SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1998-07-22** | Period of Report: **1997-12-31**
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FILER

AMERICAN PACIFIC CORP

CIK:**350832**| IRS No.: **596490478** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-Q/A** | Act: **34** | File No.: **000-21046** | Film No.: **98669423**
SIC: **2810** Industrial inorganic chemicals

Mailing Address
3770 HOWARD HUGHES PKWY STE 300
3770 HOWARD HUGHES PKWY STE 300
LAS VEGAS NV 89109

Business Address
3770 HOWARD HUGHES PKWY STE 300
LAS VEGAS NV 89109
7027352200

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A
(AMENDMENT NO. 3)

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

FOR QUARTERLY PERIOD ENDED DECEMBER 31, 1997

COMMISSION FILE NUMBER 1-8137

OR

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

AMERICAN PACIFIC CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	59-6490478
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3770 HOWARD HUGHES PARKWAY, SUITE 300 LAS VEGAS, NV	89109
(Address of principal executive offices)	(Zip Code)

(702) 735-2200
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report.)

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

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 8,137,537 as of January 31, 1998.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The information required by Rule 10-01 of Regulation S-X is provided on pages 4 through 10 of this Report on Form 10-Q.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by Item 303 of Regulation S-K is provided on pages 11 through 16 of this Report on Form 10-Q.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by Item 103 of Regulation S-K is provided on pages 8 through 9 of this Report on Form 10-Q.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8 -K

a) The following Exhibit was filed in connection with the Registrant's original electronic filing:

27. Financial Data Schedule.

b) None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN PACIFIC CORPORATION

Date: July 21, 1998

/S/ JOHN R. GIBSON

John R. Gibson
Chief Executive Officer and

President

Date: July 21, 1998

/S/ DAVID N. KEYS

David N. Keys
Vice President, Chief
Financial Officer, Secretary
and Treasurer; Principal
Financial and Accounting
Officer

AMERICAN PACIFIC CORPORATION
Condensed Consolidated Statements of Operations
For the Three Months Ended December 31,
(Unaudited)

	1997	1996
Sales and Operating Revenues	$ 11,268,000	$ 8,396,000
Cost of Sales	8,106,000	7,083,000
Gross Profit	3,162,000	1,313,000
Operating Expenses	2,183,000	2,363,000
Operating Income (Loss)	979,000	(1,050,000)
Equity in Earnings of Real Estate Venture	300,000	
Net Interest and Other Expense	713,000	240,000
Income (Loss) Before Provision (Credit) for Income Taxes	566,000	(1,290,000)
Provision (Credit) for Income Taxes		(440,000)
Net Income (Loss)	$ 566,000	$ (850,000)
Basic Net Income (Loss) Per Share	$ .07	$ (.10)
Average Shares Outstanding	8,138,000	8,099,000
Diluted Net Income (Loss) Per Share	$ .07	$ (.10)

Diluted Shares	8,217,000	8,099,000

See the accompanying Notes to Condensed Consolidated Financial Statements.

AMERICAN PACIFIC CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

	DECEMBER 31, 1997	SEPTEMBER 30, 1997
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	$12,989,000	$18,881,000
Accounts and Notes Receivable	9,905,000	5,551,000
Related Party Notes Receivable	612,000	637,000
Inventories	10,880,000	11,116,000
Prepaid Expenses and Other Assets	1,511,000	979,000
TOTAL CURRENT ASSETS	35,897,000	37,164,000
Property, Plant and Equipment, Net	19,632,000	19,314,000
Development Property	7,053,000	7,362,000
Real Estate Equity Investments	18,535,000	20,248,000
Other Assets	2,329,000	2,413,000
Restricted Cash	6,408,000	3,580,000
TOTAL ASSETS	$89,854,000	$90,081,000

See the accompanying Notes to Condensed Consolidated Financial Statements.

AMERICAN PACIFIC CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

<TABLE>
<CAPTION>

	DECEMBER 31, 1997	SEPTEMBER 30, 1997
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES:

<S>	<C>	<C>
Accounts Payable and Accrued Liabilities	$ 7,229,000	$ 7,519,000
Current Portion of Long-Term Debt	5,000,000	6,166,000
TOTAL CURRENT LIABILITIES	12,229,000	13,685,000
Long-Term Debt	25,006,000	24,900,000
Long-Term Payables	2,933,000	2,376,000
TOTAL LIABILITIES	40,168,000	40,961,000
Commitments and Contingencies		
Warrants to Purchase Common Stock	3,569,000	3,569,000
SHAREHOLDERS' EQUITY:		
Common Stock	829,000	829,000
Capital in Excess of Par Value	78,561,000	78,561,000
Accumulated Deficit	(32,141,000)	(32,707,000)
Treasury Stock	(1,035,000)	(1,035,000)
Receivable from the Sale of Stock	(97,000)	(97,000)
TOTAL SHAREHOLDERS' EQUITY	46,117,000	45,551,000
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$89,854,000	$90,081,000

</TABLE>

See the accompanying Notes to Condensed Consolidated Financial Statements.

AMERICAN PACIFIC CORPORATION
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended December 31,
(Unaudited)

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
Cash Used For Operating Activities	$ (5,470,000)	$ (963,000)
Cash Flows Provided by (Used for) Investing Activities:		
Capital Expenditures	(969,000)	(912,000)
Real estate equity investment capital activity	1,713,000	(163,000)
Net Cash Provided by (Used For) Investing Activities	744,000	(1,075,000)

Cash Flows From Financing Activities:		
Principal Payment on Debt	(1,166,000)	
Treasury Stock Acquired		(156,000)
Issuance of Common Stock		70,000
Net Cash Used For Financing Activities	(1,166,000)	(86,000)
Net Decrease in Cash and Cash Equivalents	(5,892,000)	(2,124,000)
Cash and Cash Equivalents, Beginning of Period	18,881,000	18,501,000
Cash and Cash Equivalents, End of Period	$ 12,989,000	$16,377,000

</TABLE>

See the accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

1. BASIS OF REPORTING

The accompanying Condensed Consolidated Financial Statements are unaudited and do not include certain information and disclosures included in the Annual Report on Form 10-K of American Pacific Corporation (the "Company"). The Condensed Consolidated Balance Sheet as of September 30, 1997 was derived from the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 1997. Such statements should therefore be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1997. In the opinion of Management, however, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation have been included. The operating results and cash flows for the three-month period ended December 31, 1997 are not necessarily indicative of the results that will be achieved for the full fiscal year or for future periods.

2. NET INCOME (LOSS) PER COMMON SHARE

During the first quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings per Share." SFAS No. 128 requires the presentation of basic net income (loss) per share and diluted net income (loss) per share. Basic per share amounts are computed by dividing net income (loss) by average shares outstanding during the period. Diluted per share amounts are computed by dividing net income (loss) by average shares outstanding plus the dilutive effect of common share equivalents. Since the Company incurred a net loss during the three-month period ended December 31, 1996, both basic and diluted per share calculations are based upon average shares outstanding of 8,099,000 during this period. The effect of options and warrants outstanding to purchase 3,230,000 shares was not included in diluted calculations during this period. Diluted net income per share during the first quarter of fiscal 1998 is determined considering the dilutive effect of outstanding stock options and warrants. The effect of options and warrants outstanding to purchase 3,160,000 shares was not included in diluted calculations during the first quarter of fiscal 1998 since the exercise price of such options and warrants was greater than the average price of the Company's common shares.

3. INVENTORIES

Inventories consist of the following:

	December 31, 1997	September 30, 1997
Work-in-process	7,517,000	$ 3,349,000
Raw materials and supplies	3,363,000	7,767,000
Total	10,880,000	$ 11,116,000

4. COMMITMENTS AND CONTINGENCIES

In fiscal 1993, three shareholder lawsuits were filed in the United States District Court for the District of Nevada against the Company and certain of its directors and officers (the "Company Defendants"). The complaints, which were consolidated, alleged that the Company's public statements violated Federal securities laws by inadequately disclosing information concerning its agreements with Thiokol Corporation ("Thiokol") and the Company's operations. On November 27, 1995, the U.S. District Court granted in part the Company's motion for summary judgment, ruling that the Company had not violated the Federal securities laws in relation to disclosures concerning the Company's agreements with Thiokol. The remaining claims, which related to allegedly misleading or inadequate disclosures regarding Halotron, were the subject of a jury trial that ended on January 17, 1996. The jury reached a unanimous verdict that none of the Company Defendants made misleading or inadequate statements regarding Halotron. The District Court thereafter entered judgment in favor of the Company Defendants on the Halotron claims. The plaintiffs appealed the summary judgment ruling and the judgment on the jury verdict to the Ninth Circuit of the United States Court of Appeals. On June 5, 1997, the Court of Appeals affirmed the judgments of the United States District Court in favor of the Company Defendants. On June 19, 1997, the plaintiffs filed an Appellants Petition for Rehearing and Suggestion of Rehearing En Banc with the Court of Appeals. On September 3, 1997, the Court of Appeals denied the Petition for Rehearing. In October 1997, the plaintiffs filed a Petition for Writ of Certiorari with the Supreme Court of the United States.

Trace amounts of perchlorate chemicals have been found in Lake Mead. Clark County, Nevada, where Lake Mead is situated, is the location of Kerr-McGee Chemical Corporation's ("Kerr-McGee") ammonium perchlorate ("AP") operations, and was the location of the Company's AP operations until May 1988. The Company is cooperating with State and local agencies, and with Kerr-McGee and other interested firms, in the investigation and evaluation of the source or sources of these trace amounts, possible environmental impacts, and potential remediation methods. Until these investigations and evaluations have reached definitive conclusions, it will not be possible for the

Company to determine the extent to which, if at all, the Company may be called upon to contribute to or assist with future remediation efforts, or the financial impacts, if any, of such cooperation, contributions or assistance.

5. INCOME TAXES

The Company established a valuation allowance for deferred tax assets in the amount of $10,431,000 as of September 30, 1997. The Company's effective tax rate will be 0% until its net operating losses expire or the Company has taxable income necessary to eliminate the need for the valuation allowance.

6. ASSET PURCHASE AGREEMENT

On October 10, 1997, the Company entered into an Asset Purchase Agreement (the "Agreement") with Kerr-McGee. The Agreement contemplates that the Company will acquire intangible assets related to Kerr-McGee's production of AP.

The Agreement calls for a purchase price of $39 million, and grants the Company the option to purchase limited AP inventory of Kerr-McGee for additional consideration.

Closing of the transaction is subject to a number of conditions, including the Company's securing of financing for 100 percent of the purchase price and Board of Director approvals by both parties. In December 1997, the Company received notification that the Federal Trade Commission ("FTC") had determined to grant early termination of the waiting period relating to the Company's and Kerr-McGee's premerger notification filings with the FTC and the Department of Justice under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company has entered into long-term pricing agreements for AP with certain major customers that are contingent upon the closing of the transaction and, on a continuing basis, that will be contingent upon agreement on the terms of specific purchase orders.

There can be no assurance that the conditions to closing of the transaction will be satisfied, or that the transaction will close. The management of the Company will, however, make all reasonable efforts to meet all conditions, and to conclude successfully this transaction.

7. REAL ESTATE EQUITY INVESTMENTS

The Company's interest in Gibson Ranch Limited Liability Company ("GRLLC") is accounted for using the equity method. GRLLC operates on a calendar year. The Company recognizes its share of the equity in GRLLC on a current quarterly basis. Summarized financial information for GRLLC as of and for the three-month period ended December 31, 1997 was as follows:

Income Statement:	
Revenues	$ 7,871,000
Gross Profit	1,865,000
Operating Expenses	394,000

Net Income	1,466,000
Balance Sheet:	
Assets	$27,659,000
Liabilities	13,334,000
Equity	$14,325,000

GRLLC's balance sheet is not classified. Assets consist principally of inventories and liabilities consist principally of Notes and accounts payable. Inventories were $25,751,000 at December 31, 1997.

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

OVERVIEW

The Company is principally engaged in the production of AP for the aerospace and national defense industries. In addition, the Company produces and sells sodium azide, the primary component of a gas generant used in automotive airbag safety systems, and Halotron, a chemical used in fire suppression systems ranging from portable fire extinguishers to airport firefighting vehicles. The perchlorate, sodium azide and Halotron facilities are located on the Company's property in Southern Utah and the chemicals produced and sold at these facilities collectively represent the Company's specialty chemical segment. The Company's other lines of business include the development of real estate in Nevada and the production of environmental protection equipment, including waste and seawater treatment systems.

The Company has incurred net losses during its last three fiscal years and operating losses during the fiscal years ended September 30, 1997 and 1995. As a result, pre-tax income has not been sufficient to recover interest charges.

The Company believes that North American AP demand is currently approximately 22 to 24 million pounds annually. However, supply capacity is substantially in excess of these estimated demand levels. In an effort to rationalize the economics of the existing AP market, the Company entered into the Agreement with Kerr-McGee. The Agreement contemplates that the Company will acquire certain intangible assets related to Kerr-McGee's production of AP. The Agreement calls for a purchase price of $39 million, and grants the Company the option to purchase limited AP inventory of Kerr-McGee for additional consideration.

Closing of the transaction is subject to a number of conditions, including the Company's securing of financing for 100 percent of the purchase price and Board of Director approvals by both parties. In December 1997, the Company received notification that the FTC had determined to grant early termination of the waiting period relating to the Company's and Kerr-McGee's premerger notification filings with the FTC and the Department of Justice. The Company has entered into long-term pricing agreements for AP with certain of its major customers that are contingent upon the closing of the transaction and, on a continuing basis, that will be contingent upon agreement on terms of specific purchase orders. There can be no assurance that the conditions to closing of the transaction will be satisfied, or that the transaction will close.

SALES AND OPERATING REVENUES. Sales of the Company's perchlorate chemical products, consisting almost entirely of AP sales, accounted for approximately 50% and 49% of revenues during the three-month periods ended December 31, 1997 and 1996, respectively. In general, demand for AP is driven by a relatively small number of DOD and NASA contractors; as a result, any one individual AP customer usually accounts for a significant portion of the Company's revenues.

Sodium azide sales accounted for approximately 32% and 37% of revenues during the three-month periods ended December 31, 1997 and 1996, respectively. The Company has incurred significant operating losses in its sodium azide operation during the last three fiscal years. Although the Company has achieved significant gains in market share that appear to relate to an anti-dumping petition filed by the Company against three Japanese sodium azide producers and the resulting suspension agreement, the Company believes that these factors were fully incorporated into the market by the end of fiscal 1997. The Company's evaluation of the sodium

azide market indicated that the cash flows associated with sodium azide operations would not be sufficient to recover the Company's investment in sodium azide related fixed assets and, as a result, the Company recognized an impairment charge with respect to those assets of $52.6 million in the fourth quarter of fiscal 1997. Depreciation expense is expected to decrease annually by approximately $4.0 million as a result of the impairment charge.

Sales of Halotron amounted to approximately 1% and 5% of revenues during the three-month periods ended December 31, 1997 and 1996, respectively. Halotron is designed to replace halon-based fire suppression systems. Accordingly, demand for Halotron depends upon a number of factors including the willingness of consumers to switch from halon-based systems, as well as existing and potential governmental regulations.

Real estate and related sales amounted to approximately 15% and 1% of revenues during the three-month periods ended December 31, 1997 and 1996, respectively. The nature of real estate development and sales is such that the Company is unable to reliably to predict any pattern of future real estate sales or the recognition of the equity in earnings of real estate ventures.

Environmental protection equipment sales accounted for approximately 2% and 7% of revenues during the three-month periods ended December 31, 1997 and 1996, respectively.

COST OF SALES. The principal elements comprising the Company's cost of sales are raw materials, electric, power, labor, manufacturing overhead and the basis in real estate sold. The major raw materials used by the Company in its production processes are graphite, sodium chlorate, ammonia, hydrochloric acid, sodium metal, and nitrous oxide. Significant increases in the cost of raw materials may have an adverse impact on margins if the Company is unable to pass along such increases to its customers, although all the raw materials used in the Company's manufacturing processes have historically been available in commercial quantities, and the Company has had no difficulty obtaining necessary raw materials.

Raw material, electric power and labor costs have not changed significantly recently. The costs of operating the Company's specialty chemical plants are, however, largely fixed. Accordingly, the Company believes that the potential additional AP sales volume resulting from the acquisition from Kerr-McGee should generate significant incremental cash flow because of the operating leverage associated with the perchlorate plant. However, amortization of costs associated with the acquisition is expected to amount to approximately $4.0 million annually.

INCOME TAXES. The Company's effective income tax rates were 0% during the three-month period ended December 31, 1997 and 34% during the three-month period ended December 31, 1996. The Company's effective income tax rate decreased to 17% for the entire 1997 fiscal year as a result of the establishment of a $10.4 million deferred tax valuation allowance in the fourth quarter. The Company's effective tax rate will be 0% until the Company's net operating losses expire or the Company has taxable income in an amount sufficient to eliminate the need for the valuation allowance.

NET INCOME (LOSS). Although the Company's net income (loss) and diluted net income (loss) per common share have not been subject to seasonal fluctuations, they have been and are expected to continue to be subject to variations from quarter to quarter and year to year due to the following factors, among others: (i) as discussed in Note 4 of Notes to Condensed Consolidated Financial Statements, the Company may incur material costs associated with certain contingencies; (ii) timing of real estate and related sales and equity in earnings of real estate ventures is not predictable; (iii) the recognition of revenues from environmental protection equipment orders not accounted for as long-term contracts depends upon orders generated

and the timing of shipment of the equipment; (iv) weighted average common and common equivalent shares for purposes of calculating diluted net income (loss) per common share are subject to significant fluctuations based upon changes in the market price of the Company's Common Stock due to outstanding warrants and options; and (v) the magnitude, pricing and timing of AP, sodium azide, Halotron, and environmental protection equipment sales in the future is uncertain.

RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1997 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1996

SALES AND OPERATING REVENUES. Sales increased $2.9 million, or 35% during the three months ended December 31, 1997 to $11.3 million from $8.4 million in the corresponding period of the prior year. This increase was attributable to increased sales of perchlorate, sodium azide and real estate. Such increase was partially offset by decreases in Halotron and environmental protection equipment sales.

COST OF SALES. Cost of sales increased $1.0 million, or 14%, in the three months ended December 31, 1997 to $8.1 million from $7.1 million in the corresponding period of the prior year. This increase was principally due to increases in perchlorate and sodium azide sales volume. As a percentage of sales, cost of sales decreased in the three months ended December 31, 1997 to 72% as compared to 84% in the corresponding period of the prior year. This decrease was due principally to the increase in perchlorate and sodium azide sales volume and a reduction in depreciation expense as a result of the sodium azide impairment charge referred to above.

OPERATING EXPENSES. Operating (selling, general and administrative) expenses decreased $.2 million, or 8%, in the three months ended December 31, 1997 to $2.2 million from $2.4 million in the corresponding period of 1996.

NET INTEREST EXPENSE. Net interest and other expense increased to $.7 million in the three months ended December 31, 1997 from $.3 million in the corresponding period of the prior year principally as a result of the cessation of interest capitalization on the Company's Ventana Canyon residential joint venture project.

EQUITY IN EARNINGS OF REAL ESTATE VENTURE. The Company's share of equity in its

Ventana Canyon joint venture was $.3 and $0 million during the three-month periods ended December 31, 1997 and 1996. The joint venture has historically operated at or near a break-even point on residential activity and generated net income on sales of improved land. The increase in the equity in earnings of the venture relates principally to the sale of improved land to an outside developer in the first quarter of fiscal 1998.

Statement Operating Income (Loss). Operating income (loss) of the Company's industry segments during the three-month periods ended December 31, 1997 and 1996 was as follows:

	1997	1996
Specialty chemicals	$ 95,000	$ (870,000)
Environmental protection equipment	(164,000)	(139,000
Real Estate	1,168,000	(76,000)
Total	$1,099,000	$ (1,085,000)

The increase in operating income in the Company's specialty chemical industry segment was primarily attributable to a decrease in depreciation expense associated with sodium azide operations as a result of the impairment charge discussed above. The increase in operating income in the Company's real estate segment relates principally to an increase in sales from $.1 million during the three months ended December 31, 1996 to $1.7 million during the three months ended December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows used by operating activities were $5.3 million and $1.0 million during the three-month periods ended December 31, 1997 and 1996, respectively. Cash flows from operating activities declined in the first quarter of fiscal 1998 principally as a result of changes in certain working capital balances, most notably a significant increase in receivables related to AP shipments in late December, 1997. Such receivables are scheduled to be collected in the second quarter of fiscal 1998. The Company believes that its cash flows from operations and existing cash balances will be adequate for the foreseeable future to satisfy the needs of its operations. However, the resolution of litigation and contingencies, and the timing, pricing and magnitude of orders for AP, sodium azide and Halotron, may have an effect on the use and availability of cash.

Capital expenditures were $1.0 million during the three months ended December 31, 1997 compared to $.9 million during the same period last year. Capital expenditures are budgeted to amount to approximately $2.5 million in fiscal 1998 and relate principally to specialty chemical segment capital improvement projects.

During the three-month period ended December 31, 1997, the Company received cash of approximately $1.7 million relating to the return of capital invested in the Ventana Canyon joint venture. The Company currently anticipates that cash returns of invested capital and equity in earnings will continue through the conclusion of the project currently projected by the end of calendar 2001.

As a result of the litigation and contingencies described in Note 4 of Notes to Condensed Consolidated Financial Statements, the Company has incurred legal and other costs and may incur material legal and other costs associated with the resolution of these matters in future periods. Certain of the costs, if any, may be reimbursable under policies providing for insurance coverage. The Company has adopted certain policies in its Charter and Bylaws as a result of which the Company may be required to indemnify its affected officers and directors to the extent, if at all, that existing insurance coverages relating to the shareholder lawsuits are insufficient. The Company has in force substantial insurance covering this risk. The Company's insurance carriers have reserved the right to exclude or disclaim coverage under certain circumstances. Defense costs and any potential settlement or judgment costs associated with litigation, to the extent borne by the Company and not recovered through insurance, would adversely affect the Company's liquidity. The Company is currently unable to predict or quantify the amount or range of such costs, if any, or the period of time that litigation related costs will be incurred.

The Company is currently in the process of evaluating its computer software and databases to determine whether or not modifications will be required to prevent problems related to the Year 2000. These problems, which have been widely reported in the media, could cause malfunctions in certain software and databases with respect to dates on or after January 1, 2000, unless corrected. Based upon its evaluation to date, the Company does not believe that the costs of any modifications required to correct for Year 2000 problems will have a material impact on operations, although there can be no assurance given with respect thereto.

As a condition of the Agreement with Kerr-McGee, the Company will be required to obtain financing for 100 percent of the purchase price. The Company currently expects that such financing will be available on customary commercial terms, although there can be no assurance given with respect thereto.

FORWARD-LOOKING STATEMENTS/RISK FACTORS

Certain matters discussed in this Report may be forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, but are not limited to, the risk factors set forth below. The following important risk factors, among others, may cause the Company's operating results and/or financial position to be adversely affected from time to time:

1. Declining demand or downward pricing pressure for the Company's products as a result of general or specific economic conditions, further governmental budget decreases affecting the Department of Defense or NASA which would cause a continued decrease in demand for AP, the results achieved by the Suspension Agreement resulting from the Company's anti-dumping petition and the possible

termination of such agreement, technological advances and improvements or new competitive products causing a reduction or elimination of demand for AP, sodium azide or Halotron, the ability and desire of purchasers to change existing products or substitute other products for the Company's products based upon perceived quality and pricing, and the fact that perchlorate chemicals, sodium azide, Halotron and the Company's environmental products have limited applications and highly concentrated customer bases.

2. Competitive factors including, but not limited to, the Company's limitations respecting financial resources and its ability to compete against companies with substantially greater resources, significant excess market supply in the AP and sodium azide markets and the development or penetration of competing new products, particularly in the propulsion, airbag inflation and fire suppression businesses.

3. Underutilization of the Company's manufacturing facilities resulting in production inefficiencies and increased costs, the inability to recover facility costs and reductions in margins.

4. Difficulties in procuring raw materials, supplies, power and natural gas used in the production of perchlorates, sodium azide and Halotron products and used in the engineering and assembly process for environmental protection equipment products.

5. The Company's ability to control the amount of operating expenses and/or the impact of any non-recurring or unusual items resulting from the Company's continuing evaluation of its strategies, plans, organizational structure and asset valuations.

6. Risks associated with the Company's real estate activities, including, but not limited to, dependence upon the Las Vegas commercial, industrial and residential real estate markets, changes in general or local, economic conditions, interest rate fluctuations affecting the availability and the cost of financing, the performance of the managing partner of its residential real estate joint venture (Ventana Canyon Joint Venture) and regulatory and environmental matters that may have a negative impact on sales or costs.

7. The effects of, and changes in, trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies or similar organizations, including, but not limited to, environmental, safety and transportation issues.

8. The cost and effects of legal and administrative proceedings, settlements and investigations, particularly those described in Note 4 of Notes to Condensed Consolidated Financial Statements and claims made by or against the Company relative to patents or property rights.

9. The adoption of new, or changes in existing, accounting policies and practices.

10. Closing of the Agreement to acquire the Kerr-McGee AP business.

11. The results of the Company's periodic review of impairment issues under the provision of SFAS No. 121.

12. The dependence upon a single facility for the production of most of the Company's products.