 million compared to \$7.3 million in the comparable prior year quarter. The primary variances from the prior year quarter were higher compensation and benefit costs of \$1.8 million, including severance of \$0.7 million, and lower stock-based compensation expense of \$1.7 million. The lower stock-based compensation was due to the majority of option and restricted stock grants becoming fully vested in fiscal 2009.

Depreciation and amortization expense

Depreciation and amortization expense was \$9.8 million for the fiscal 2010 third quarter compared to \$10.7 million for the corresponding quarter of fiscal 2009. The lower depreciation in the current year quarter reflected the return to baseline capital spending subsequent to completion of our major capital investment initiatives in the first quarter of fiscal 2009.

Unauthorized freight payment recoveries

In July 2007, we discovered that a former employee, with the assistance of a non-employee conspirator, had directed unauthorized payments from our accounts to a fictitious vendor in various amounts in years prior to fiscal 2009. In August 2008, the former employee and his non-employee conspirator were convicted of certain crimes related to the unauthorized freight payments. As part of their convictions, the former employee and his non-employee conspirator were required to forfeit assets to the Office of the U.S. Attorney for restitution. The majority of these assets were liquidated by the U.S. government, and in the third quarter of fiscal 2009 we received \$4.7 million as restitution of losses represented by the unauthorized freight payments. Further recoveries, if any, are not expected to be significant.

Table of Contents

Interest expense

Interest expense for the third quarter of fiscal 2010 was \$3.5 million compared to \$3.9 million for the third quarter of fiscal 2009. The lower expense in the current year quarter primarily reflected a lower average amount outstanding on our Revolving Credit Facility of \$28.2 million, as interest rates in the current and prior year periods were comparable.

Unrealized gain on derivatives

Unrealized net gains on derivatives were \$1.0 million and \$1.4 million for the third quarter of fiscal 2010 and fiscal 2009, respectively. The gain in the fiscal 2010 quarter consisted entirely of a gain on the interest rate swap related to our Term Loan Facility. The gain in the prior year third quarter consisted of a gain of \$0.9 million on the interest rate swap and a gain of \$0.5 million related to commodity swaps.

Income tax expense

Our effective income tax rate for the fiscal 2010 third quarter was 40%, compared to 44% for fiscal 2009 third quarter. The effective rates for both quarters reflected federal tax provisions at 35% and Texas and Delaware franchise taxes. The higher effective rate in the prior year quarter reflected a true-up as a result of an increase in the projected annual effective tax rate.

Net income

Fiscal 2010 third quarter net income was \$4.1 million compared to net loss of \$5.3 million for the third quarter of fiscal 2009. The primary components of the \$10.1 million improvement were the positive impacts of higher revenue of \$238.1 million and lower stock-based compensation of \$1.5 million, partially offset by higher cost of sales of \$214.0 million, higher operating expenses of \$4.3 million, absence of the unauthorized freight payment recovery of \$4.7 million in the current year quarter and higher tax provision of \$6.8 million.

First Nine Months of Fiscal 2010 versus First Nine Months of Fiscal 2009

Revenues

Total revenues for the first nine months of fiscal 2010 were \$1,156.7 million, an increase of \$40.7 million, or 4%, compared to total revenues of \$1,116.0 million for the corresponding period of fiscal 2009. The overall increase in revenues was driven by a 10% increase in overall sales volume, which was partially offset by lower average selling prices for most product lines, which in the aggregate were 6% lower. The positive impact of the higher sales volumes was \$146 million, while the lower average selling prices had an overall negative impact on revenues of \$105 million. Sales volumes for the first nine months of fiscal 2009 were curtailed in the first two months of the period by limited crude C4 availability and subsequently by the aftermath of Hurricane Ike and weakened demand related to the global economic recession. Sales volumes in the first nine months of fiscal 2010 reflected an upward trend in overall demand for our products that has followed the improvement in general economic and market conditions. Average selling prices for the first nine months of the prior fiscal year were positively affected by strong demand and high petrochemical and fuel-related prices during the first two months of the period, and then were negatively affected over the remainder of the period as a result of the global economic recession. Selling prices for the first nine months of fiscal 2010, although on an overall average basis below prior year levels, have increased over the course of the period. The upward trend over the first nine months of fiscal 2010 reflected strengthening economic conditions that have driven petroleum prices and related commodity market indices upward. Fiscal 2010 average selling prices have also benefited from tight market conditions for our products.

C4 Processing segment revenues in the first nine months of fiscal 2010 were higher by \$47.8 million, or 6%, compared to the first nine months of fiscal 2009. The overall increase reflected the a positive impact of 14% higher sales volumes partially offset by the negative impact of average selling prices that were approximately 7% below prior period levels. The positive impact of the higher sales volumes was \$133 million, while the negative impact of the lower average selling prices was \$85 million.

Performance Products segment revenues for the first nine months of fiscal 2010 were down \$7.1 million, or 3%, versus the comparable period on slightly (1%) lower overall sales volume and 3% lower average selling prices. The lower sales volumes reflected the loss of sales volume related to a contract that ended as of December 31, 2008, which was offset by higher sales volumes in fiscal 2010 for all other product lines in this segment. The contract that ended on December 31, 2008 contributed 25% of total sales volumes and 21% of total revenues for the segment during the first nine months of fiscal 2009. The negative impact of the lower

Table of Contents

average selling prices was \$20 million, while the impact of the overall slight reduction in sales volume was a positive \$13 million due to the product mix in which higher priced products during the first nine months of fiscal 2010 offset the loss of lower priced products related to the expired contract.

Cost of sales

Total cost of sales was \$990.2 million for the first nine months of fiscal 2010 compared to \$995.5 million in the first nine months of fiscal 2009. The overall \$5.3 million, or 1%, decrease in cost of sales was driven by lower average raw material and energy costs, partially offset by the impact of 10% higher sales volumes. Overall average raw material costs for the first nine months of fiscal 2010 were lower by 7% compared to the prior year period. Total cost of sales represented 86% and 89% of total revenues for the first nine months of the current and prior year, respectively.

C4 Processing segment cost of sales for the first nine months of fiscal 2010 were slightly lower (less than 1%) than for the comparable year period, reflecting lower average raw material and energy costs, partially offset by the impact of 14% higher sales volumes. Fiscal 2010 average raw material costs were 8% lower versus the comparable prior year period. C4 Processing segment cost of sales as a percentage of segment revenues was 87% in the first nine months of fiscal 2010 and 92% in the comparable fiscal 2009 period.

Performance Products segment cost of sales for the first nine months of fiscal 2010 decreased by \$3.8 million, or 2%, compared to the first nine months of the prior year, which primarily reflected slightly lower raw material and energy costs. The impact on sales volume of the sales contract that ended as of December 31, 2008 (see discussion of Performance Products revenues above) was offset by substantially higher sales volumes in fiscal 2010 for all other products. The contract that expired on December 31, 2008 contributed 25% of total segment sales volumes and 22% of total segment cost of sales in the first nine months of fiscal 2009. The Performance Products segment cost of sales as a percentage of segment revenues was 81% for both the current year and prior year periods.

Operating expenses

Operating expenses incurred during the first nine months of fiscal 2010 were \$98.7 million compared to \$99.1 million incurred in the corresponding fiscal 2009 period. The primary differences were the absence of hurricane damage repair expense incurred in the prior year of \$3.4 million, lower renewal maintenance expenses of \$2.0 million, lower property taxes of \$1.6 million, higher routine maintenance of \$2.4 million, higher insurance costs of \$1.1 million, higher turnaround amortization of \$1.0 million, higher employee benefit costs of \$1.4 million and higher selling overhead expenses of \$0.6 million.

General and administrative expenses

General and administrative expenses for the first nine months of fiscal 2010 were \$20.8 million compared to \$25.4 million in the comparable prior year period. The primary components of the \$4.6 million decrease were reductions of \$6.3 million related to our stock-based compensation plan, lower outside legal fees and settlement costs of \$0.8 million and higher compensation and benefit costs of \$2.9 million, including severance costs of \$0.7 million. Stock-based compensation decreased by \$4.7 million due to the majority of option and restricted stock grants becoming fully vested in fiscal 2009. The reduction also reflected the absence in the current year period of \$1.6 million incurred by us in the comparable prior year period to pay the individual tax liability of our directors and certain of our management-level employees related to the vesting of their restricted stock. The amount we paid was based on their individual tax liability related to the value of the stock that vested on July 1, 2008. No such option was available to our directors and management employees regarding the restricted stock that vested on July 1, 2009.

Depreciation and amortization expense

Depreciation and amortization expense was \$30.0 million for the first nine months of fiscal 2010 compared to \$31.4 million for the corresponding period of fiscal 2009. The slightly lower depreciation in the current year period reflected the return to baseline capital spending subsequent to completion of our major capital investment initiatives in the first quarter of fiscal 2009.

Unauthorized freight payment recoveries

In July 2007, we discovered that a former employee, with the assistance of a non-employee conspirator, had directed unauthorized payments from our accounts to a fictitious vendor in various amounts in years prior to fiscal 2009. In August 2008, the

Table of Contents

former employee and his non-employee conspirator were convicted of certain crimes related to the unauthorized freight payments. As part of their convictions, the former employee and his non-employee conspirator were required to forfeit assets to the Office of the U.S. Attorney for restitution. The majority of these assets were liquidated by the U.S. government, and in the third quarter of fiscal 2009 we received \$4.7 million as restitution of losses represented by the unauthorized freight payments.

Business interruption insurance recoveries

During the first nine months of fiscal 2010, we received \$17.1 million (net of recovery expenses of \$0.4 million) as the second and final installment of our business interruption insurance recovery related to Hurricane Ike. Our total settlement of \$47.0 million consisted of a \$19.5 million deductible, a \$10.0 million payment received in the fourth quarter of fiscal 2009 and the final payment of \$17.5 million, before expenses, received in the second quarter of fiscal 2010. The insurance recovery is reflected in operating results for the C4 Processing segment.

Interest expense

Interest expense for the first nine months of fiscal 2010 was \$11.0 million compared to \$13.2 million for the first nine months of fiscal 2009. The lower expense in the current year period reflected lower interest rates on a lower average amount outstanding on our Revolving Credit Facility of \$30.2 million, partially offset by absence of capitalized interest in the current year period, which was \$0.9 million in the prior year period.

Unrealized gain/loss on derivatives

Unrealized net gain on derivatives was \$2.4 million for the first nine months of fiscal 2010 compared to a net loss of \$4.0 million in the comparable prior year period. Both the gain in the fiscal 2010 period and the loss in the fiscal 2009 period were associated with the interest rate swap related to our Term Loan Facility.

Income tax expense

Our effective income tax rate for the nine months ended March 31, 2010 was 40%, compared to 34% for the comparable fiscal 2009 period. The effective rates for the first nine months of both years reflected federal tax provisions at 35% and Texas and Delaware franchise taxes; however, the current year provision includes the impact of a Domestic Production Deduction of \$1.0 million originally taken on the fiscal 2006 tax return that was permanently lost as a result of carry back of our fiscal 2009 net operating loss, which eliminated fiscal 2006 taxable income. In December 2009, as a result of the Worker, Homeownership, and Business Assistance Act of 2009 that was signed into law on November 6, 2009, we applied for a refund of income taxes paid for fiscal years 2004, 2005 and 2006. Of the total amount of the fiscal 2009 net operating loss of \$132.6 million, we applied to carry back \$124.3 million, which resulted in a refund of \$39.8 million received in February 2010. The remaining \$8.3 million of the fiscal 2009 net operating loss is available to be carried forward to offset future taxable income.

Net income

Net income for the first nine months of fiscal 2010 was \$16.1 million compared to net loss of \$30.6 million for the comparable fiscal 2009 period. The primary components of the \$47.5 million increase were the positive impacts of higher sales revenue of \$40.7 million, lower cost of sales of \$5.3 million, the net business interruption insurance recovery of \$17.1 million, the unrealized gain on the interest rate swap of \$6.4 million and lower stock-based compensation of \$4.1 million, partially offset by absence of the unauthorized freight payment recovery of \$4.7 million in the current year period and higher tax provision of \$27.4 million.

Liquidity and Capital Resources

Sources and uses of cash

Our primary source of liquidity is cash flow generated from our operating activities and borrowing capacity under our Revolving Credit Facility. Our primary liquidity requirements are working capital, capital expenditures, contractual obligations and debt service. We expect to have adequate liquidity to fund our liquidity requirements over the foreseeable future from cash flows generated from operating activities and available borrowing capacity under our Revolving Credit Facility. This expectation is based, however, on estimates and assumptions regarding, among other things, our sales volumes, our feedstock purchase volumes, market prices for petrochemicals, capital and credit market conditions, and general industry and economic conditions. If one or more of these factors materially differs from our estimates, we may need to obtain additional financing to conduct our operations, which may not be available on acceptable terms or at all.

Table of Contents

In November 2009, we received \$17.1 million (net of recovery expenses of \$0.4 million) as the second and final installment of our claim under our business interruption insurance policy related to damages incurred from Hurricane Ike in September 2008 (see further discussion under *Recent Developments* above).

In February 2010, we received a \$39.8 million refund of federal income taxes paid for fiscal 2004 through fiscal 2006 through the carry-back of a substantial portion of our fiscal 2009 net operating loss (see further discussion under *Recent Developments* above).

At March 31, 2010, we had total debt of \$270.5 million, availability under our Revolving Credit Facility of \$120.0 million, and cash reserves of \$26.2 million. Debt outstanding, including current maturities, consisted of \$270.1 million under our Term Loan and \$0.4 million under a note used to finance our fiscal 2010 insurance premiums. As of March 31, 2010, we were in compliance with all the covenants set forth in the Term Loan and the Revolving Credit Facility.

The Term Loan requires annual prepayments equal to a specified percentage, which varies depending upon our calculated Leverage Ratio, of excess cash flow. For excess cash flow generated in fiscal year ended June 30, 2009, we made a payment of \$0.4 million in October 2009. No such prepayment was required for fiscal 2008.

On April 29, 2010, we entered into an Amended and Restated Revolving Credit Agreement, which provides for a \$175 million revolving credit facility (the "Revolving Credit Facility") maturing on the earlier of April 29, 2014, or if more than \$25 million remains outstanding under the Term Loan, March 29, 2013. Availability under the Revolving Credit Facility is limited to the borrowing base, comprised of 85% of eligible accounts receivable and 65% of eligible inventory, as redetermined monthly. Up to \$30 million of the facility may be used for the issuance of letters of credit. The Revolving Credit Facility also includes an accordion feature under which the lenders may agree, upon our request, to increase their commitments to an aggregate amount not to exceed \$200 million.

Amounts borrowed under the Revolving Credit Facility bear interest, at our option, at a rate equal to either (a) the Eurodollar Rate (as defined in the credit agreement) plus 3.00% to 3.75%, or (b) the base rate (as described below) plus 2.00% to 2.75%, in each case depending on the ratio of our consolidated debt to consolidated EBITDA (as defined in the credit agreement), with a lower leverage ratio resulting in lower rates. The base rate equals the highest of (i) the administrative agent's prime lending rate, (ii) the Federal Funds Rate plus $\frac{1}{2}$ of 1%, or (iii) the one-month Eurodollar Rate (as defined in the credit agreement) plus 1%.

A commitment fee is payable on the unused portion of the Revolving Credit Facility in an amount equal to 0.50% per annum if average availability is less than 50% of the total commitments, or 0.75% per annum if average availability is 50% or more of the total commitments, in each case based on average availability during the previous fiscal quarter.

The Revolving Credit Facility is secured with a first priority lien on cash, accounts receivable, inventory and certain intangibles, and through cross-collateralization with the term loan, a second priority lien on all other assets, including fixed assets. The Revolving Credit Facility is guaranteed by all of our material domestic subsidiaries and provides for customary events of default.

The Revolving Credit Facility includes covenants that restrict, subject to specified exceptions, our ability to:

- create or permit liens on our assets;
- incur additional indebtedness or issue redeemable equity securities;
- guarantee indebtedness;
- merge or consolidate with a third party;
- sell or otherwise dispose of assets;
- pay dividends or effect stock buy-backs;
- issue or sell stock of subsidiaries;
- make loans, investments and acquisitions;
- enter into transactions with affiliates;
- change the lines of business in which we are engaged;
- change our fiscal year;
- make voluntary prepayments or redemptions of subordinated indebtedness;
- enter into agreements that limit our subsidiaries' ability to pay distributions to or enter into transactions with us;

Table of Contents

- maintain cash balances in excess of \$15 million without using such excess cash to prepay loans under the Revolving Credit Facility; and
- enter into receivables financings or securitization programs.

Although the Revolving Credit Facility restricts acquisitions, investments and the payment of dividends, respectively, acquisitions, investments and dividends are permitted, subject to restrictions under the existing term loan agreement, if (a) pro forma current and average 90-day historical availability each exceed the greater of \$50 million or 50% of the total commitments, or (b) pro forma projected, current and average 90-day historical availability each exceed the greater of \$25 million or 25% of the total commitments and we meets a minimum consolidated fixed charge coverage ratio. Finally, the Revolving Credit Agreement includes a covenant requiring a minimum consolidated fixed charge coverage ratio should availability be less than the greater of \$15 million or 15% of the total commitments.

The following table summarizes our changes in cash for the periods presented (in thousands):

	Nine Months Ended	
	March 31,	
	2010	2009
Cash flows provided by (used for):		
Operating activities	\$28,044	\$ 22,319
Investing activities	(6,401)	(15,057)
Financing activities	(2,016)	(7,492)
Change in cash and cash equivalents	<u>\$19,627</u>	<u>\$ (230)</u>

Operating activities

In the first nine months of fiscal 2010, we generated positive net cash flows from operations of \$28.0 million. The primary components of our operating cash flows were net income of \$16.1 million (which included the net business interruption insurance recovery of \$17.1 million) plus depreciation and other net non-cash expenses of \$44.0 million and the federal income tax refund of \$39.8 million, partially offset by increased investment in working capital of \$70.6 million.

Accounts receivable increased \$64.6 million to \$163.1 million at March 31, 2010 from \$98.5 million at June 30, 2009. Days of sales outstanding at both March 31, 2010 and June 30, 2009 were consistent with our average of approximately 30 days; however, product revenues for the month of March 2010 were 57% higher than product revenues in the month of June 2009. March 2010 average selling prices were approximately 70% higher than June 2009 average selling prices, which was more than sufficient to offset the effect of 8% lower sales volume in March 2010 versus June 2009.

Our inventory at March 31, 2010 of \$97.3 million was \$60.4 million higher than the \$36.9 million at June 30, 2009. The increase in inventory value reflected the combined effect of significantly higher physical inventory volumes and higher overall average cost per pound. Overall pounds in inventory and overall average cost per pound at March 31, 2010 were up approximately 63% and 62%, respectively, compared to June 30, 2009. The impact of the higher volume and higher average cost were \$37 million and \$23 million, respectively.

In the nine months of fiscal 2009, we had positive net cash flows from operations of \$22.3 million. The primary components of operating cash flows were the net loss of \$30.6 million, offset by depreciation and other net non-cash expenses of \$34.8 million, cash outflow related to plant turnaround activity of \$5.8 million and cash inflow from reduced investment in working capital of \$22.4 million.

Table of Contents

Investing activities

During the first nine months of fiscal 2010, we invested \$6.4 million in the form of capital expenditures. The low level of capital expenditures in the period reflected completion of our major capital investment initiatives in the first quarter of fiscal 2009 and the return to our baseline capital requirements within our disciplined approach to spending.

During the first nine months of fiscal 2009, we invested \$15.1 million in the form of capital expenditures, primarily related to our polyisobutylene plant that started up in October 2008.

Financing activities

During the first nine months of fiscal 2010, we had net outflows from financing activities of \$2.0 million, consisting of principal repayments on our Term Loan of \$2.4 million, partially offset by net inflows from borrowings to finance our insurance premiums of \$0.4 million.

During the first nine months of fiscal 2009, we had net outflows from financing activities of \$7.5 million, consisting primarily of principal repayments on our Term Loan of \$2.1 million, net repayments on our Revolving Credit Facility of \$2.8 million and repurchase of shares for \$3.0 million, partially offset by net inflows from borrowings to finance our insurance premiums of \$1.1 million.

Off-balance-sheet arrangements

We do not currently utilize any off-balance-sheet arrangements to enhance our liquidity and capital resource positions, or for any other purpose.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material developments during the first nine months of fiscal 2010 regarding the matters previously disclosed about quantitative and qualitative market risk in Amendment No. 1 to our registration statement on Form 10 filed on January 8, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our Disclosure Committee and our management, including our President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our President and Chief Executive Officer, and Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2010.

Changes in Internal Controls

During the quarter ended March 31, 2010 there were no changes in our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note M to the condensed consolidated financial statements for a description of certain legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On December 4, 2009 we issued an aggregate of 54,348 shares of restricted stock pursuant to our 2009 Long Term Incentive Plan to non-employee directors of the Company as part of their director compensation. We did not receive any cash proceeds from the issuance of such shares. All of such shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act, as the shares were issued in transactions not involving any public offering or distribution.

Table of Contents

Item 6. Exhibits

**Exhibit
No.**

- 4.5 Amended and Restated Revolving Credit Agreement dated as of April 29, 2010 among TPC Group LLC and the other borrowers named therein, as Borrowers, TPC Group LLC, as Funds Administrator, various lending institutions, as Lenders, Deutsche Bank Trust Company Americas, as Administrative Agent, Deutsche Bank Trust Company Americas and Wells Fargo Capital Finance LLC as Co-Collateral Agents, and Deutsche Bank Trust Company Americas, as Collateral Agent (incorporated herein by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed May 3, 2010).
- 10.1 Agreement dated March 23, 2010 between TPC Group Inc., TPC Group LLC and Ruth I. Dreessen (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 24, 2010).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

CERTIFICATION

I, Charles W. Shaver, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TPC Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Not applicable];
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Charles W. Shaver

Charles W. Shaver

President and Chief Executive Officer

CERTIFICATION

I, Ruth I. Dreessen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TPC Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Not applicable];
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Ruth I. Dreessen

Ruth I. Dreessen

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TPC Group Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles W. Shaver, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: May 14, 2010

/s/ Charles W. Shaver

Charles W. Shaver

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TPC Group Inc. (the "Company") on Form 10-Q for the fiscal quarter ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ruth I. Dreessen, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Date: May 14, 2010

/s/ Ruth I. Dreessen

Ruth I. Dreessen

Executive Vice President and Chief Financial Officer