UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

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

For the transition period from __________ to __________

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	73-1015226
(State of Incorporation)	(I.R.S. Employer) Identification No.)

16 South Pennsylvania Avenue Oklahoma City, Oklahoma	73107
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (405) 235-4546

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). [ ] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [X]

Non-accelerated filer [ ] Smaller reporting company [ ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

The aggregate market value of the Registrant’s voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2009, was approximately $227 million. As a result, the Registrant is an accelerated filer as of December 31, 2009. For purposes of this computation, shares of the Registrant’s common stock beneficially owned by each executive officer and director of the Registrant were deemed to be owned by affiliates of the Registrant as of June 30, 2009. Such determination should not be deemed an admission that such executive officers and directors of our common stock are, in fact, affiliates of the Registrant or affiliates as of the date of this Form 10-K.

As of February 28, 2010, the Registrant had 21,226,063 shares of common stock outstanding (excluding 4,143,362 shares of common stock held as treasury stock).

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PART I

ITEM 1. BUSINESS

General

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

- Climate Control Business engaged in the manufacturing and selling of a broad range of heating, ventilation and air conditioning (“HVAC”) products for the niche markets we serve. These products are used to control the environment in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems.
- Chemical Business engaged in the manufacturing and selling of nitrogen based chemical products produced from three plants located in Arkansas, Alabama and Texas for the agricultural, industrial, and mining markets.

Certain of our other subsidiaries outside of ThermaClime own facilities and operations, including our previously idled chemical facility located in Pryor, Oklahoma (the “Pryor Facility”), within our above described core businesses.

We believe our Climate Control Business has developed leadership positions in certain niche markets by offering extensive product lines, customized products and improved technologies. Under this focused strategy, we have developed what we believe to be the most extensive line of geothermal and water source heat pumps and hydronic fan coils in the United States. Further, we believe that we were a pioneer in the use of geothermal technology in the climate control industry and have used it to create what we believe to be the most energy efficient climate control systems commercially available today. We employ highly flexible production capabilities that allow us to custom design units for new construction as well as the retrofit and replacement markets.

Our Chemical Business has three chemical production facilities located in El Dorado, Arkansas (the “El Dorado Facility”), Cherokee, Alabama (the “Cherokee Facility”) and Baytown, Texas (the “Baytown Facility”). Our products include fertilizer and industrial grade ammonium nitrate (“AN”), urea ammonium nitrate (“UAN”), nitric acid in various concentrations, nitrogen solutions and various other products. Our Chemical Business is a supplier to some of the world’s leading chemical and industrial companies. By focusing on specific geographic areas, we have developed freight and distribution advantages over many of our competitors, and we believe our Chemical Business has established leading regional market positions, a key element in the success of this business.

In addition as discussed below under “Chemical Business - Agricultural Products,” during 2009, we activated a portion of our previously idled Pryor Facility. We encountered numerous unanticipated delays, but began production of anhydrous ammonia in January 2010, however at production rates lower than our targeted rates. Anhydrous ammonia is the initial feedstock for the production of UAN.

Certain statements contained in this Part I may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Current State of the Economy

Since our two business segments serve several diverse markets, we consider market fundamentals for each market individually as we evaluate economic conditions.

Climate Control Business - The downturn in commercial and residential construction has had a significant adverse effect on our Climate Control Business’ product order level and sales in 2009. Based upon published reports of leading indicators, including the Construction Market Forecasting Service published by McGraw-Hill Construction Research & Analytics, a business unit of the McGraw-Hill Companies (“McGraw-Hill”), and the national architecture billings index published by the American Institute of Architects (“AIA”), the overall commercial construction sector is not expected to recover during 2010. On the other hand, McGraw-Hill has projected an increase in both single-family residential and multi-family construction during 2010. Another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives, although we can not predict the impact these programs will have on our business.

Chemical Business - In our Chemical Business, approximately 60% of our 2009 sales were into industrial and mining markets. Approximately 75% of these sales are to customers that have contractual obligations to purchase a minimum quantity or allow us to recover our cost plus a profit, irrespective of the volume of product sold. It is unclear to us how these markets will respond in 2010 but it appears that market demand for these products could be flat to slightly up for the first half of 2010.

The remaining 40% of our Chemical Business 2009 sales were made into the agricultural fertilizer markets to customers that do not purchase pursuant to contractual arrangements. Our agricultural sales volumes and margins depend upon the supply of, and the demand, for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat and forage. The current outlook remains uncertain but most market indicators, including reports in Green Markets, Fertilizer Week and other industry publications, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could be adversely affected by lower grain prices, unanticipated spikes in natural gas prices, or unfavorable weather conditions.

See further discussion relating to the economy under various risk factors under Item 1A of this Part 1 and “Overview-Economic Conditions” of the Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) contained in this report.

Website Access to Company's Reports

Our internet website address is www.lsb-okc.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website within a reasonable amount of time after they are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC").

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating income (loss) and identifiable assets attributable to each of our lines of business and of the amount of our export sales in the aggregate and by major geographic area for each of the last three years appear in Note 22 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Climate Control Business

General

Our Climate Control Business manufactures and sells a broad range of standard and custom designed geothermal and water source heat pumps and hydronic fan coils as well as large custom air handlers and modular chiller systems. These products are for use in commercial and residential HVAC systems. Our products are currently installed in some of the most recognizable commercial developments in the country, including Prudential Tower, Rockefeller Plaza, Trump Tower, and Time Warner Center and many others. In addition, we have a significant presence in the lodging industry with installations in numerous Hyatt, Marriott, Four Seasons, Starwood, Ritz Carlton and Hilton hotels. We also have a substantial share of resort destinations in Las Vegas where we have units installed in over 70,000 rooms for a number of premier properties, including the MGM Grand, Luxor, Venetian, Treasure Island, Bellagio, Mandalay Bay, Caesar's Palace, Monte Carlo, Mirage, Golden Nugget, Hard Rock, Wynn resorts, and many others. During 2009, our Climate Control Business saw a significant decline in sales associated with the lodging industry due to the economic downturn.

The following table summarizes net sales information relating to our products of the Climate Control Business:

	2009	2008	2007
Percentage of net sales of the Climate Control Business:			
Geothermal and water source heat pumps	68 %	61 %	58 %
Hydronic fan coils	17 %	27 %	30 %
Other HVAC products	15 %	12 %	12 %
	100 %	100 %	100 %
Percentage of LSB's consolidated net sales:			
Geothermal and water source heat pumps	34 %	25 %	28 %
Hydronic fan coils	9 %	11 %	15 %
Other HVAC products	7 %	5 %	6 %
	50 %	41 %	49 %

Market Conditions for Climate Control Business

We discuss below certain details of our marketing, distribution, production, backlog, competition and new products relative to our geothermal and water source heat pumps, hydronic fan coils and other products produced by our Climate Control Business. At this time, we are unable to assess the possible impact to our Climate Control Business' sales level as a result of the well documented downturn in commercial and residential construction. For the short term, we do expect to see lower demand for most of our products.

We believe that tax credits and incentives, and certain planned direct spending by the federal government contained in the American Reinvestment and Recovery Act of 2009, could stimulate sales of our geothermal heat pump products, as well as other products that could be used to modernize federally owned and operated buildings, military installations, public housing and hospitals. Also see discussion concerning Advanced Manufacturing Energy Credits awarded to two of our subsidiaries under "Liquidity and Capital Resources - Capital Expenditures" of Item 7 of Part II of this report.

Geothermal and Water Source Heat Pumps

We believe we are a leading provider of geothermal and water source heat pumps to the commercial construction and renovation markets in the United States. Water source heat pumps are highly efficient heating and cooling products, which enable individual room climate control through the transfer of heat using a water pipe system, which is connected to a centralized cooling tower or heat injector. Water source heat pumps enjoy a broad range of commercial applications, particularly in medium to large sized buildings with many small, individually controlled spaces. Despite the current economic downturn, we believe the market share for commercial water source heat pumps relative to other types of heating and air-conditioning systems will continue to grow due to the relative efficiency and longevity of such systems, as well as due to the emergence of the replacement market for those systems.

Our Climate Control Business has also developed the use of geothermal heat pumps in residential and commercial applications. Geothermal systems, which circulate water and antifreeze through an underground heat exchanger, are among the most energy efficient systems currently available in the market. We believe the energy efficiency, longer life, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, as well as tax incentives that are available to builders and homeowners when installing geothermal systems, will continue to increase demand for our geothermal products. We specifically target the commercial and institutional markets, as well as single-family new construction, renovation and replacements.

Hydronic Fan Coils

We believe that our Climate Control Business is a leading provider of hydronic fan coils. Our Climate Control Business targets the commercial and institutional markets. Hydronic fan coils use heated or chilled water provided by a centralized chiller or boiler, through a water pipe system, to condition the air and allow individual room control. Hydronic fan coil systems are quieter, have longer lives and lower maintenance costs than other comparable systems used where individual room control is required. Important components of our strategy for competing in the commercial and institutional renovation and replacement markets include the breadth of our product line coupled with customization capability provided by a flexible manufacturing process. Hydronic fan coils enjoy a broad range of commercial applications, particularly in medium to large sized buildings with many small, individually controlled spaces.

Geothermal and Water Source Heat Pump and Hydronic Fan Coil Market

We estimate the annual United States market for geothermal and water source heat pumps and hydronic fan coils was approximately $600 million in 2009 based on December 2009 data supplied by the Air-Conditioning, Heating and Refrigeration Institute ("AHRI"). Levels of repair, replacement, and new construction activity generally drive demand in these markets. However, this market is being impacted by the current economic conditions.

Production, Capital Investments and Backlog

We manufacture our products in many sizes and configurations, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. In addition, most of the customer product orders are placed well in advance of required delivery dates.

During 2009, we invested approximately $6.4 million in additional property, plant and equipment primarily relating to production equipment and other upgrades for additional capacity relating to our Climate Control Business.

As of December 31, 2009, we have committed to spend an additional $1.3 million primarily for facilities expansion and upgrades and production equipment in 2010. Our investment in the Climate Control Business will continue if customer product order intake levels warrant such investment. These investments have and will increase our capacity to produce and distribute our Climate Control products. Additional investments will depend upon our long-term outlook for the economic conditions that might affect our markets. See discussions under "Liquidity and Capital Resources-Capital Expenditures" of Item 7 of Part II of this report, including Advanced Manufacturing Energy Credits awarded to two of our subsidiaries.

As of December 31, 2009 and 2008, the backlog of confirmed customer product orders (purchase orders from customers that have been accepted and received credit approval) for our Climate Control Business was approximately $32.2 million and $68.5 million, respectively. The decrease in our backlog is primarily the result of lower product order levels during 2009 in all major product categories and markets due to the economic downturn. At December 31, 2009, included within our reported backlog is a confirmed order for approximately $3.2 million that has been placed on hold by the customer pending refinancing arrangements. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders and we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms beyond twelve months.

Distribution

Our Climate Control Business sells its products to mechanical contractors, original equipment manufacturers ("OEMs") and distributors. Our sales to mechanical contractors primarily occur through independent manufacturers' representatives, who also represent complementary product lines not manufactured by us. OEMs generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from our Climate Control Business in competition with us. The following table summarizes net sales to OEMs relating to our products of the Climate Control Business:

	2009	2008	2007
Net sales to OEMs as a percentage of:			
Net sales of the Climate Control Business	23 %	20 %	19 %
LSB's consolidated net sales	11 %	9 %	9 %

Market

Our Climate Control Business depends primarily on the commercial construction industry, including new construction and the remodeling and renovation of older buildings, and on the residential construction industry and existing homes for both new and replacement markets relating to their geothermal products.

Raw Materials

Numerous domestic and foreign sources exist for the materials used by our Climate Control Business, which materials include copper, compressors, steel, aluminum, electric motors, and valves. Periodically, our Climate Control Business enters into futures contracts for copper. We do not anticipate any difficulties in obtaining necessary materials for our Climate Control Business. Although we believe we will be able to pass to our customers the majority of any raw material cost increases in the form of higher prices, the timing of these price increases could lag the increases in the cost of materials. While we believe we will have sufficient sources for materials, a shortage of raw materials could impact production of our Climate Control products.

Regulatory Matters

The American Reinvestment and Recovery Act of 2009 contains significant incentives for the installation of our geothermal products. Also see discussion concerning Advanced Manufacturing Energy Credits awarded to two of our subsidiaries under "Liquidity and Capital Resources - Capital Expenditures" of Item 7 of Part II of this report.

Competition

Our Climate Control Business competes primarily with seven companies, some of whom are also our customers. Some of our competitors serve other markets and have greater financial and other resources than we do. Our Climate Control Business manufactures a broader line of geothermal and water source heat pump and fan coil products than any other manufacturer in the United States, and we believe that we are competitive as to price, service, warranty and product performance.

Continue to Introduce New Products

Based on business plans and key objectives submitted by our subsidiaries within our Climate Control Business, we expect to continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new markets served by the Climate Control Business.

Chemical Business

General

Our Chemical Business manufactures products for three principal markets:

- anhydrous ammonia, fertilizer grade AN, UAN, and ammonium nitrate ammonia solution (“ANA”) for the agricultural applications,
- concentrated, blended and regular nitric acid, mixed nitrating acids, metallurgical grade anhydrous ammonia, sulfuric acid, and high purity AN for industrial applications, and
- industrial grade AN and solutions for the mining industry.

The following table summarizes net sales information relating to our products of the Chemical Business:

	2009	2008	2007
Percentage of net sales of the Chemical Business:			
Industrial acids and other chemical products	37 %	38 %	33 %
Agricultural products	41 %	36 %	41 %
Mining products	22 %	26 %	26 %
	100 %	100 %	100 %
Percentage of LSB’s consolidated net sales:			
Agricultural products	20 %	20 %	20 %
Industrial acids and other chemical products	18 %	22 %	16 %
Mining products	11 %	15 %	13 %
	49 %	57 %	49 %

Market Conditions for Chemical Business

We discuss below certain details of our agricultural products, industrial acids and other chemical products, mining products, major customers, raw materials and other sales and industry issues affecting our Chemical Business.

As discussed in more detail under “Overview-Economic Conditions” of the MD&A contained in this report, we are unable to definitively assess the impact to our Chemical Business’ sales level as a result of the current economic recession. At this time based upon information from our sales personnel, it appears that the market demand for our industrial acids and mining products will be flat to slightly up, for the first half of 2010, and the nitrogen fertilizer supply and demand fundamentals appear to be favorable. However, it is possible that the fertilizer outlook could be adversely affected by lower grain prices, unanticipated spikes in natural gas prices, or unfavorable weather conditions.

Agricultural Products

Our Chemical Business produces AN at the El Dorado Facility and anhydrous ammonia, UAN, and ANA at the Cherokee Facility; all of which are nitrogen based fertilizers. The Cherokee Facility also has the ability to produce agricultural grade AN. Although, to some extent, the various forms of nitrogen-based fertilizers are interchangeable, each has its own characteristics, which produce agronomic preferences among end users. Farmers and ranchers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. Our agricultural markets include a high concentration of pastureland and row crops, which favor our products. We sell these agricultural products to farmers, ranchers, fertilizer dealers and distributors located in the Central and Southeastern United States, which are in relatively close proximity to the El Dorado and Cherokee Facilities. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. During the past few years, we have been successful in expanding outside our traditional markets by barging to distributors on the Tennessee and Ohio rivers, and by railing into certain Western States. The El Dorado Facility produces a high performance AN fertilizer that, because of its uniform size, is easier to apply than many competing nitrogen-based fertilizer products. Our subsidiary, El Dorado Chemical Company ("EDC") establishes long-term relationships with end-users through its network of wholesale and retail distribution centers and our subsidiary, Cherokee Nitrogen Company ("CNC") sells directly to agricultural customers.

During 2009, we proceeded to activate a portion of our previously idled Pryor Facility. We encountered numerous unanticipated delays, but began production of anhydrous ammonia in January 2010, which is the initial feedstock for the production of UAN, however at production rates lower than our targeted rates. We are continuing to produce and store anhydrous ammonia while we are activating the Urea plant. The start up of the Urea plant has encountered delays as discussed under "Overview-Chemical Business" of Item 7 of Part II of this report. At the Pryor Facility, natural gas is a primary raw material for producing UAN and anhydrous ammonia. When producing at a sustained level, we expect the Pryor Facility to produce and sell at an annualized rate of approximately 325,000 tons of UAN and 35,000 tons of anhydrous ammonia.

One of our subsidiaries, Pryor Chemical Company ("PCC"), is a party to a contract with Koch Nitrogen Company ("Koch") under which Koch agreed to purchase and distribute substantially all of the UAN produced at the Pryor Facility. Pursuant to the terms of the contract, the UAN will be priced at market prices less a distribution fee and certain shipping costs where applicable.

Industrial Acids and Other Chemical Products

Our Chemical Business manufactures and sells industrial acids and other chemical products primarily to the polyurethane, paper, fibers, fuel additives, emission control, and electronics industries. We are a major supplier of concentrated nitric acid and mixed nitrating acids, specialty products used in the manufacture of fibers, gaskets, fuel additives, ordnance, and other chemical products. In addition, at the El Dorado Facility, we produce and sell blended and regular nitric acid and we are a niche market supplier of sulfuric acid, primarily to the region's key paper and related chemical manufacturers. At the Cherokee Facility, we are also a niche market supplier of industrial and high purity ammonia for many specialty applications, including chemicals to reduce air emissions from power plants. As discussed below under "Introduction of New Product" of this Item 1, as of January 2010, the Cherokee Facility began producing and selling diesel exhaust fluid.

We compete based upon service, price, location of production and distribution sites, product quality and performance. We also believe we are the largest domestic merchant marketer of concentrated and blended nitric acids and provide inventory management as part of the value-added services offered to certain customers.

The Baytown Facility is one of the two largest nitric acid manufacturing units in the United States, with demonstrated capacity exceeding 1,350 short tons per day. The majority of the Baytown Facility's production is sold to Bayer Material Science LLC ("Bayer") pursuant to a long-term contract. See discussion below under "Bayer Agreement" of this Item 1 concerning the replacement of the original Bayer agreement with a new agreement in 2009.

Mining Products

Our Chemical Business manufactures industrial grade AN at the El Dorado Facility and 83% AN solution at the Cherokee Facility for the mining industry. Effective January 1, 2010, EDC is a party to a long-term cost-plus supply agreement. Under this supply agreement, EDC supplies Orica International Pte Ltd. with a significant volume of industrial grade AN per year for a term through December 2014. This new agreement replaces EDC's previous agreement to supply industrial grade AN to Orica USA, Inc. ("Orica").

Major Customers

The following summarizes net sales to our major customers relating to our products of the Chemical Business:

	2009	2008	2007
Net sales to Bayer as a percentage of:			
Net sales of the Chemical Business	14%	19%	15%
LSB's consolidated net sales	7%	11%	7%
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	14%	19%	19%
LSB's consolidated net sales	7%	11%	9%

Raw Materials

The products our Chemical Business manufacture are primarily derived from the following raw material feedstocks: anhydrous ammonia, natural gas and sulfur. These raw material feedstocks are commodities, subject to price fluctuations.

The El Dorado Facility purchases approximately 200,000 tons of anhydrous ammonia and 50,000 tons of sulfur annually and produces and sells approximately 470,000 tons of nitrogen-based products and approximately 150,000 tons of sulfuric acid per year. Although anhydrous ammonia is produced from natural gas, the price does not necessarily follow the spot price of natural gas in the U.S. because anhydrous ammonia is an internationally traded commodity and the relative price is set in the world market while natural gas is primarily a nationally traded commodity. The ammonia supply to the El Dorado Facility is transported from the Gulf of Mexico by pipeline. Under an agreement with its principal supplier of anhydrous ammonia, EDC purchases a majority of its anhydrous ammonia requirements for its El Dorado Facility through December 2012 from this supplier. Periodically, we will enter into futures/forward contracts to economically hedge certain of the anhydrous ammonia requirements. We believe that we can obtain anhydrous ammonia from other sources in the event of an interruption of service under the above-referenced contract. Prices for anhydrous ammonia were volatile during 2009, ranging from $125 to $355 per metric ton. During 2009, the average prices for sulfur ranged from minimal to $30 per long ton.

The Cherokee Facility normally consumes 5 to 6 million MMBtu's of natural gas annually and produces and sells approximately 300,000 to 370,000 tons of nitrogen-based products per year. Natural gas is a primary raw material for anhydrous ammonia. The Cherokee Facility's natural gas feedstock requirements are generally purchased at spot market price. Periodically, we will enter into futures/forward contracts to economically hedge certain of the natural gas requirements. Natural gas prices continue to exhibit volatility. In 2009, daily spot prices per MMBtu, excluding transportation, ranged from $1.87 to $6.08. Periodically, the Cherokee Facility purchases anhydrous ammonia to supplement its annual production capacity of approximately 175,000 tons. Anhydrous ammonia can be delivered to Cherokee Facility by truck, rail or barge.

The Baytown Facility typically consumes more than 100,000 tons of purchased anhydrous ammonia per year. The majority of the Baytown Facility's production is sold to Bayer pursuant to a long-term contract that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit. See discussion concerning a new long-term contract below under "Bayer Agreement" of this Item 1.

Spot anhydrous ammonia, natural gas and sulfur costs have fluctuated dramatically in recent years. The following table shows, for the periods indicated, the high and low published prices for:

- ammonia based upon the low Tampa metric price per ton as published by Fertecon and FMB Ammonia reports,
- natural gas based upon the daily spot price at the Tennessee 500 pipeline pricing point, and
- sulfur based upon the average quarterly Tampa price per long ton as published in Green Markets.

	Ammonia Price Per Metric Ton		Daily Spot Natural Gas Prices Per MMBtu		Sulfur Price Per Long Ton	
	High	Low	High	Low	High	Low
2009	$355	$125	$ 6.08	$1.87	$ 30	minimal
2008	$931	$125	$13.16	$5.36	$617	$150
2007	$460	$295	$10.59	$5.30	$112	$ 56

As of March 1, 2010, the published price, as described above, for ammonia was $450 per metric ton and natural gas was $4.75 per MMBtu. The average quarterly price per long ton for sulfur was $90 per long ton.

See discussion above under “Agricultural Products” of this Item 1 concerning our previously idled Pryor Facility that began production of anhydrous ammonia in 2010.

Sales Strategy

Our Chemical Business has pursued a strategy of developing customers that purchase substantial quantities of products pursuant to sales agreements and/or pricing arrangements that provide for the pass through of raw material costs in order to minimize the impact of the uncertainty of the sales prices of our products in relation to the cost of anhydrous ammonia, natural gas and sulfur. These pricing arrangements help mitigate the volatility risk inherent in the raw material feedstocks of natural gas, anhydrous ammonia and sulfur. For 2009, approximately 60% of the Chemical Business’ sales were into industrial and mining markets. Approximately 75% of our industrial and mining sector sales were made pursuant to these types of arrangements. The remaining 40% of our 2009 sales are primarily into agricultural markets at the price in effect at time of shipment. However, we enter into futures/forward contracts to economically hedge the cost of natural gas and anhydrous ammonia for the purpose of securing the profit margin on a significant portion of our sales commitments with firm sales prices in our Chemical Business.

The sales prices of our agricultural products have only a moderate correlation to the anhydrous ammonia and natural gas feedstock costs and reflect market conditions for like and competing nitrogen sources. This can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from reaching full performance potential. Our primary efforts to improve the results of our Chemical Business include maximizing the production at our Chemical facilities and emphasizing our marketing efforts to customers that will accept the volatility risk inherent with natural gas and anhydrous ammonia, while maintaining a strong presence in the agricultural sector. In addition, see our discussion above under “Agricultural Products” of this Item 1 concerning the production of anhydrous ammonia that began at the Pryor Facility in 2010.

Bayer Agreement

During October 2008, subsidiaries within our Chemical Business, El Dorado Nitric Company (“EDN”) and EDC, entered into a new Nitric Acid Supply Operating and Maintenance Agreement (the “Bayer Agreement”) with Bayer, replacing a previous agreement between EDN, EDC and Bayer entered into during 1997. The Bayer Agreement became effective on June 24, 2009, and is for an initial term of five years, with certain renewal options.

Under the terms of the Bayer Agreement, Bayer purchases all of its requirements for nitric acid for use in Bayer’s chemical manufacturing complex located in Baytown, Texas from EDN at a price covering EDN’s costs plus a profit, with certain performance obligations on EDN’s part. EDN purchases from Bayer ammonia, certain utilities, chemical additives and services as required for production of nitric acid at the Baytown Facility.

On June 23, 2009, Bayer purchased all of the nitric acid production assets comprising the Baytown Facility (the “Baytown Assets”) from a third party, except certain assets that are owned by EDN for use in the production process. EDN continues to be responsible for the maintenance and operation of the Baytown Facility in accordance with the terms of the Bayer Agreement.

Pursuant to the terms of the Bayer Agreement, annual net sales after June 30, 2009 will decrease by approximately $9.7 million primarily as a result of the elimination of the Baytown Facility’s lease expense, which was included in our sales price under the original Bayer agreement that was replaced by the Bayer Agreement. This elimination was the result of Bayer purchasing the Baytown Assets.

If there is a change in control of EDN, Bayer will have the right to terminate the Bayer Agreement upon payment of certain fees to EDN. See further discussion of the Bayer Agreement under “Liquidity and Capital Resources - Bayer Agreement” of Item 7 of Part II of this report.

Introduction of New Product

As part of the Clean Air Act, the United States Environmental Protection Agency (“EPA”) enacted emissions standards, which became effective beginning in 2010, that require the further reduction of nitrogen oxide emissions from diesel engines, starting with heavy-duty vehicles. CNC has developed a diesel exhaust fluid product (“DEF”) under the tradename, EarthPure DEF™, specifically for this application. CNC began production of DEF in January 2010.

Seasonality

We believe that the only significant seasonal products are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry. The selling seasons for those products are primarily during the spring and fall planting seasons, which typically extend from

March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, our Chemical Business typically increases its inventory of AN and UAN prior to the beginning of each planting season. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Regulatory Matters

Our Chemical Business is subject to extensive federal, state and local environmental laws, rules and regulations as discussed under “Environmental Matters" of this Item 1 and various risk factors under Item 1A.

Competition

Our Chemical Business competes with several chemical companies in our markets, such as Agrium, CF Industries, Dyno Nobel North America, Potash Corporation of Saskatchewan, Terra Industries and Yara North America, Inc., many of whom have greater financial and other resources than we do. We believe that competition within the markets served by our Chemical Business is primarily based upon service, price, location of production and distribution sites, and product quality and performance.

In addition, see discussion concerning potential increase of imported UAN under Item 1A of this Part 1.

Employees

As of December 31, 2009, we employed 1,749 persons. As of that date, our Climate Control Business employed 1,222 persons, none of whom was represented by a union, and our Chemical Business employed 455 persons, with 156 represented by unions under agreements that expire in July through November of 2010.

Environmental Matters

Our operations are subject to numerous environmental laws (“Environmental Laws”) and to other federal, state and local laws regarding health and safety matters (“Health Laws”). In particular, the manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under the Environmental Laws and the Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that material costs or liabilities will not be incurred by us in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder relating to our Chemical Business have in the past resulted, and could in the future result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from our facilities or the use or disposal of certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future.

We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration.

1. Discharge Water Matters

The El Dorado Facility owned by EDC generates process wastewater, which includes cooling tower and boiler blowdowns, contact storm water and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by a state National Pollutant Discharge Elimination System (“NPDES”) water discharge permit issued by the Arkansas Department of Environmental Quality (“ADEQ”), which permit is to be renewed every five years. The ADEQ issued to EDC a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility’s June 2007 limits, the El Dorado Facility has significantly reduced the contaminant levels of its wastewater.

The El Dorado Facility has demonstrated its ability to comply with the more restrictive permit limits, and believes that if it is required to meet the more restrictive dissolved minerals permit levels, it will be able to do so. The El Dorado Facility is currently having discussions with the ADEQ to modify and reduce the permit levels as to dissolved minerals, but, although the rule is a state rule, any revisions must also be approved by the EPA before it can become effective. Once the rule change is complete, the permit limits can be modified to incorporate achievable dissolved minerals permit levels. The ADEQ and the El Dorado Facility also entered into a Consent Administrative Order (“CAO”) which authorized the El Dorado Facility to continue operating through December 31, 2009 without incurring permit violations pending the modification of the permit to implement the revised rule. In March 2009, the EPA notified the ADEQ that it disapproved the dissolved mineral rulemaking due to insufficient documentation. Representatives of EDC, ADEQ and the EPA have met to determine what additional information was required by the EPA. During January 2010, EDC received an Administrative Order from the EPA noting certain violations of the permit and requesting EDC to demonstrate compliance with the permit or provide a plan and schedule for returning to compliance. EDC has provided the EPA a response which states that the El Dorado Facility is now in compliance with the permit, that the El Dorado Facility expects to maintain compliance and that all but fifteen of the alleged violations were resolved through the CAO with the ADEQ. During the meeting with the EPA prior to the issuance of the Administrative Order, the EPA advised EDC that its primary objective is to bring the El Dorado Facility into compliance with the permit requirements, but reserved the right to access penalties for past and continuing violations of the permit. As a result, it is unknown whether the EPA might elect to pursue civil penalties against EDC. Therefore, no liability has been established at December 31, 2009.

In addition, EDC has entered into a CAO that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. EDC is addressing the shallow groundwater contamination. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2009.

2. Air Matters

The EPA has sent information requests to most, if not all, of the nitric acid plants in the United States, including to us relating to our El Dorado, Cherokee and Baytown Facilities, requesting information under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. In connection with a review by our Chemical Business of these facilities in obtaining information for the EPA pursuant to the EPA's request, our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain changes to its production equipment may be needed in order to comply with the requirements of the Clean Air Act. If changes to the production equipment at these facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial.

Further, if it is determined that the equipment at any of our El Dorado, Cherokee and/or Baytown Facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed $27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the "best available control technology." We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties and may be required to make certain capital improvements to certain emission equipment as a result of the above described matter; however, at this time we are unable to determine the amount of any penalties that may be assessed, or the cost of additional capital improvements that may be required, by the EPA. Therefore no liability has been established at December 31, 2009.

3. Other Environmental Matters

In December 2002, two of our subsidiaries within our Chemical Business, sold substantially all of their operating assets relating to a Kansas chemical facility ("Hallowell Facility") but retained ownership of the real property. At December 31, 2002, even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. In connection with this sale, our subsidiary leased the real property to the buyer under a triple net long-term lease agreement. However, our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor ("Chevron") of a prior owner of the Hallowell Facility is a participating responsible party and has agreed, within certain limitations, to pay and has been paying one-half of the costs relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

Based on additional modeling of the site, our subsidiary and Chevron are pursuing a course with the state of Kansas of long-term surface and groundwater monitoring to track the natural decline in contamination, instead of the soil excavation proposed previously. Our subsidiary and Chevron submitted its final report on the groundwater monitoring and an addendum to the Mitigation Work Plan to the state of Kansas. The data from the monitoring program is being evaluated by the state of Kansas and the potential costs of additional monitoring or required remediation, if any, is unknown.

At December 31, 2009, our estimated allocable portion of the total estimated liability (which is included in current and noncurrent accrued and other liabilities) in connection with this remediation matter is approximately $305,000. This amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability will occur in the near term.

ITEM 1A. RISK FACTORS

Risks Related to Us and Our Business

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

Our sales and profits are heavily affected by the costs and availability of primary raw materials. These primary raw materials, which are purchased from unrelated third parties, are subject to considerable price volatility. Historically, when there have been rapid increases in the cost of these primary raw materials, we have sometimes been unable to timely increase our sales prices to cover all of the higher costs incurred. While we periodically enter into futures/forward contracts to economically hedge against price increases in certain of these raw materials, there can be no assurance that we will effectively manage against price fluctuations in those raw materials.

Anhydrous ammonia, natural gas and sulfur represent the primary raw material feedstocks in the production of most of the products of the Chemical Business. Although our Chemical Business has a program to enter into contracts with certain customers that provide for the pass-through of raw material costs, we have a substantial amount of sales that do not provide for the pass-through of raw material costs. In addition, the Climate Control Business depends on raw materials such as copper and steel, which have shown considerable price volatility. As a result, in the future, we may not be able to pass along to all of our customers the full amount of any increases in raw material costs. There can be no assurance that future price fluctuations in our raw materials will not have an adverse effect on our financial condition, liquidity and results of operations.

Additionally, we depend on certain vendors to deliver the primary raw materials and other key components that are required in the production of our products. Any disruption in the supply of the primary raw materials and other key components could result in lost production or delayed shipments. We have suspended in the past, and could suspend in the future, production at our chemical facilities due to, among other things, the high cost or lack of availability of such primary raw materials, which could adversely impact our competitiveness in the markets we serve. Accordingly, our financial condition, liquidity and results of operations could be materially affected in the future by the lack of availability of primary raw materials and other key components.

Our Climate Control and Chemical Businesses and their customers are sensitive to adverse economic cycles.

Our Climate Control Business can be affected by cyclical factors, such as interest rates, inflation and economic downturns. Our Climate Control Business depends on sales to customers in the construction and renovation industries, which are particularly sensitive to these factors. Due to the current recession, we have experienced and expect to continue to experience a decline in both commercial and residential construction. A decline in the economic activity in the United States has in the past, and could in the future, have a material adverse effect on us and our customers in the construction and renovation industries in which our Climate Control Business sells a substantial amount of its products. Such a decline could result in a decrease in revenues and profits, and an increase in bad debts, in our Climate Control Business and could have a material adverse effect on our operating results, financial condition and liquidity.

Our Chemical Business also can be affected by cyclical factors such as inflation, global energy policy and costs, global market conditions and economic downturns in specific industries. Certain sales of our Chemical Business are sensitive to the level of activity in the agricultural, mining, automotive and housing industries. Certain of our industrial and mining customers have been affected and we expect will continue to be affected by the current economic recession and could substantially reduce their purchases. A substantial decline in the activity of our Chemical Business has in the past, and could in the future, have a material adverse effect on the results of our Chemical Business and on our liquidity and capital resources.

Weather conditions adversely affect our Chemical Business.

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

Environmental and regulatory matters entail significant risk for us.

Our Chemical Business is subject to numerous environmental laws and regulations. The manufacture and distribution of chemical products are activities, which entail environmental risks and impose obligations under environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Although we have established processes to monitor, review and manage our businesses to comply with the numerous environmental laws and regulations, our Chemical Business has in the past, and may in the future, be subject to fines, penalties and sanctions for violations and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from the Chemical Business' facilities. Further, a number of our Chemical Business' facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on their operations and our financial condition.

We may be required to expand our security procedures and install additional security equipment for our Chemical Business in order to comply with current and possible future government regulations, including the Homeland Security Act of 2002.

The chemical industry in general, and producers and distributors of anhydrous ammonia and AN specifically, are scrutinized by the government, industry and public on security issues. Under current and proposed regulations, including the Homeland Security Act of 2002, we may be required to incur substantial additional costs relating to security at our chemical facilities and distribution centers, as well as in the transportation of our products. These costs could have a material impact on our financial condition, results of operations, and liquidity. The cost of such regulatory changes, if significant enough, could lead some of our customers to choose alternate products to anhydrous ammonia and AN, which would have a significant impact on our Chemical Business.

Proposed governmental laws and regulations relating to greenhouse gas emissions may subject certain of our Chemical Business' facilities to significant new costs and restrictions on their operations.

Certain of the manufacturing facilities within our Chemical Business use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state courts and administrative agencies are considering the scope and scale of greenhouse gas emission regulation. There are bills pending in Congress that would regulate greenhouse gas emissions through a cap-and-trade system under which emitters would be required to either install abatement systems where feasible or buy allowances for offsets of emissions of greenhouse gas. In addition, the EPA has announced its determination that greenhouse gases threaten the public's health and welfare and thus could make them subject to regulation under the Clean Air Act. However this determination is being contested. The EPA has instituted a mandatory greenhouse gas reporting requirement beginning in 2010, which will impact all of our chemical manufacturing sites. Greenhouse gas regulation could increase the price of the electricity purchased by these chemical facilities and increase costs for our use of natural gas, other raw materials (such as anhydrous ammonia), and other energy sources, potentially restrict access to or the use of natural gas and certain other raw materials necessary to produce certain of our chemical products and require us to incur substantial expenditures to retrofit these chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted. Federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations. While future emission regulations or new laws appear likely, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

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

During 2009, eight customers of our Chemical Business accounted for approximately 50% of its net sales and 24% of our consolidated sales, and our Climate Control Business had four customers (including affiliates and their distributors) that accounted for approximately 27% of its net sales and 13% of our consolidated sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer on substantially similar terms.

There is intense competition in the Climate Control and Chemical industries.

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

Potential increase of imported ammonium nitrate from Russia.

In 2000, the United States ("U.S.") and Russia entered into a suspension agreement limiting the quantity of, and setting the minimum prices for, fertilizer grade AN sold from Russia into the U.S.

The Russians have requested that the suspension agreement be changed to only require that the prices of its imported AN reflect the Russian producers full production costs, plus profit. The Russian producers of AN could benefit from state set prices of natural gas, the principal raw material for AN, which could be less than what U.S. producers are required to pay for their natural gas. Other factors, however, such as transportation costs may partially offset natural gas and production cost advantages. This change, if accepted by the U.S., could result in a substantial increase in the amount of AN imported into the U.S. from Russia at prices that could be less than the cost to produce AN by U.S. producers plus a profit. Russia is the world's largest producer of fertilizer grade AN, and we are led to believe that it has substantial excess AN production capacity.

For 2009, net sales of fertilizer grade AN accounted for 24% and 12% of our Chemical Business net sales and consolidated net sales, respectively. If the suspension agreement is changed, as discussed above, this change could result in Russia substantially increasing the amount of AN sold in the U.S. at prices less than the U.S. producers are required to charge in order to cover their cost plus a profit, and could have an adverse effect on our revenues and operating results.

Potential increase of imported urea ammonium nitrate (UAN).

A large percentage of the domestic UAN market is supplied by imports. Significant additional UAN production in the Caribbean is expected to begin in 2010, and such UAN production is expected to be marketed in the United States. This increased foreign production of UAN is expected to have a lower cost of production than UAN produced in the United States, and could have an adverse impact on the domestic UAN market, and the domestic fertilizer market in general, including the UAN and fertilizer markets of our Chemical Business, by increasing supply and possibly reducing prices.

We are effectively controlled by the Golsen Group.

Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") beneficially owned as of February 28, 2010, an aggregate of 3,594,843 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together votes as a class and represent approximately 20.3% of the voting power of our issued and outstanding voting securities as of that date. In addition, the Golsen Group also beneficially owned options and other convertible securities that allowed its members to acquire an additional 208,500 shares of our common stock within 60 days of February 28, 2010. Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

Loss of key personnel could negatively affect our business.

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

We may have inadequate insurance.

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

Many of our insurance policies are written by Chartis, Inc., a subsidiary of AIG, and AIG has experienced and is continuing to experience financial difficulties.

It has been publicly reported that American International Group, Inc. ("AIG") has experienced significant financial difficulties and is continuing to experience significant financial difficulties. AIG is a holding company for several different subsidiary insurance companies, which are now known as Chartis, Inc. Chartis provides many of our casualty, workers compensation and other insurance policies, including, but not limited to, our general liability policy, which includes certain pollution coverage, excess umbrella policy, and officer and director liability policy covering us and our officers and directors against certain securities' law claims. We are currently involved in certain legal proceedings in which a subsidiary of AIG has agreed to defend and to indemnify us and our subsidiaries against loss under a reservation of rights, including one matter involving one of our executive officers. In the event of a failure of AIG and/or its subsidiaries, it is unknown whether AIG or the applicable subsidiary that is the insurer under our policies or the applicable regulatory authorities can comply with the insurer's obligations under our policies. Further, in the event of a failure by AIG and/or its subsidiaries, we could be required to replace these policies. If it becomes necessary to replace the policies written by Chartis, it may be difficult or impossible to replace these policies or, if we can replace these policies, to replace them on substantially similar terms as our existing insurance policies.

We have not paid dividends on our outstanding common stock in many years.

Although we have paid dividends on our outstanding series of preferred stock (two of the three outstanding series of preferred stock are owned by the Golsen Group), we have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock. However, our board of directors has not made a decision whether or not to pay such dividends in 2010.

Terrorist attacks and other acts of violence or war, and natural disasters (such as hurricanes, pandemic health crisis, etc.), have and could negatively impact U.S. and foreign companies, the financial markets, the industries where we operate, our operations and profitability.

Terrorist attacks and natural disasters (such as hurricanes) have in the past, and can in the future, negatively affect our operations. We cannot predict further terrorist attacks and natural disasters in the U.S. and elsewhere. These attacks or natural disasters have contributed to economic instability in the U.S. and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, our business, results of operations and financial condition. In addition, terrorist attacks and natural disasters may directly impact our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could impact our sales, our production capability and our ability to deliver products to our customers. In the past, hurricanes affecting the Gulf Coast of the U.S. have negatively impacted our operations and those of our customers. The consequences of any terrorist attacks or hostilities or natural disasters are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

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

Because we are a holding company and operations are conducted through our subsidiaries, principally ThermaClime and its subsidiaries, our ability to make scheduled payments of principal and interest on our indebtedness depends, in large part, on the operating performance and cash flows of our subsidiaries and the ability of our subsidiaries to make distributions and pay dividends to us. Under its loan agreements, ThermaClime and its subsidiaries may only make distributions and pay dividends to us under limited circumstances and in limited amounts.

Our net operating loss carryforwards are subject to certain limitations and examination.

We had generated significant net operating loss (“NOL”) carryforwards from certain historical losses. During recent years, we have utilized all of the remaining federal NOL carryforwards and a portion of our state NOL carryforwards. The utilization of these NOL carryforwards has reduced our income tax liabilities. The federal tax returns for 1997 through 2005 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. With few exceptions, the 2006-2008 years remain open for all purposes of examination by the Internal Revenue Service (“IRS”) and other major tax jurisdictions.

Future issuance or potential issuance of our common stock could adversely affect the price of our common stock, our ability to raise funds in new stock offerings and dilute your percentage interest in our common stock.

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the trading price of our common stock. Such future sales could also significantly reduce the percentage ownership of our existing common stockholders.

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

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

We have authorized and unissued (including shares held in treasury) 53,774,267 shares of common stock and 4,229,490 shares of preferred stock as of December 31, 2009. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

We have adopted a preferred share purchase plan, which is designed to protect us against certain creeping acquisitions, open market purchases and certain mergers and other combinations with acquiring companies.

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

Delaware has adopted an anti-takeover law which, among other things, will delay for three years business combinations with acquirers of 15% or more of the outstanding voting stock of publicly-held companies (such as us), unless;

- prior to such time the board of directors of the corporation approved the business combination that results in the stockholder becoming an invested stockholder;
- the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction;
- two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the board of directors; or
- the stockholders of the corporation amends its articles of incorporation or by-laws electing not to be governed by this provision.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Climate Control Business

Our Climate Control Business manufactures most of its geothermal and water source heat pump products in a 270,000 square foot facility in Oklahoma City, Oklahoma. We lease this facility, with an option to buy, through May 2016, with options to renew for three additional five-year periods. For 2009, approximately 53% of the productive capacity of this manufacturing facility was being utilized, based primarily on two ten-hour shifts per day and a four-day workweek. In addition, we own a 46,000 square foot building subject to a mortgage, which is adjacent to our existing heat pump manufacturing facility, primarily used for storage of raw material inventory. In addition, we utilize approximately 110,000 square feet of an existing facility for a distribution center, which facility is subject to a mortgage. We also have expanded our geothermal and water source heat pump plant manufacturing facility with a 70,000 square foot addition primarily for raw material storage.

Our Climate Control Business conducts its fan coil manufacturing operation in a facility located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet. We own this facility subject to a mortgage. For 2009, our fan coil manufacturing operation was using 48% of the productive capacity, based primarily on two ten-hour shifts per day and a four-day workweek.

Our Climate Control Business conducts its large air handler manufacturing operation in a facility located in Oklahoma City, Oklahoma, consisting of approximately 110,000 square feet. We own this facility subject to a mortgage. For 2009, approximately 69% of the productive capacity of this manufacturing facility was being utilized, based primarily on a one eight-hour shift on a five-day workweek and a partial second shift in selected areas.

All of the properties utilized by our Climate Control Business are suitable to meet the current needs of that business.

Chemical Business

Our Chemical Business primarily conducts manufacturing operations (a) on 150 acres of a 1,400 acre tract of land located at the El Dorado Facility, (b) on 160 acres of a 1,300 acre tract of land located at the Cherokee Facility and (c) on property within Bayer's complex in the Baytown, Texas. In addition, we are in the process of restarting our previously idled Pryor Facility located on 58 acres in Pryor, Oklahoma. The Company and/or its subsidiaries own all of its manufacturing facilities except the Baytown Facility. Except for certain assets that are owned by EDN for use in the production process within the Baytown Facility, the Baytown Facility is owned by Bayer. EDN operates and maintains the Baytown Facility pursuant to the Bayer Agreement as discussed under "Bayer Agreement" of Item 1 of this report. Certain real property and equipment located at the El Dorado and Cherokee Facilities are being used to secure a $50 million term loan. For 2009, the following facilities were utilized based on continuous operation:

	Percentage of Capacity
El Dorado Facility (1)	76 %
Cherokee Facility (2)	100 %
Baytown Facility	61 %

(1) The percentage of capacity for the El Dorado Facility relates to its nitric acid capacity. The El Dorado Facility has capacity to produce other nitrogen products in excess of its nitric acid capacity.

(2) The percentage of capacity for the Cherokee Facility relates to its ammonia production capacity. The Cherokee Facility has additional capacity for nitric acid, AN and UAN in excess of its ammonia capacity.

In addition to the El Dorado and Cherokee Facilities, our Chemical Business distributes its agricultural products through 15 wholesale and retail distribution centers, with 13 of the centers located in Texas (10 of which we own and 3 of which we lease); 1 center located in Tennessee (owned); and 1 center located in Missouri (owned).

See discussion above under “Chemical Business - Agricultural Products” of Item 1 concerning production of anhydrous ammonia in 2010 from the Pryor Facility.

All of the properties utilized by our Chemical Business are suitable and adequate to meet the current needs of that business.

ITEM 3. LEGAL PROCEEDINGS

1. Environmental See “Business-Environmental Matters” for a discussion as to:

- certain environmental matters relating to air and water issues at our El Dorado Facility; and
- certain environmental remediation matters at our former Hallowell Facility.

2. Other

The Jayhawk Group

In November 2006, we entered into an agreement with Jayhawk Capital Management, LLC, Jayhawk Investments, L.P., Jayhawk Institutional Partners, L.P. and Kent McCarthy, the manager and sole member of Jayhawk Capital, (collectively, the “Jayhawk Group”), in which the Jayhawk Group agreed, among other things, that if we undertook, in our sole discretion, within one year from the date of agreement a tender offer for our Series 2 $3.25 convertible, exchangeable Class C preferred stock (“Series 2 Preferred”) or to issue our common stock for a portion of our Series 2 Preferred pursuant to a private exchange, that it would tender or exchange an aggregate of no more than 180,450 shares of the 340,900 shares of the Series 2 Preferred beneficially owned by the Jayhawk Group, subject to, among other things, the entities owned and controlled by Jack E. Golsen, our Chairman and Chief Executive Officer (“Golsen”), and his immediate family, that beneficially own Series 2 Preferred only being able to exchange or tender approximately the same percentage of shares of Series 2 Preferred beneficially owned by them as the Jayhawk Group is able to tender or exchange under the terms of the agreement. In addition, under the agreement, the Jayhawk Group agreed to vote its shares of our common stock and Series 2 Preferred “for” an amendment to the Certificate of Designation covering the Series 2 Preferred to allow us:

- for a period of five years from the completion of an exchange or tender to repurchase, redeem or otherwise acquire shares of our common stock, without approval of the outstanding Series 2 Preferred irrespective that dividends are accrued and unpaid with respect to the Series 2 Preferred; or
- to provide that holders of Series 2 Preferred may not elect two directors to our board of directors when dividends are unpaid on the Series 2 Preferred if less than 140,000 shares of Series 2 Preferred remain outstanding.

During 2007, we made a tender offer for our outstanding Series 2 Preferred at the rate of 7.4 shares of our common stock for each share of Series 2 Preferred so tendered. In July 2007, we redeemed the balance of our outstanding shares of Series 2 Preferred. Pursuant to its terms, the Series 2 Preferred was convertible into 4.329 shares of our common stock for each share of

Series 2 Preferred. As a result of the redemption, the Jayhawk Group converted the balance of its Series 2 Preferred pursuant to the terms of the Series 2 Preferred in lieu of having its shares redeemed.

During November 2008, the Jayhawk Group filed suit against us and Golsen in a lawsuit styled *Jayhawk Capital Management, LLC, et al. v. LSB Industries, Inc., et al.*, in the United States District Court for the District of Kansas at Kansas City. During March 2009, the Jayhawk Group amended its complaint alleging that the Jayhawk Group should have been able to tender all of its Series 2 Preferred pursuant to the tender offer, notwithstanding the above-described agreement, based on the following claims against us and Golsen:

- fraudulent inducement and fraud,
- violation of 10(b) of the Exchange Act and Rule 10b-5,
- violation of 17-12A501 of the Kansas Uniform Securities Act, and
- breach of contract.

The Jayhawk Group seeks damages in an unspecified amount based on the additional number of common shares it allegedly would have received on conversion of all of its Series 2 Preferred through the February 2007 tender offer, plus punitive damages. In addition, the amended complaint seeks damages of approximately $4,000,000 for accrued and unpaid dividends it purports are owed as a result of Jayhawk's July 2007 conversion of its remaining shares of Series 2 Preferred. In May 2008, the General Counsel for the Jayhawk Group offered to settle its claims against us and Golsen in return for a payment of $100,000, representing the approximate legal fees it had incurred investigating the claims at that time. Through counsel, we verbally agreed to the settlement offer and confirmed the agreement by e-mail. Afterward, the Jayhawk Group's General Counsel purported to withdraw the settlement offer, and asserted that Jayhawk is not bound by any settlement agreement. We contend that the settlement agreement is binding on the Jayhawk Group. Both Golsen and we have filed motions to dismiss the plaintiff's complaint in the federal court, and such motions to dismiss are pending. We intend to contest the lawsuit vigorously, and will assert that Jayhawk is bound by an agreement to settle the claims for $100,000. Our insurer, Chartis, has agreed to defend this lawsuit on our behalf and on behalf of Golsen and to indemnify under a reservation of rights to deny liability under certain conditions. We have incurred expenses associated with this matter up to our insurance deductible of $250,000. We believe our insurance coverage is adequate to cover any currently foreseeable losses associated with the Jayhawk claims. As a result, no liability remains outstanding relating to this matter as of December 31, 2009.

Other Claims and Legal Actions

Wetherall v. Climate Master was a proposed class action filed in the Illinois state district court in September 2007 alleging that certain evaporator coils sold by one of our subsidiaries in the Climate Control Business, Climate Master, Inc. ("Climate Master"), in the state of Illinois from 1990 to approximately 2003 were defective. Prior to the hearing on class certification, the trial court granted Climate Master's motion for summary judgment and entered judgment in favor of Climate Master and against the plaintiffs based upon the statute of limitations and further denied class certification as moot because there were no other class representatives. Prior to the appeal deadline, a settlement agreement was entered into between the plaintiffs and Climate Master whereby the plaintiffs waived any right to appeal the judgment in favor of Climate Master for an insignificant amount, which consideration has been paid by Climate Master.

We are also involved in various other claims and legal actions including claims covered by our general liability insurance, which generally includes a deductible of $250,000 per claim. For any claims or legal actions that management, after consultation with legal counsel, assessed the likelihood of our liability as probable, we have recognized an estimated liability up to the applicable deductible. In the opinion of management, after consultation with legal counsel, if those claims which we have not recognized were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

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

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our officers serve one-year terms, renewable on an annual basis by the board of directors. Information regarding the Company's executive officers is as follows:

Jack E. Golsen (1) - Chairman of the Board and Chief Executive Officer. Mr. Golsen, age 81 first became a director in 1969. His term will expire in 2010. Mr. Golsen, founder of the Company, is our Chairman of the Board of Directors and Chief Executive Officer and has served in those capacities since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma’s leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen is a Trustee of Oklahoma City University. During his career, he acquired or started the companies which formed LSB. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A., which was formerly owned by LSB. In 1972, Mr. Golsen was recognized nationally as the person who prevented a widespread collapse of the Wall Street investment banking industry. Refer to “The Second Crash” by Charles Ellis, and five additional books about the Wall Street crisis.

Barry H. Golsen (1) - Vice Chairman of the Board, President, and President of the Climate Control Business. Mr. Golsen, age 59, first became a director in 1981. His term will expire in 2012. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994, and has been the President of our Climate Control Business for more than five years. Mr. Golsen also served as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

David R. Goss - Executive Vice President of Operations and Director. Mr. Goss, age 69, first became a director in 1971. His term will expire in 2012. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University.

Tony M. Shelby - Executive Vice President of Finance and Director. Mr. Shelby, age 68, first became a director in 1971. His term will expire in 2011. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than five years. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University.

Jim D. Jones (2) - Senior Vice President and Treasurer. Mr. Jones, age 67, has been Senior Vice President and Treasurer since July 2003, and has served as an officer of the Company since April 1977. Mr. Jones is a certified public accountant and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Jones is a graduate of the University of Central Oklahoma.

David M. Shear (1) - Senior Vice President and General Counsel. Mr. Shear, age 50, has been Senior Vice President since July 2004 and General Counsel and Secretary since 1990. Mr. Shear attended Brandeis University, graduating cum laude in 1981. At Brandeis University, Mr. Shear was the founding Editor-In-Chief of Chronos, the first journal of undergraduate scholarly articles. Mr. Shear attended the Boston University School of Law, where he was a contributing Editor of the Annual Review of Banking Law. Mr. Shear acted as a staff attorney at the Bureau of Competition with the Federal Trade Commission from 1985 to 1986. From 1986 through 1989, Mr. Shear was an associate in the Boston law firm of Weiss, Angoff, Coltin, Koski and Wolf.

Michael D. Tepper – Senior Vice President of International Operations. Mr. Tepper, age 71, has served in substantially the same capacity for more than five years. Mr. Tepper is a graduate of the Wharton School of the University of Pennsylvania.

Michael G. Adams - Vice President and Corporate Controller. Mr. Adams, age 60, was appointed to this position effective October 16, 2008 and has served as an officer of the Company since March 1990. Mr. Adams is a certified public accountant and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Adams is a graduate of the University of Oklahoma.

Harold L. Rieker Jr. - Vice President and Principal Accounting Officer. Mr. Rieker, age 49, was appointed to this position effective October 16, 2008 and has served as an officer of the Company since March 2006. Mr. Rieker is a certified public accountant and was with the accounting firm of Grant Thornton LLP. Mr. Rieker is a graduate of the University of Central Oklahoma.

(1) Barry H. Golsen is the son of Jack E. Golsen and David M. Shear is married to the niece of Jack E. Golsen.

(2) As previously disclosed, the Company and Mr. Jones entered into a settlement order with the SEC. Under the order, the Company and Mr. Jones agreed, without admitting or denying any wrongdoing, not to commit violations of certain provisions of the Securities Exchange Act of 1934, as amended. Mr. Jones also consented not to appear before the SEC as an accountant, but can apply for reinstatement at any time after July 2011.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On October 28, 2008, our common stock began trading on the New York Stock Exchange under the symbol "LXU". Prior to that date, our common stock traded on the American Stock Exchange under the same symbol. The following table shows, for the periods indicated, the high and low sales prices.

	Year Ended December 31,			
	2009		2008	
Quarter	High	Low	High	Low
First	$ 10.87	$ 6.62	$ 28.80	$ 13.80
Second	$ 18.16	$ 9.67	$ 20.83	$ 13.45
Third	$ 18.31	$ 14.85	$ 24.59	$ 13.11
Fourth	$ 15.70	$ 10.62	$ 14.67	$ 6.65

Stockholders

As of February 28, 2010, we had 665 record holders of our common stock. This number does not include investors whose ownership is recorded in the name of their brokerage company.

Dividends

We are a holding company and, accordingly, our ability to pay cash dividends on our preferred stock and our common stock depends in large part on our ability to obtain funds from our subsidiaries. The ability of ThermaClime (which owns substantially all of the companies comprising the Climate Control Business and Chemical Business) and its wholly-owned subsidiaries to pay dividends and to make distributions to us is restricted by certain covenants contained in the $50 million revolving credit facility (the "Working Capital Revolver Loan") and the $50 million loan agreement due 2012 (the "Secured Term Loan"). Under the terms of these agreements, ThermaClime cannot transfer funds to us in the form of cash dividends or other distributions or advances, except for:

- the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with us;
- an amount not to exceed fifty percent (50%) of ThermaClime's consolidated net income during each fiscal year determined in accordance with generally accepted accounting principles plus amounts paid to us within the first bullet above, provided that certain other conditions are met;
- the amount of direct and indirect costs and expenses incurred by us on behalf of ThermaClime pursuant to a certain services agreement;

- amounts under a certain management agreement between us and ThermaClime, provided certain conditions are met, and
- outstanding loans entered into subsequent to November 2, 2007 in excess of $2.0 million at any time.

In 2001, we issued shares of Series D 6% cumulative, convertible Class C preferred stock (“Series D Preferred”) and in 1985, we issued shares of Series B 12% convertible, cumulative preferred stock ("Series B Preferred"). As of December 31, 2009, we have issued and outstanding 1,000,000 shares of Series D Preferred, 20,000 shares of Series B Preferred, and 511 shares of noncumulative redeemable preferred stock (“Noncumulative Preferred”). Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

- Series D Preferred at the rate of $.06 a share payable on October 9, which dividend is cumulative;
- Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative; and
- Noncumulative Preferred at the rate of $10.00 a share payable April 1, which is noncumulative.

On February 18, 2010, our board of directors declared the following dividends:

- $0.06 per share on our outstanding Series D Preferred for an aggregate dividend of $60,000, payable on March 31, 2010;
- $12.00 per share on our outstanding Series B Preferred for an aggregate dividend of $240,000, payable on March 31, 2010; and
- $10.00 per share on our outstanding Noncumulative Preferred for an aggregate dividend of approximately $5,100, payable on April 1, 2010.

All shares of Series D Preferred and Series B Preferred are owned by the Golsen Group.

Holders of our common stock are entitled to receive dividends only when and if declared by our board of directors. We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our board of directors has not made a decision whether or not to pay such dividends on our common stock in 2010**.**

Equity Compensation Plans

See discussions relating to our equity compensation plans under Item 12 of Part III contained in this report.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Common Stock - During the three months ended December 31, 2009, the Company and affiliated purchasers, as defined, purchased treasury stock as shown in the following table:

Period	(a) Total number of shares of common stock acquired (1)	(b) Average price paid per share of common stock (1)	(c) Total number of shares of common stock purchased as part of publicly announced plans or programs (2)	(d) Maximum number (or approximate dollar value) of shares of common stock that may yet be purchased under the plans or programs
October 1, 2009 - October 31, 2009	-	$ -	-	
November 1, 2009 - November 30, 2009	275,900	$ 11.60	275,900	
December 1, 2009 - December 31, 2009	-	$ -	-	
Total	275,900	$ 11.60	275,900	See (2)

(1) During the fourth quarter of 2009, we purchased these shares of common stock at market prices from unrelated third parties and are being held as treasury stock.

(2) As previously reported, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period of time commencing March 12, 2008. The stock repurchase authorization will remain in effect until such time as of our board of directors decides to end it.

2007 Debentures - During the three months ended December 31, 2009, the Company and affiliated purchasers, as defined, purchased its 5.5% Convertible Senior Subordinated Notes due 2012 (“2007 Debentures”) as shown in the following table:

Period	(a) Total number of units acquired (A)	(b) Average price paid per unit (A)	(c) Total number of units purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of units that may yet be purchased under the plans or programs
October 1, 2009 - October 31, 2009	-	$ -	-	
November 1, 2009 - November 30, 2009	-	$ -	-	
December 1, 2009 - December 31, 2009	1,000	$ 985.00	1,000	
Total	1,000	$ 985.00	1,000	29,400

(A) One unit represents a $1,000 principal amount of the debenture.

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ITEM 6. SELECTED FINANCIAL DATA (1)

	2009	2008	2007	2006	2005
	Years ended December 31, (Dollars In Thousands, Except Per Share Data)				
Selected Statement of Income Data:					
Net sales	$ 531,838	$ 748,967	$ 586,407	$ 491,952	$ 397,115
Interest expense	$ 6,746	$ 11,381	$ 12,078	$ 11,915	$ 11,407
Provisions for income taxes (2)	$ 15,024	$ 18,776	$ 2,540	$ 901	$ 118
Income from continuing operations	$ 21,849	$ 36,560	$ 46,534	$ 15,768	$ 5,634
Net income	$ 21,584	$ 36,547	$ 46,882	$ 15,515	$ 4,990
Net income applicable to common stock	$ 21,278	$ 36,241	$ 41,274	$ 12,885	$ 2,707
Income (loss) per common share applicable to common stock:					
Basic:					
Income from continuing operations	$ 1.01	$ 1.71	$ 2.09	$ .92	$ .25
Net income (loss) from discontinued operations	$ (.01)	$ -	$ .02	$ (.02)	$ (.05)
Net income	$ 1.00	$ 1.71	$ 2.11	$ .90	$ .20
Diluted:					
Income from continuing operations	$ .97	$ 1.58	$ 1.82	$ .77	$ .22
Net income (loss) from discontinued operations	$ (.01)	$ -	$ .02	$ (.01)	$ (.04)
Net income	$ .96	$ 1.58	$ 1.84	$ .76	$ .18
Selected Balance Sheet Data:					
Total assets	$ 338,633	$ 335,767	$ 307,554	$ 219,927	$ 188,963
Redeemable preferred stock	$ 48	$ 52	$ 56	$ 65	$ 83
Long-term debt, including current portion	$ 101,801	$ 105,160	$ 122,107	$ 97,692	$ 112,124
Stockholders' equity	$ 150,607	$ 130,044	$ 94,283	$ 43,634	$ 14,861
Selected other data:					
Cash dividends declared per common share	$ -	$ -	$ -	$ -	$ -

(1) See discussions included in Item 7 of Part II of this report.
(2) Beginning in the fourth quarter of 2007, we began recognizing a provision for regular federal income taxes as the result of reversing the valuation allowance on federal NOL carryforwards and other timing differences and the associated utilization of the federal NOL carryforwards.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2009 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

General

We are a manufacturing, marketing and engineering company, operating through our subsidiaries. Our wholly-owned subsidiary, ThermaClime, through its subsidiaries, owns a substantial portion of our following core businesses:

- Climate Control Business manufactures and sells a broad range of air conditioning and heating products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers and other related products used to control the environment in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems. For 2009, approximately 50% of our consolidated net sales relates to the Climate Control Business.
- Chemical Business manufactures and sells nitrogen based chemical products produced from three plants located in Arkansas, Alabama and Texas for the industrial, mining and agricultural markets. In addition, we are restarting our previously idled Pryor Facility located in Pryor, Oklahoma. Our products include industrial and fertilizer grade AN, UAN, anhydrous ammonia, sulfuric acids, nitric acids in various concentrations, nitrogen solutions and various other products. For 2009, approximately 49% of our consolidated net sales relates to the Chemical Business.

Certain of our other subsidiaries outside of ThermaClime own facilities and operations, including the Pryor Facility, within our above described core businesses.

As discussed below under "Chemical Business," our project to begin production of anhydrous ammonia and UAN at the Pryor Facility is still underway despite numerous delays. We began production of anhydrous ammonia, which is the initial feedstock for the production of UAN, in January 2010 but at production rates lower than our targeted rates.

Economic Conditions

Our two business segments serve several diverse markets. We consider market fundamentals for each market individually as we evaluate economic conditions.

Climate Control Business - The downturn in commercial and residential construction has had a significant adverse effect on our Climate Control Business' product order level and sales in 2009. Based upon published reports of leading indicators, including the Construction Market Forecasting Service published by McGraw-Hill, and the national architecture billings index published by AIA, the overall commercial construction sector is not expected to recover during 2010. On the other hand, McGraw-Hill has projected an increase in both single-family residential and multi-family construction during 2010. Another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives, although we can not predict the impact these programs will have on our business.

The Chemical Business - During 2009, our Chemical Business' industrial and mining sales volumes, expressed in tons shipped, were down 11% and 24%, respectively. However, approximately 60% of our 2009 sales were into industrial and mining markets. Approximately 75% of these sales are to customers that have contractual obligations to purchase a minimum quantity or allow us to recover our cost plus a profit, irrespective of the volume of product sold. It is unclear to us how these markets will respond in 2010 but it appears that market demand for these products could be flat to slightly up for the first half of 2010.

The remaining 40% of our Chemical Business' 2009 sales were made into the agricultural fertilizer markets to customers that do not purchase pursuant to contractual arrangements. Our agricultural sales volumes and margins depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat and forage. The current outlook remains uncertain but most market indicators, including reports in Green Markets, Fertilizer Week and other industry publications, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could be adversely affected by lower grain prices, unanticipated spikes in natural gas prices, or unfavorable weather conditions.

2009 Results

Our consolidated net sales for 2009 were $531.8 million compared to $749.0 million for 2008. The sales decrease of approximately $217.2 million includes a decrease of $45.2 million in our Climate Control Business and a decrease of $166.3 million in our Chemical Business. The Climate Control Business decrease is due primarily to lower customer product orders received due to the economic downturn. The Chemical Business' decrease is primarily due to steep declines in our raw material costs resulting in lower selling prices. This decline is also due to the reduction in volume at the Baytown Facility, which had minimal impact on our operating results due to the fixed cost pass-through provisions in the Bayer agreements.

Our consolidated operating income was $40.7 million compared to $59.2 million in 2008. The decrease in operating income of approximately $18.5 million was primarily the result of a $16.2 million decrease in our Chemical Business operating income as discussed below. In addition, our Climate Control Business' operating income declined $1.2 million on lower sales but experienced an improved gross profit percentage and our general corporate expense and other business operations increased approximately $1.0 million as discussed below under "Results of Operations."

The $16.2 million decrease in our Chemical Business' 2009 operating income includes start-up expenses associated with the Pryor Facility of approximately $17.2 million compared to $2.4 million for 2008. In addition, we recognized other operating income of $7.6 million from a litigation judgment during 2008. Eliminating those two factors, our Chemical Business' 2009 operating income increased $6.2 million primarily as a result of 2008 firm sales commitments fulfilled in 2009 resulting in higher gross profit compared to then current market prices ($6.6 million), reduced losses on natural gas and ammonia hedge contracts ($6.4 million), and improved plant efficiencies ($3.9 million), partially offset by lower gross profit on agricultural products sales ($10.8 million).

In addition, our interest expense was $6.7 million for 2009 compared to $11.4 million for 2008, a decrease of approximately $4.7 million. This decrease primarily relates to a decrease in losses of $2.1 million associated with our interest rate contracts, a decrease of $1.6 million as the result of the acquisitions of the 2007 Debentures and a decrease of $1.1 million due to the decline in the LIBOR rate associated with the Secured Term Loan.

As discussed further below under "Liquidity and Capital Resources," during 2009, we continued to acquire through unsolicited transactions a portion of the 2007 Debentures. As a result, we recognized a gain on extinguishment of debt of $1.8 million compared to $5.5 million in 2008.

Our resulting effective income tax rate for 2009 was approximately 40.7%, which includes an additional provision relating to the adjustments reconciling the 2008 federal income and state tax returns to the 2008 estimated tax provision and the impact of lower taxable income for 2009, which limited the amount of the manufacturing deduction that can be utilized. For 2008, our resulting effective income tax rate was approximately 33.9%, which included a net deferred income tax benefit of $1.6 million as the result of a detailed analysis performed on all our deferred tax assets and liabilities and the realizability of those deferred tax assets.

Climate Control Business

Our Climate Control sales for 2009 were $266.2 million or 14.5% below 2008. The decrease in net sales resulted in a 44.4% decline in sales of our fan coil products and a 5.8% decline in our geothermal and water source heat pump products partially offset by an 8.1% increase in other HVAC products. Based upon recent customer product order levels and published reports of leading indicators, including reports by McGraw-Hill and AIA, the overall commercial construction sector is not expected to recover during 2010. On the other hand, McGraw-Hill has projected an increase in both single-family residential and multi-family construction during 2010.

We continue to closely follow the contraction and volatility in the credit markets and have attempted to assess the impact on the commercial and residential construction sectors that we serve, including but not limited to new construction and/or renovation of facilities in the following sectors:

- Multi-Family Residential (apartments and condominiums)
- Single-Family Residential
- Lodging

- Education
- Healthcare
- Offices
- Manufacturing

During 2009, approximately 77% of our Climate Control Business' sales were to the commercial and multi-family construction markets, and the remaining 23% were sales of geothermal heat pumps ("GHPs") to the single-family residential market.

For 2009, the product order level was $207.2 million as compared to $305.9 million for 2008, a decrease of $98.7 million or 32.3%. Our product order level consists of confirmed purchase orders from customers, those that have been accepted and received credit approval. The net decrease in 2009 product orders includes a decrease of approximately 17.0% in product orders for residential GHPs and a 36.4% decrease in product orders for commercial products.

Customer product orders received for all Climate Control products in the fourth quarter of 2009 were $48.5 million compared to $59.1 million in the fourth quarter of 2008 and compared to $49.1 million for the third quarter of 2009. Our backlog was $68.5 million at December 31, 2008, $39.4 million at September 30, 2009 and $32.2 million at December 31, 2009. The backlog consists of confirmed customer orders for product to be shipped at a future date. At December 31, 2009, included within our reported backlog is a confirmed order for approximately $3.2 million that has been placed on hold by the customer pending refinancing arrangements. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders and we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms beyond twelve months. For 2010, the potential sales level remains uncertain. For the first two months of 2010, our new orders received were approximately $32.5 million and our backlog was approximately $31.3 million at February 28, 2010.

Our GHPs, use a form of renewable energy and can reduce energy costs up to 80%, under certain conditions. The American Recovery and Reinvestment Act of 2009 ("Act") provides a 30% tax credit for homeowners who install GHPs. For businesses that install GHPs, the Act includes a 10% tax credit, 50% first year depreciation and five year accelerated depreciation for the balance of the system cost.

Although we expect to see continued slowness in our Climate Control Business' results in the short-term, we have significantly increased our sales and marketing efforts for all of our Climate Control products. Over time, we believe that the recently enacted federal tax credits for GHPs should have a positive impact on sales of those highly energy efficient and green products.

Chemical Business

During 2009, our Chemical Business operated three chemical production facilities: the El Dorado Facility, the Cherokee Facility and the Baytown Facility. The El Dorado and Baytown Facilities produce nitrogen products from anhydrous ammonia that is delivered by pipeline, and the El Dorado Facility also produces sulfuric acid from recovered elemental sulfur delivered by truck and rail. The Cherokee Facility produces anhydrous ammonia and nitrogen products primarily from natural gas that is delivered by pipeline but can also receive supplemental anhydrous ammonia by truck, rail and barge.

The project to begin production of anhydrous ammonia and UAN at the Pryor Facility is still underway despite numerous delays. In January 2010, we began production of anhydrous ammonia, which is the initial feedstock for the production of UAN, but at production rates lower than our targeted rates. We are continuing to produce and store anhydrous ammonia while we are activating the Urea plant. The start up of the Urea plant has encountered delays, due to extended lead times to refurbish certain major equipment items, resulting in significant increases in our previous estimates of the start up costs. We believe that some of the delays and additional costs resulted from faulty workmanship performed by certain contractors. We are investigating potential remedies for recovery of some of the cost of the delays. For 2009, we incurred approximately $17.2 million of expenses primarily consisting of start up costs. Currently, the Pryor Facility monthly operating start up costs, prior to production of UAN at sustained targeted rates, are approximately $1.6 million in addition to variable costs such as natural gas and electricity. We have funded the start up of the Pryor Facility from our available cash on hand and working capital. At the Pryor Facility, natural gas is a primary raw material for producing UAN and anhydrous ammonia.

Our Chemical Business' primary markets are industrial, mining and agricultural. The sales in all three sectors for 2010 will continue to be affected by the overall economic conditions.

Our Chemical Business reported net sales for 2009 of $257.8 million compared to $424.1 million for 2008, a decrease of $166.3 million or 39.2%. The decrease in sales dollars is primarily attributable to steep declines in commodity prices as discussed below and the impact of the Bayer Agreement as discussed below under "Liquidity and Capital Resources – Bayer Agreement." The decline in commodity prices resulted in the decrease in the selling prices for the products produced at our facilities as well as steep declines in our raw material feedstock costs. Sales are also down due to fewer tons sold in our mining and industrial acids markets as discussed below.

Our primary raw material feedstocks (anhydrous ammonia, natural gas and sulfur) are commodities subject to significant price fluctuations, and are generally purchased at prices in effect at the time of purchase. During 2009, the average prices for those commodities compared to last year were as follows:

	2009	2008
Natural gas average price per MMBtu based upon Tennessee 500 pipeline pricing point	$ 4.38	$ 9.62
Ammonia average price based upon low Tampa metric price per ton	$ 272	$ 587
Sulfur price based upon Tampa average quarterly price per long ton	$ 11	$ 368

The substantial decline in the cost of the commodities was accompanied by similar declines in selling prices of our products.

Approximately 60% of our Chemical Business sales for 2009 were in the industrial and mining markets consisting of:

- nitric acid, sulfuric acid and anhydrous ammonia sold to industrial customers; and
- industrial grade AN and nitrogen solutions sold to mining customers.

Most of these sales were pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass through component in the sales price.

For 2009, approximately 40% of our Chemical Business sales were agricultural products, primarily nitrogen fertilizer sold in the agricultural markets including:

- AN produced at our El Dorado Facility from purchased anhydrous ammonia,
- UAN produced at our Cherokee Facility primarily from natural gas, and
- other fertilizer products sold through our agricultural distribution centers.

The agricultural product sales, unlike the majority of our industrial and mining sales, are sold at the market price in effect at the time of sale or at a negotiated future price.

The percentage change in sales (volume and dollars) for 2009 compared to 2008 is as follows:

	Percentage Change of	
	Tons	Dollars
	Increase	*(Decrease)*
Chemical products:		
Agricultural	11 %	(32)%
Industrial acids and other	(11)%	(41)%
Mining	(24)%	(47)%
Total weighted-average change	(7)%	(39)%

The disproportionate percentage change relating to tons sold compared to sales dollars for our Chemical products is due primarily to declines in prices for most commodities, including natural gas, anhydrous ammonia and sulfur, as compared to 2008, resulting in lower selling prices per ton of product sold. The reduction in tons sold to industrial and mining customers is a direct result of lower customer demand as a result of the economic downturn. However, a significant amount of the lower tonnage volume was related to customers that were contractually bound to pay for the fixed costs plus a profit for those tons not taken.

We produce AN and UAN fertilizers for the agricultural markets. For 2009, demand for fertilizer grade AN was strong resulting in a 36% increase in tons sold. Conversely, the demand for UAN was relatively weak resulting in an 11% decrease in tons sold as compared to 2008. We believe that the lower shipments of UAN were due to market conditions, including poor weather conditions, a reluctance of distributors to build inventory due to pricing concerns and possibly less nitrogen applied to corn during the spring.

We believe that global demand for corn, wheat and other grains will continue to be the fundamental drivers of nitrogen fertilizer demand.

Liquidity and Capital Resources

The following is our cash and cash equivalents, total interest bearing debt and stockholders' equity:

	December 31, 2009	December 31, 2008
	(In Millions)	
Cash and cash equivalents	$ 61.7	$ 46.2
Short-term investments (1)	10.1	-
	$ 71.8	$ 46.2
Long-term debt:		
2007 Debentures due 2012	$ 29.4	$ 40.5
Secured Term Loan due 2012	50.0	50.0
Other	22.4	14.7
Total long-term debt	$ 101.8	$ 105.2
Total stockholders' equity	$ 150.6	$ 130.0

(1) These investments consist of certificates of deposit with an original maturity of 13 weeks. All of these investments were held by financial institutions within the United States and none of these investments were in excess of the federally insured limits.

At December 31, 2009, our cash, cash equivalents and short-term investments totaled $71.8 million and our $50 million Working Capital Revolver Loan was undrawn and available to fund operations, if needed, subject to the amount of our eligible collateral and outstanding letters of credit. At December 31, 2009, the ratio between long-term debt, before the use of cash on hand and short-term investments to pay down debt, and stockholders' equity was approximately 0.7 to 1 as compared to 0.8 to 1 at December 31, 2008.

For 2010, we expect our primary cash needs will be for working capital and capital expenditures. We and our subsidiaries plan to rely upon internally generated cash flows, cash and short-term investments on hand, secured property and equipment financing, and the borrowing availability under the Working Capital Revolver Loan to fund operations and pay obligations. Also see discussion below concerning our universal shelf registration statement. Our internally generated cash flows and our liquidity could be affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions.

The 2007 Debentures bear interest at the annual rate of 5.5% and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year. As of December 31, 2009, we have acquired $30.6 million aggregate principal amount of these debentures including $11.1 million during 2009 as discussed below under "Authorization to Repurchase 2007 Debentures and Stock."

The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at December 31, 2009 was approximately 3.28%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities.

Since the 2007 Debentures and the Secured Term Loan both mature in 2012, we are currently reviewing various alternatives for the retirement of these obligations, as they become due.

ThermaClime and certain of its subsidiaries are subject to numerous covenants under the Secured Term Loan including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions.

ThermaClime's Working Capital Revolver Loan is available to fund its working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, ThermaClime and its subsidiaries (the "Borrowers") may borrow on a revolving basis up to $50.0 million based on specific percentages of eligible accounts receivable and inventories. At December 31, 2009, we had approximately $49.2 million of borrowing availability under the Working Capital Revolver Loan based on eligible collateral and outstanding letters of credit.

The Working Capital Revolver Loan and the Secured Term Loan have financial covenants that are discussed below under "Subordinated Debentures and Loan Agreements - Terms and Conditions". The Borrowers' ability to maintain borrowing availability under the Working Capital Revolver Loan depends on their ability to comply with the terms and conditions of the loan agreements and their ability to generate cash flow from operations. The Borrowers are restricted under their credit agreements as to the funds they may transfer to the Company and their non-ThermaClime affiliates and certain ThermaClime subsidiaries. This limitation does not prohibit payment to the Company of amounts due under a Services Agreement, Management Agreement and a Tax Sharing Agreement. Based upon our current projections, we believe that cash, short-term investments and borrowing availability under our Working Capital Revolver Loan is adequate to fund operations during 2010.

Although we do not have any current plans to offer or sell any securities, in September 2009, we filed a universal shelf registration statement on Form S-3, with the SEC, which was declared effective by the SEC on November 20, 2009. The shelf registration statement provides that we could offer and sell up to $200 million of our securities consisting of equity (common and preferred), debt (senior and subordinated), warrants and units, or a combination thereof. This disclosure shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

Income Taxes

The utilization of the NOL carryforwards reduced our income tax liabilities in prior years. However, we utilized our remaining federal NOL carryforwards during 2008. As a result, we are recognizing and paying federal income taxes at regular corporate tax rates.

The federal tax returns for 1997 through 2005 remain subject to examination for the purpose of determining the amount of tax NOL and other carryforwards. With few exceptions, the 2006-2008 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

Capital Expenditures

Capital Expenditures in 2009

Cash used for capital expenditures during 2009 was $28.9 million, including $5.1 million primarily for production equipment and other upgrades for additional capacity in our Climate Control Business and $23.3 million for our Chemical Business, primarily for process and reliability improvements of our operating facilities, including $8.1 million associated with the Pryor Facility and approximately $0.5 million to maintain compliance with environmental laws, regulations and guidelines. These capital expenditures were primarily funded from working capital and from secured financing totaling $8.5 million obtained by refinancing certain existing assets.

Committed and Planned Capital Expenditures for 2010

At December 31, 2009, we had committed capital expenditures of approximately $7.9 million for 2010. The expenditures included $6.6 million for process and reliability improvements in our Chemical Business, including $1.7 million relating to the Pryor Facility and approximately $0.9 million to maintain compliance with environmental laws, regulations and guidelines. In addition, our commitments included $1.3 million primarily for facilities expansion and upgrades and production equipment in our Climate Control Business. We plan to fund these expenditures from working capital, which may include utilizing our Working Capital Revolver Loan, and financing arrangements.

In addition to committed capital expenditures at December 31, 2009, we had planned capital expenditures for 2010 in our Chemical Business of approximately $11.0 million and in our Climate Control Business of approximately $6.0 million. These planned expenditures are subject to economic conditions and approval by senior management. If these capital expenditures are approved, most of the Chemical Business' expenditures will likely be funded from internal cash flows and the Climate Control's expenditures will likely be financed.

Advanced Manufacturing Energy Credits

On January 8, 2010, two of our subsidiaries within the Climate Control Business were awarded Internal Revenue Code § 48C tax credits (also referred to as "Advanced Manufacturing Energy Credits") of approximately $9.6 million. The award is based on anticipated capital expenditures made from February 2009 through February 2013 for machinery that will be used to produce geothermal heat pumps and green modular chillers. As these subsidiaries invest in the qualifying machinery, we will be entitled to an income tax credit equal to 30% of the machinery cost, up to the total credit amount awarded.

Information Request from EPA

The EPA has sent information requests to most, if not all, of the nitric acid plants in the United States, including to us relating to our El Dorado, Cherokee and Baytown Facilities, requesting information under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. In connection with a review by our Chemical Business of these facilities in obtaining information for the EPA pursuant to the EPA's request, our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain changes to its production equipment may be needed in order to comply with the requirements of the Clean Air Act. If changes to the production equipment at these facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial.

Further, if it is determined that the equipment at any of our El Dorado, Cherokee and/or Baytown Facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed $27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the "best available control technology." We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties and may be required to make certain capital improvements to certain emission equipment as a result of the above described matter; however, at this time we are unable to determine the amount of any penalties that may be assessed, or the cost of additional capital improvements that may be required, by the EPA. Therefore no liability has been established at December 31, 2009.

Estimated Plant Turnaround Costs in 2010

Our Chemical Business expenses the costs of planned major maintenance activities ("Turnarounds") as they are incurred. Based on our current plan for Turnarounds to be performed during 2010, we currently estimate that we will incur approximately $5 million to $6 million of Turnaround costs. However, it is possible that the actual costs could be significantly different than our estimates.

Expenses Associated with Environmental Regulatory Compliance

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of $3.2 million in 2009 to maintain such regulatory compliance. For 2010, we expect to incur expenses ranging from $3 million to $4 million to maintain compliance. However, it is possible that the actual costs could be significantly different than our estimates.

Proposed Legislation and Regulations

Certain of the manufacturing facilities within our Chemical Business use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state courts and administrative agencies are considering the scope and scale of greenhouse gas emission regulation. There are bills pending in Congress that would regulate greenhouse gas emissions through a cap-and-trade system under which emitters would be required to either install abatement systems where feasible or buy allowances for offsets of emissions of greenhouse gas. In addition, the EPA has announced its determination that greenhouse gases threaten the public's health and welfare and thus could make them subject to regulation under the Clean Air Act. However this determination is being contested. The EPA has instituted a mandatory greenhouse gas reporting requirement beginning in 2010, which will impact all of our chemical manufacturing sites. Greenhouse gas regulation could increase the price of the electricity purchased by these chemical facilities and increase costs for our use of natural gas, other raw materials (such as anhydrous ammonia), and other energy sources, potentially restrict access to or the use of natural gas and certain other raw materials necessary to produce certain of our chemical products and require us to incur substantial expenditures to retrofit these chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted. Federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations. While future emission regulations or new laws appear likely, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

Certain Events Relating to Our Chemical Business

Bayer Agreement - EDN is a party to the Bayer Agreement with Bayer, by which EDN operates the Baytown Facility at Bayer's chemical manufacturing complex. The Bayer Agreement is for an initial term of five years, with renewal options.

Under the terms of the Bayer Agreement, Bayer purchases from EDN all of Bayer's requirements for nitric acid for use in Bayer's chemical manufacturing complex located in Baytown, Texas at a price covering EDN's costs plus a profit, with certain performance obligations on EDN's part. EDN purchases from Bayer ammonia, certain utilities, chemical additives and services as required for production of nitric acid at the Baytown Facility.

On June 23, 2009, Bayer purchased the Baytown Assets from a third party, except the EDN Assets. EDN continues to be responsible for the maintenance and operation of the Baytown Facility in accordance with the terms of the Bayer Agreement.

Pursuant to the terms of the Bayer Agreement, annual net sales after June 30, 2009, will decrease by approximately $9.7 million primarily as a result of the elimination of the Baytown Facility's lease expense, which was included in our sales price under the original Bayer agreement that was replaced by the Bayer Agreement. This elimination was the result of Bayer purchasing the Baytown Assets. For 2009, we had sales to Bayer of approximately 14% and 7% of the Chemical Business' and our consolidated net sales, respectively.

If there is a change in control of EDN, Bayer has the right to terminate the Bayer Agreement upon payment to EDN of a termination fee of approximately $6.3 million plus 1.1 times the current net book value of the EDN Assets.

New DEF Product - As part of the Clean Air Act, the EPA enacted emissions standards, which became effective beginning in 2010, that require the further reduction of nitrogen oxide emissions from diesel engines, starting with heavy-duty vehicles. CNC has developed a DEF product under the tradename, EarthPure DEF^{TM}, specifically for this application. CNC began production of DEF in January 2010.

Potential Increase of Imported UAN - A large percentage of the domestic UAN market is supplied by imports. Significant additional UAN production is expected to begin in the Caribbean during 2010, and we believe this additional UAN production will be marketed in the United States. Generally, foreign production of UAN is produced at a lower cost of production than UAN produced in the United States. During 2009, revenues from the sale of UAN by our Chemical Business was approximately $28 million. Additionally, UAN is the primary product to be produced and sold by the Pryor Facility. This potential additional import of UAN beginning in 2010 could have an adverse impact on our revenues and profits from the sale of UAN and fertilizer products.

Authorization to Repurchase 2007 Debentures and Stock

Our board of directors has granted management the authority to repurchase the 2007 Debentures on terms that management deems favorable to us if an opportunity is presented. Under this authority, we acquired in unsolicited transactions $30.6 million aggregate principal face amount of these debentures, including $11.1 million during 2009, at negotiated prices ranging from 72.25% to 98.5% of the face value of the 2007 Debentures. We used $8.9 million of our working capital to fund the purchases made during 2009. As a result, only $29.4 million remains outstanding at December 31, 2009.

In addition, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period of time. The stock repurchase authorization will remain in effect until such time as of our board of directors decides to end it. During 2009, we repurchased 275,900 shares of our common stock at a weighted-average price of $11.60 per share using funds from our working capital.

Dividends

We are a holding company and, accordingly, our ability to pay cash dividends on our preferred stock and our common stock depends in large part on our ability to obtain funds from our subsidiaries. The ability of ThermaClime (which owns substantially all of the companies comprising the Climate Control Business and Chemical Business) and its wholly-owned subsidiaries to pay dividends and to make distributions to us is restricted by certain covenants contained in the $50 million Working Capital Revolver Loan and the $50 million Secured Term Loan. Under the terms of these agreements, ThermaClime cannot transfer funds to us in the form of cash dividends or other distributions or advances, except for:

- the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with us;
- an amount not to exceed fifty percent (50%) of ThermaClime's consolidated net income during each fiscal year determined in accordance with generally accepted accounting principles plus amounts paid to us within the first bullet above, provided that certain other conditions are met;
- the amount of direct and indirect costs and expenses incurred by us on behalf of ThermaClime pursuant to a certain services agreement;
- the amount under a certain management agreement between us and ThermaClime, provided certain conditions are met, and
- outstanding loans entered into subsequent to November 2, 2007 not to exceed $2.0 million at any time.

We have not paid cash dividends on our outstanding common stock in many years and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our board of directors has not made a decision whether or not to pay such dividends on our common stock in 2010.

During 2009, dividends were declared and paid on our preferred stock using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

- Series D Preferred at the rate of $.06 a share payable on October 9, which dividend is cumulative;
- Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative; and
- Noncumulative Preferred at the rate of $10.00 a share payable April 1, which is noncumulative.

All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Group. See “Related Party Transactions” of this MD&A for a discussion as to the amount of dividends paid to the Golsen Group during 2009.

Compliance with Long - Term Debt Covenants

As discussed below under “Subordinated Debentures and Loan Agreements - Terms and Conditions”, the Secured Term Loan and Working Capital Revolver Loan, as amended, of ThermaClime and its subsidiaries require, among other things, that ThermaClime meet certain financial covenants. Currently, ThermaClime's forecast is that ThermaClime will be able to meet all financial covenant requirements for 2010.

Subordinated Debentures and Loan Agreements - Terms and Conditions

5.5% Convertible Senior Subordinated Debentures - On June 28, 2007, we completed a private placement to twenty-two qualified institutional buyers, pursuant to which we sold $60.0 million aggregate principal amount of the 2007 Debentures. Only $29.4 million remains outstanding at December 31 2009, including $5.0 million owned by the Golsen Group.

The 2007 Debentures bear interest at the rate of 5.5% per year and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year, which began on January 1, 2008. In addition, the 2007 Debentures are unsecured obligations and are subordinated in right of payment to all of our existing and future senior indebtedness, including indebtedness under our revolving debt facilities. The 2007 Debentures are effectively subordinated to all present and future liabilities, including trade payables, of our subsidiaries.

The 2007 Debentures are convertible by the holders in whole or in part into shares of our common stock prior to their maturity. The conversion rate of the 2007 Debentures for the holders electing to convert all or any portion of a debenture is 36.4 shares of our common stock per $1,000 principal amount of debentures (representing a conversion price of $27.47 per share of common stock), subject to adjustment under certain conditions as set forth in the Indenture.

Working Capital Revolver Loan - - ThermaClime's Working Capital Revolver Loan is available to fund its working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, ThermaClime and its subsidiaries may borrow on a revolving basis up to $50.0 million based on specific percentages of eligible accounts receivable and inventories. At December 31, 2009, there were no outstanding borrowings. In addition, the net credit available for borrowings under our Working Capital Revolver Loan was approximately $49.2 million at December 31, 2009, based on our eligible collateral and outstanding letters of credit as of that date. The Working Capital Revolver Loan requires that ThermaClime meet certain financial covenants, including an EBITDA requirement of greater than $25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended December 31, 2009.

Secured Term Loan - In November 2007, ThermaClime and certain of its subsidiaries entered into the $50.0 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the previous senior secured loan. The Secured Term Loan matures on November 2, 2012. The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at December 31, 2009 was approximately 3.28%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $63 million at December 31, 2009.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At December 31, 2009, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $79 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the twelve-month period ended December 31, 2009. The maturity date of the Secured Term Loan can be accelerated by the lender upon the occurrence of a continuing event of default, as defined.

Cross-Default Provisions - The Working Capital Revolver Loan agreement and the Secured Term Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of either of these agreements, the lenders may declare an event of default.

Seasonality

We believe that our only significant seasonal products are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry. The selling seasons for those products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, our Chemical Business increases its inventory of agricultural products prior to the beginning of each planting season. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

Related Party Transactions

Golsen Group

The Golsen Group has acquired from an unrelated third party $5,000,000 of the 2007 Debentures. During 2009, we incurred interest expense of $275,000 relating to the debentures held by the Golsen Group, of which $137,500 remains accrued at December 31, 2009. We also paid interest of $137,500 that was accrued at December 31, 2008.

In March 2009, we paid the dividends totaling approximately $240,000 and $60,000 on our Series B Preferred and our Series D Preferred, respectively, all of the outstanding shares of which are owned by the Golsen Group.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies. In addition, the more critical areas of financial reporting impacted by management's judgment, estimates and assumptions include the following:

Accounts Receivable and Credit Risk - Our sales to contractors and independent sales representatives are generally subject to a mechanic's lien in the Climate Control Business. Our other sales are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the consolidated financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due (determined based upon how recently payments have been received). Our periodic assessment of accounts and credit loss provisions are based on our best estimate of amounts that are not recoverable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas, however, eight customers (including their affiliates) account for approximately 24% of our total net receivables at December 31, 2009. We do not believe this concentration in these eight customers represents a significant credit risk due to the financial stability of these customers. At December 31, 2009 and 2008, our allowance for doubtful accounts of $676,000 and $729,000, respectively, were netted against our accounts receivable.

Inventory Valuations - Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. At December 31, 2009 and 2008, the carrying value of certain nitrogen-based inventories produced by our Chemical Business was reduced to market because cost exceeded the net realizable value by $0.5 million and $3.6 million, respectively. In addition, the carrying value of certain slow-moving inventory items (primarily Climate Control products) was reduced to market because cost exceeded the net realizable value by $1.2 million and $0.5 million at December 31, 2009 and 2008, respectively.

Precious Metals - Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. As of December 31, 2009 and 2008, precious metals were $13.1 million and $14.7 million, respectively, and are included in supplies, prepaid items and other in the consolidated balance sheets. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed. For 2009, 2008, and 2007, the amounts expensed for precious metals were approximately $5.9 million, $7.8 million and $6.4 million, respectively. These precious metals expenses are included in cost of sales. Occasionally, during major maintenance or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within the manufacturing equipment. For 2009, 2008, and 2007, we recognized recoveries of precious metals at historical FIFO costs of approximately $2.6 million, $1.5 million and $1.8 million, respectively. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals. We recognized gains of $2.0 million for 2007 (none in 2009 or 2008) from the sale of excess precious metals. These recoveries and gains are reductions to cost of sales.

Impairment of Long-Lived Assets and Goodwill - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable and goodwill is reviewed for impairment at least annually. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. Assets to be disposed are reported at the lower of the carrying amounts of the assets or fair values less costs to sell. At December 31, 2009, we had no long-lived assets to be classified as assets held for sale. We have considered impairment of our long-lived assets and goodwill. The timing of impairments cannot be predicted with reasonable certainty and are primarily dependent on market conditions outside our control. Should sales prices permanently decline dramatically without a similar decline in the raw material costs or should other matters, including the environmental requirements and/or operating requirements set by Federal and State agencies change substantially from our current expectations, a provision for impairment may be required based upon such event or events. See Item 1 "Business-Environmental Matters." Based on estimates obtained from external sources and internal estimates based on inquiry and other techniques, we recognized impairments relating to certain non-core equipment of $192,000 relating to Corporate assets during 2008 (none in 2009 and 2007) and $250,000 relating to certain capital spare parts and idle assets in our Chemical Business during 2007 (none in 2009 and 2008). These impairments are included in other expense.

Accrued Insurance Liabilities - We are self-insured up to certain limits for group health, workers' compensation and general liability claims. Above these limits, we have commercial insurance coverage for our contractual exposure on group health claims and statutory limits under workers' compensation obligations. We also carry excess umbrella insurance of $50 million for most general liability and auto liability risks. We have a separate $30 million insurance policy covering pollution liability at our Chemical Business facilities. Additional pollution liability coverage for our other facilities is provided in our general liability and umbrella policies. Our accrued insurance liabilities are based on estimates of claims, which include the incurred claims amounts plus estimates of future claims development calculated by applying our historical claims development factors to our incurred claims amounts. We also consider the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims and other insurance-related costs. Potential legal fees and other directly related costs associated with insurance claims are not accrued but rather are expensed as incurred. At December 31, 2009 and 2008, our accrued insurance liabilities were $3.7 million and $3.0 million, respectively, and are included in accrued and other liabilities. It is possible that the actual development of claims could exceed our estimates.

Product Warranty - Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, that extends over several years. As such, we provide warranties after equipment shipment/start-up covering defects in materials and workmanship.

Generally, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start-up, whichever is shorter, and to ninety days for spare parts. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase or a specific product may be sold with an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations using a percentage of net sales, based upon our historical warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, or component thereof, or project installation, when such costs are probable and reasonably estimable. It is possible that future warranty costs could exceed our estimates. At December 31, 2009 and 2008, our accrued product warranty obligations were $3.1 million and $2.8 million, respectively and are included in current and noncurrent accrued and other liabilities in the consolidated balance sheets.

Executive Benefit Agreements - We have entered into benefit agreements with certain key executives. Costs associated with these individual benefit agreements are accrued based on the estimated remaining service period when such benefits become probable they will be paid. Total costs accrued equal the present value of specified payments to be made after benefits become payable. In 1992, we entered into individual benefit agreements with certain key executives ("1992 Agreements") that provide for annual benefit payments for life (in addition to salary). The liability for these benefits under the 1992 Agreements is $1,102,000 and $1,111,000 as of December 31, 2009 and 2008, respectively, and is included in current and noncurrent accrued and other liabilities in the consolidated balance sheets.

In 1981, we entered into individual death benefit agreements with certain key executives. In addition, as part of the 1992 Agreements, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. In 2005, we entered into a death benefit agreement with our CEO. As of December 31, 2009, the liability for death benefits is $3.4 million ($2.7 million at December 31, 2008) which is included in current and noncurrent accrued and noncurrent liabilities in the consolidated balance sheets.

Income Taxes - We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to NOL carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In addition, we do not recognize a tax benefit unless we conclude that it is more-likely-than-not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

We reduce income tax expense for investment tax credits in the year the credit arises and is earned.

Income tax benefits credited to equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not affect earnings. These benefits are principally generated from exercises of non-qualified stock options.

Contingencies - We accrue for contingent losses when such losses are probable and reasonably estimable. Estimates of potential legal fees and other directly related costs associated with loss contingencies are not accrued but rather are expensed as incurred. In addition, we recognize contingent gains when such gains are realized or realizable and earned. We are a party to various litigation and other contingencies, the ultimate outcome of which is not presently known. Should the ultimate outcome of these contingencies be adverse, such outcome could create an event of default under ThermaClime's Working Capital Revolver Loan and the Secured Term Loan and could adversely impact our liquidity and capital resources.

Regulatory Compliance - Our Chemical Business is subject to specific federal and state regulatory compliance laws and guidelines. We have developed policies and procedures related to regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. At December 31, 2009, liabilities totaling $305,000 have been accrued relating to remediation and surface and groundwater monitoring costs associated with our former Kansas facility. These liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term.

Asset Retirement Obligations - We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Since we currently have no plans to discontinue the use of these facilities and the remaining lives of the facilities are indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

Revenue Recognition - We recognize revenue for substantially all of our operations at the time title to the goods transfers to the buyer and there remain no significant future performance obligations by us. Revenue relating to construction contracts is recognized using the percentage-of-completion method based primarily on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Sales of warranty contracts are recognized as revenue ratably over the life of the contract. See discussion above under "Product Warranty" for our accounting policy for recognizing warranty expense.

Recognition of Insurance Recoveries - If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. Amounts recoverable from our insurance carriers are included in accounts receivable. As previously reported, in February 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. Our insurance policy provides for replacement cost coverage relating to property damage with a $1.0 million property loss deductible. Because our replacement cost coverage for property damages is estimated to exceed our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but we recorded a property insurance claim receivable relating to this event. At December 31, 2009, the balance of the insurance claim receivable relating to this event was approximately $1.2 million. In January 2010, we received approximately $1.0 million from our insurance carrier as a partial payment on our insurance claim. We used these funds to pay down the Secured Term Loan.

Derivatives, Hedges and Financial Instruments - Derivatives are recognized in the balance sheet and are measured at fair value. Changes in fair value of derivatives are recorded in results of operations unless the normal purchase or sale exceptions apply or hedge accounting is elected.

We have three types of contracts that are accounted for on a fair value basis, which are interest rate contracts, commodities futures/forward contracts and foreign exchange contracts. The valuation of these contracts was determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values. The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At December 31, 2009, we did not have any contracts classified as Level 3, which are contracts that are valued based on unobservable valuation inputs.

Management's judgment and estimates in these areas are based on information available from internal and external resources at that time. Actual results could differ materially from these estimates and judgments, as additional information becomes known.

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2009, 2008, and 2007 and accompanying notes and the discussions above under "Overview" and "Liquidity and Capital Resources."

The following information about our results of operations is presented by our two industry segments, Climate Control Business and Chemical Business. Gross profit by industry segment represents net sales less cost of sales. In addition, our chief operating decision makers use operating income by industry segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income by industry segment represents gross profit by industry segment less selling, general and administrative expense ("SG&A") incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense.

The following table contains certain information about our continuing operations in different industry segments for each of the three years ended December 31:

	2009	2008	2007
		(In Thousands)	
Net sales:			
Climate Control	$ 266,169	$ 311,380	$ 286,365
Chemical	257,832	424,117	288,840
Other	7,837	13,470	11,202
	$ 531,838	$ 748,967	$ 586,407
Gross profit:			
Climate Control	$ 92,409	$ 96,633	$ 83,638
Chemical	42,422	37,991	44,946
Other	2,583	4,256	4,009
	$ 137,414	$ 138,880	$ 132,593
Operating income (loss):			
Climate Control	$ 37,706	$ 38,944	$ 34,194
Chemical	15,122	31,340	35,011
General corporate expense and other business operations, net	(12,118)	(11,129)	(10,194)
	40,710	59,155	59,011
Interest expense	(6,746)	(11,381)	(12,078)
Gain on extinguishment of debt	1,783	5,529	-
Non-operating income, net:			
Climate Control	8	1	2
Chemical	31	27	109
Corporate and other business operations	91	1,068	1,153
Provisions for income taxes	(15,024)	(18,776)	(2,540)
Equity in earnings of affiliate - Climate Control	996	937	877
Income from continuing operations	$ 21,849	$ 36,560	$ 46,534

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2009 and 2008:

	2009	2008	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Geothermal and water source heat pumps	$ 179,865	$ 190,960	$ (11,095)	(5.8) %
Hydronic fan coils	46,381	83,472	(37,091)	(44.4) %
Other HVAC products	39,923	36,948	2,975	8.1 %
Total Climate Control	$ 266,169	$ 311,380	$ (45,211)	(14.5) %
Gross profit – Climate Control	$ 92,409	$ 96,633	$ (4,224)	(4.4) %
Gross profit percentage – Climate Control (1)	34.7 %	31.0 %	3.7 %	
Operating income – Climate Control	$ 37,706	$ 38,944	$ (1,238)	(3.2) %

(1) As a percentage of net sales

Net Sales – Climate Control

- Net sales of our geothermal and water source heat pump products decreased primarily as a result of a 9.8% decrease in sales of our commercial products due to the slowdown in the construction and renovation activities in the markets we serve partially offset by a 4.0% increase in sales of our residential products. During 2009, we continued to maintain a market share leadership position of approximately 40%, based on market data supplied by the AHRI;
- Net sales of our hydronic fan coils decreased primarily due to a 43.7% decrease in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and a decline in the average unit sales price due to change in product mix. During 2009, we continue to have a market share leadership position of approximately 30% based on market data supplied by the AHRI;
- Net sales of our other HVAC products increased primarily as the result of an increase in engineering and construction services completed on construction contracts entered into during 2008 as well as an increase in sales of our modular chillers partially offset by a decline in sales of our large custom air handlers.

Gross Profit – Climate Control

The decrease in gross profit was primarily the result of lower sales volume in our hydronic fan coil and geothermal and water source heat pump products partially offset by a change in product mix, primarily a higher content of geothermal and water source heat pump products that have a higher gross profit percentage, and a decrease in the cost of our raw materials. In addition, our engineering and construction business increased its contribution to gross profit on completed projects and customer change orders. As a result, our gross profit percentage improved 3.7% compared to 2008. Competitive pressures on product pricing and recent increases in market prices of raw materials, especially steel, copper and aluminum, could impact gross margins negatively going forward, if we are unable to pass these cost increases to our customers in the form of higher sales prices.

Operating Income – Climate Control

Operating income decreased slightly primarily as a result of the decrease in gross profit as discussed above partially offset by lower operating expenses. Significant changes in operating expenses include lower freight and commission expenses due primarily to reduced sales volume ($3.1 million and $2.3 million, respectively) and lower legal and other professional fees ($0.7 million) due primarily to a patent infringement defense in 2008 and other miscellaneous items ($0.5 million) partially offset by an increase in advertising expenses ($3.6 million) as a result of a marketing program launched by one of our subsidiaries.

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2009 and 2008:

	2009	2008	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Agricultural products	$ 104,300	$ 152,802	$ (48,502)	(31.7) %
Industrial acids and other chemical products	95,997	162,941	(66,944)	(41.1) %
Mining products	57,535	108,374	(50,839)	(46.9) %
Total Chemical	$ 257,832	$ 424,117	$ (166,285)	(39.2) %
Gross profit - Chemical	$ 42,422	$ 37,991	$ 4,431	11.7 %
Gross profit percentage – Chemical (1)	16.5 %	9.0 %	7.5 %	
Operating income - Chemical	$ 15,122	$ 31,340	$ (16,218)	(51.7) %

(1) As a percentage of net sales

Net Sales - Chemical

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. For 2009, overall sales prices for the Chemical Business decreased 35% and the volume of tons sold decreased 7%, compared with 2008, generally as a result of the following:

- Sales prices for products produced at the El Dorado Facility decreased 33% related, in part, to the lower cost of raw material, anhydrous ammonia, part of which is passed through to our customers pursuant to contracts and/or pricing arrangements that include raw material feedstock as a pass-through component in the sales price. Our industrial grade AN is sold to one customer pursuant to a multi-year take or pay supply contract in which the customer has agreed to purchase from our El Dorado Facility a certain minimum volume of industrial grade AN during the year. This customer ordered less than the contractual minimum quantity of industrial grade AN product that it was required to purchase during 2009 contributing to the decline in sales. Pursuant to the terms of the contract, the customer was invoiced and paid for certain unrecovered fixed costs and profit on the minimum volume not taken in 2009. Pricing for agricultural grade AN was lower in 2009 due primarily to falling commodity prices beginning in the later half of 2008. However, fertilizer grade AN volume of tons shipped at the El Dorado Facility increased 36% compared to 2008 as the result of more favorable market conditions. Overall volume of all products sold from the El Dorado Facility increased slightly compared to 2008.
- Sales prices and volumes for products produced at the Cherokee Facility decreased 41% and 3%, respectively, primarily related to the lower market-driven demand for UAN in 2009. This situation was compounded by unfavorable weather conditions in Cherokee's primary market resulting in lower fertilizer application. Sales prices also decreased with the pass through of our lower natural gas costs in 2009 compared to 2008, under pricing arrangements with certain of our industrial customers.
- Sales prices decreased approximately 35% for products produced at the Baytown Facility due to lower ammonia cost, which is a pass-through component to Bayer. Overall volumes decreased 24% as the result of a decline in customer demand primarily due to the economic downturn. Sales are also lower due to the elimination of a pass-through cost component for lease expense as discussed in "Liquidity and Capital Resources-Bayer Agreement". The lower sales prices and lower volumes had only a minimum impact to gross profit and operating income due to certain provisions of the Bayer Agreement.

Gross Profit - Chemical

The increase in gross profit of our Chemical Business includes $6.6 million in higher margins on our chemical products sold in excess of then current market prices due to firm sales commitments made in 2008 when market prices were higher, and $6.4 million reduction of losses (both realized and unrealized) on natural gas and ammonia hedging contracts in 2009 compared to 2008. Also contributing to the increase in gross profit was improved production efficiencies of $3.9 million due, in part, to unplanned downtime incurred at the Cherokee Facility in 2008, a reduction in our turnaround costs due to the timing of certain turnarounds, and an increase in recoveries of precious metals. This increase in gross profit was partially offset by lower agricultural product margins of $10.8 million due primarily to lower margins on UAN fertilizer. Our UAN margins were lower due to market conditions, including poor weather conditions, a reluctance of distributors to build inventory, and possibly lower levels of nitrogen fertilizer applied to crops. In addition, the Pryor Facility incurred a $1.2 million loss on firm sales commitments entered into during 2009, of which $0.4 million relates to outstanding firm sales commitments at December 31, 2009. Primarily as a result of these items, our overall gross profit as a percentage of sales improved for 2009 compared to 2008.

Operating Income - Chemical

The decrease of our Chemical Business' operating income includes start up expenses associated with the Pryor Facility of approximately $16.0 million (which does not include the $1.2 million loss on the Pryor Facility's sales commitments discussed above) compared to $2.4 million for 2008. In addition, we recognized other operating income of $7.6 million from a litigation judgment during 2008. This decrease was partially offset by the increase in gross profit of $4.4 million as discussed above.

Other

The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for 2009 and 2008:

	2009	2008	Change	Percentage Change
		(Dollars In Thousands)		
Net sales - Other	$ 7,837	$ 13,470	$ (5,633)	(41.8)%
Gross profit - Other	$ 2,583	$ 4,256	$ (1,673)	(39.3)%
Gross profit percentage – Other (1)	33.0 %	31.6 %	1.4 %	
General corporate expense and other business operations, net	$ (12,118)	$ (11,129)	$ (989)	8.9 %

(1) As a percentage of net sales

Net Sales - Other

The decrease in net sales classified as "Other" relates primarily to lower demand for new industrial machinery as a result of the present global economic conditions and downturn in capital equipment spending.

Gross Profit - Other

The decrease in gross profit classified as "Other" is due primarily to the decrease in sales as discussed above.

General Corporate Expense and Other Business Operations, Net

Our general corporate expense and other business operations, net increased by approximately $1.0 million primarily as the result of the decrease in gross profit classified as "Other" as discussed above partially offset by a decrease of $1.1 million of professional fees primarily relating to a reduction in fees associated with the assistance in our evaluation of internal controls and procedures and related documentation for Sarbanes-Oxley requirements and to legal fees on various legal matters.

Interest Expense

Interest expense was $6.7 million for 2009 compared to $11.4 million for 2008, a decrease of approximately $4.7 million. This decrease primarily relates to a decrease in losses of $2.1 million associated with our interest rate contracts, a decrease of $1.6 million as the result of the acquisitions of the 2007 Debentures and a decrease of $1.1 million due to the decline in the LIBOR rate associated with the Secured Term Loan.

Gain on Extinguishment of Debt

During 2009 and 2008, we acquired $11.1 million and $19.5 million, respectively, aggregate principal amount of the 2007 Debentures for approximately $8.9 million and $13.2 million, respectively, and recognized a gain on extinguishment of debt of $1.8 million and $5.5 million, respectively, after expensing the unamortized debt issuance costs associated with the 2007 Debentures acquired.

Non-Operating Other Income, Net

Our non-operating other income, net was $0.1 million for 2009 compared to $1.1 million for 2008. The decrease of $1.0 million relates primarily to higher returns received in 2008 from highly liquid investments.

Provision For Income Taxes

The provision for income taxes for 2009 was $15.0 million compared to $18.8 million for 2008. The resulting effective tax rate for 2009 was 40.7% compared to 33.9% for 2008. As discussed under "Overview - 2009 Results," during 2009, we incurred an additional provision relating to adjustments reconciling the 2008 federal and state income tax returns to the 2008 estimated tax provision. Additionally, the impact of lower taxable income which limited the amount of the manufacturing deduction that can be utilized also increased our provision for income taxes. During 2008, we incurred current and deferred federal and state income taxes due, in part, to increased taxable income and higher effective tax rates partially offset by a net deferred income tax benefit of $1.6 million as the result of a detailed analysis performed on all our deferred tax assets and liabilities and the realizability of those deferred tax assets.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2008 and 2007:

	2008	2007	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Geothermal and water source heat pumps	$ 190,960	$ 165,115	$ 25,845	15.7 %
Hydronic fan coils	83,472	85,815	(2,343)	(2.7) %
Other HVAC products	36,948	35,435	1,513	4.3 %
Total Climate Control	$ 311,380	$ 286,365	$ 25,015	8.7 %
Gross profit - Climate Control	$ 96,633	$ 83,638	$ 12,995	15.5 %
Gross profit percentage - Climate Control (1)	31.0 %	29.2 %	1.8 %	
Operating income - Climate Control	$ 38,944	$ 34,194	$ 4,750	13.9 %

(1) As a percentage of net sales

Net Sales – Climate Control

- Net sales of our geothermal and water source heat pump products increased primarily as a result of a 19% increase in our average selling price per unit due to a change in product mix, primarily more residential products that have higher selling prices and more accessories, partially offset by a 3% decrease in the number of units sold. The number of units sold in 2008 was down slightly due to lower export sales and a decrease in domestic commercial orders as the result of the weaker construction market. During 2008, we continued to maintain a market share leadership position of approximately 40%, based on data supplied by the AHRI;
- Net sales of our hydronic fan coils decreased slightly primarily due to a 7% decrease in the number of units sold partially offset by a 4% increase in our average selling price. During 2008, we continued to maintain a market share leadership position of approximately 37%, based on data supplied by the AHRI;
- Net sales of our other HVAC products increased slightly primarily as the result of an increase in sales of large custom air handlers.

Gross Profit – Climate Control

The increase in gross profit in our Climate Control Business was primarily the result of the increase in sales of our geothermal and water source heat pumps as discussed above and the increase of $1.3 million in gains recognized on our futures contracts for copper partially offset by the reduction in sales volumes discussed above. In addition, the above changes were also the primary reasons for the increase in our gross profit percentage.

Operating Income – Climate Control

The net increase in operating income of our Climate Control Business resulted primarily from the net increase of gross profit of $13.0 million as discussed above. This increase in operating income was partially offset by an increase in variable operating expenses associated with higher sales. Personnel costs increased by $3.9 million as the result of an increase in the number of personnel and costs associated with group insurance and other employee benefits, warranty expenses increased by $2.2 million due to the increase in sales volume and actual costs incurred, and professional fees increased by $1.1 million primarily relating to legal expenses associated with patent defense costs relating to potential new product development in the large air-handler product line.

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2008 and 2007:

	2008	2007	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Industrial acids and other chemical products	$ 162,941	$ 95,754	$ 67,187	70.2 %
Agricultural products	152,802	117,158	35,644	30.4 %
Mining products	108,374	75,928	32,446	42.7 %
Total Chemical	$ 424,117	$ 288,840	$ 135,277	46.8 %
Gross profit - Chemical	$ 37,991	$ 44,946	$ (6,955)	(15.5)%
Gross profit percentage – Chemical (1)	9.0 %	15.6%	(6.6) %	
Operating income - Chemical	$ 31,340	$ 35,011	$ (3,671)	(10.5)%

(1) As a percentage of net sales

Net Sales - Chemical

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. For 2008, overall sales prices for the Chemical Business increased 59% while the volume of tons sold decreased 6%, compared with 2007.

- Sales prices at the El Dorado Facility increased 47% related, in part, to the high cost of raw materials, anhydrous ammonia and sulfur, the majority of which we were able to pass through to our customers and also to strong global agricultural market demand relative to supply volumes during this period. Volume at the El Dorado Facility decreased 13% or 86,000 tons. The decrease in tons sold was primarily attributable to (i) 69,000 fewer tons of agricultural AN and other bulk fertilizers sold primarily in the first half of 2008 compared to

- the same period of 2007 due to poor weather conditions and lower demand for AN in favor of urea, a competing product in El Dorado's market area, as well as reduced forage application due to poor conditions in the cattle market and (ii) 11,000 fewer tons of sulfuric acid due primarily to the bi-annual Turnaround of the sulfuric acid plant.
- Sales prices and volumes at the Cherokee Facility increased 61% and 9%, respectively, primarily related to the market-driven demand for UAN and mining products. Sales prices also increased with the pass through of our higher natural gas costs in 2008 compared to 2007, recoverable under pricing arrangements with certain of our industrial customers. The increase in volume was partially offset by the unplanned maintenance downtime experienced during the third quarter of 2008;
- Sales prices increased approximately 96% at the Baytown Facility due to higher global ammonia pricing, which is recoverable under the Original Bayer Agreement but had a minimum impact to gross profit and operating income. Overall volumes decreased 11% as the result of a decline in customer demand after Hurricane Ike and following the economic downturn.

Gross Profit - Chemical

The decrease in gross profit of our Chemical Business relates to several significant items. We recognized unrealized losses of $5.3 million on our natural gas and ammonia futures/forward contracts outstanding at December 31, 2008. In addition, we have estimated that the Cherokee Facility incurred costs of approximately $5.1 million as the result of unplanned maintenance downtime during 2008 compared to $1.1 million in 2007. Also at December 31, 2008, we recognized a lower of cost or market provision on inventory of $3.6 million due to declines in global nitrogen prices as demand fell as the result of buyers' concerns over volatile commodity prices and the global economic crisis. In addition during 2008, the amount expensed for precious metals, net of recoveries and gains, was $6.3 million compared to $2.6 million during 2007. In general, other non-raw material manufacturing expenses, including steam (produced from natural gas), maintenance and Turnarounds, electricity and labor, increased during 2008 compared to 2007. Our Chemical Business incurred expenses for Turnarounds of $6.0 million for 2008 compared to $3.4 million for 2007. This decrease in gross profit was partially offset by the increase in sales prices of products sold by the El Dorado and Cherokee Facilities, as discussed above, in relation to raw material costs. During 2007, we realized non-recurring insurance recoveries of $3.8 million relating to a business interruption claim. These recoveries contributed to an increase in gross profit in 2007. As a result of these changes discussed above, our overall gross profit percentage declined for 2008 as compared to 2007.

Operating Income - Chemical

The net decrease of our Chemical Business' operating income includes the net decrease in gross profit of $7.0 million as discussed above. Also, we incurred an increase in expenses associated with the Pryor Facility of $1.4 million due to the process of activating this facility. The decrease in operating income was partially offset by other income recognized by our Chemical Business of $7.6 million from a litigation judgment during 2008, as previously reported. During 2007, we recognized income of $3.3 million relating to a litigation settlement.

Other

The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for 2008 and 2007:

	2008	2007	Change	Percentage Change
		(Dollars In Thousands)		
Net sales - Other	$ 13,470	$ 11,202	$ 2,268	20.2%
Gross profit - Other	$ 4,256	$ 4,009	$ 247	6.2%
Gross profit percentage – Other (1)	31.6 %	35.8 %	(4.2) %	
General corporate expense and other business operations, net	$ (11,129)	$ (10,194)	$ (935)	9.2%

(1) As a percentage of net sales

Net Sales - Other

The increase in net sales classified as "Other" relates primarily to increased customer demand for our machine tool products.

Gross Profit - Other

The increase in gross profit classified as "Other" is due primarily to the increase in sales as discussed above. The decline in our gross profit percentage was primarily due to additional costs incurred relating to a large customized industrial machine tool, freight costs and the recognition of losses of $0.2 million on our foreign currency contracts.

General Corporate Expense and Other Business Operations, Net

The net increase in our general corporate expense and other business operations, net relates primarily to increased personnel costs of $1.1 million resulting from increased compensation and other employee benefits, professional fees of $0.5 million due, in part, for assistance in our evaluation of our internal controls and procedures and related documentation for Sarbanes-Oxley requirements and to legal fees on various litigation matters and other expense of $0.6 million relating primarily to potential litigation settlements, an impairment of long-lived assets and income tax related penalties, partially offset by an increase in other income of $0.7 million due, in part, to litigation settlements.

Interest Expense

Interest expense was $11.4 million for 2008 compared to $12.1 million for 2007, a decrease of $0.7 million. This net decrease primarily relates to a decrease of $3.4 million as the result of obtaining a lower interest rate associated with the Secured Term Loan compared to the interest rate associated with the previous senior secured loan and a decrease of $1.0 million due to the continual pay off of the Working Capital Revolver Loan during 2008, partially offset by the increase in realized and unrealized losses of $2.5 million relating to our interest rate contracts and the increase of $1.7 million relating to the 2007 Debentures.

Gain on Extinguishment of Debt

During 2008, we acquired $19.5 million aggregate principal amount of the 2007 Debentures for $13.2 million and recognized a gain on extinguishment of debt of $5.5 million, after expensing $0.8 million of the unamortized debt issuance costs associated with the 2007 Debentures acquired.

Provision For Income Taxes

The provision for income taxes for 2008 was $18.8 million compared to $2.5 million for 2007. During 2008, we incurred current and deferred federal and state income taxes due, in part, to increased taxable income and higher effective tax rates partially offset by a net deferred income tax benefit of $1.6 million as the result of a detailed analysis performed on all our deferred tax assets and liabilities and the realizability of those deferred tax assets. During 2007, we incurred federal and state income taxes resulting from increased taxable income and additional prior year state income taxes recorded pursuant to a then new accounting standard. However, these provisions were partially offset by the benefit of deferred taxes from the reversal of valuation allowances.

Cash Flow From Continuing Operating Activities

Historically, our primary cash needs have been for operating expenses, working capital and capital expenditures. We have financed our cash requirements primarily through internally generated cash flow, borrowings under our revolving credit facilities, secured asset financing and the sale of assets. See additional discussions concerning cash flow relating to our Climate Control and Chemical Businesses under “Overview” and “Liquidity and Capital Resources” of this MD&A.

For 2009, net cash provided by continuing operating activities was $57.7 million, including net income plus depreciation and amortization, deferred income taxes, stock-based compensation, gain on extinguishment of debt, realization of losses on inventory and other adjustments and the net cash provided by the following significant changes in assets and liabilities.

Accounts receivable decreased $22.1 million including:

- a decrease of $13.8 million in the Climate Control Business due, in part, to the decline in sales relating to our hydronic fan coil and geothermal and water source heat pump products, reduction in billings associated with construction contracts, and an improvement in the timing of collections,
- a net decrease of $7.7 million in the Chemical Business primarily as the result of lower sales prices and tons sold from our Cherokee Facility and an improvement in the timing of collections, and

- a decrease of $0.6 million in the industrial machinery business due primarily to a decrease in sales of large machinery.

Inventories decreased $11.9 million including:

- a decrease of $9.0 million in the Chemical Business primarily relating to the El Dorado and Cherokee Facilities due to the decline in costs of our raw material feedstocks and volume on hand partially offset by the inventory produced as the result of activating our Pryor Facility and
- a decrease of $2.7 million in the Climate Control Business due primarily to the reduction in the volume on hand associated with our hydronic fan coil and geothermal and water source heat pump products.

The change in prepaid and accrued income taxes of $2.7 million primarily to payments made to the taxing authorities partially offset by the recognition of income taxes for 2009.

Other supplies and prepaid items decreased $0.2 million including:

- a decrease of $1.6 million relating to lower costs and volume on hand of precious metals used in the manufacturing process of our Chemical Business, partially offset by
- an increase of $0.8 million of prepaid insurance primarily as the result of increased insurance premiums related to the Pryor Facility and
- an increase of $0.6 million of supplies relating to the Chemical Business due primarily to an increase in the volume on hand including the additions at the Pryor Facility.

Accounts payable decreased $6.2 million relating primarily to a decrease of $5.7 million in the Climate Control Business primarily as the result of a reduction in raw material purchases and a decrease in certain raw material costs. Accounts payable relating to our Chemical Business had a minimal net increase due, in part, to increased start-up costs at the Pryor Facility partially offset by the decrease in costs of our raw material feedstocks and the timing of maintenance projects performed at the El Dorado Facility.

Commodities contracts decreased $5.9 million primarily as the result of these contracts being settled during 2009.

Customer deposits decreased $2.6 million primarily as the result of the shipment of products associated with these deposits that includes:

- a decrease of $1.5 million in the Chemical Business,
- a decrease of $0.6 million in the Climate Control Business, and
- a decrease of $0.5 million in our industrial machinery business.

Deferred rent expense decreased $1.4 million as the result of the scheduled lease payments during 2009 exceeding the rent expense recognized on a straight-line basis. The scheduled lease payments ended in June 2009 when the previous Bayer agreement was replaced by the current Bayer Agreement.

The decrease in other current and noncurrent liabilities of $4.0 million includes primarily:

- a decrease in accrued contractual manufacturing obligations of $1.5 million primarily as the result of our Chemical Business paying a portion of these obligations in December 2009,
- decrease in accrued commissions of $1.4 million due primarily to lower sales volume in related distribution channels relating to our Climate Control Business, and
- a decrease in billings in excess of costs and estimated earnings on uncompleted contracts of $1.3 million primarily due to costs incurred during 2009 associated with these construction contracts relating to our Climate Control Business.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities for 2009 was $38.1 million that consisted primarily of $28.9 million for capital expenditures of which $5.1 million and $23.3 million are for the benefit of our Climate Control and Chemical Businesses, respectively. The capital expenditures used by our Chemical Business includes $8.1 million relating to the Pryor Facility. In addition, we invested $10.1 million in short-term investments consisting of certificates of deposit with an original maturity of 13 weeks.

Cash Flow from Continuing Financing Activities

Net cash used by continuing financing activities for 2009 was $3.9 million that primarily consisted of $8.9 million used for the acquisition of $11.1 million aggregate principal amount of the 2007 Debentures, purchases of treasury stock of $3.2 million, and payments on other long-term debt totaling $2.3 million partially offset by net proceeds from other long-term debt of $8.6 million.

Performance and Payment Bonds

We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by our subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2009, we have agreed to indemnify the sureties for payments, up to $22.9 million, made by them in respect of such bonds. Approximately $21.7 million of these insurances bonds expire in 2010 while the remaining $1.2 million expire in 2011.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended, except for the following:

Cepolk Holding, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership") which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). At December 31, 2009, our investment was $3.8 million. For 2009, distributions received from this Partnership were approximately $0.8 million and our equity in earnings was approximately $1.0 million. As of December 31, 2009, the Partnership and general partner to the Partnership are indebted to a term lender ("Lender") of the Project for approximately $2.1 million with a term extending to December 2010 ("Loan"). CHI has pledged its limited partnership interest in the Partnership to the Lender as part of the Lender's collateral securing all obligations under the Loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. In accordance with GAAP, no liability is required to be established for this pledge since it was entered into prior to January 1, 2003. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Lender be required to perform under this pledge.

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Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2009 are summarized in the following table.

Contractual Obligations	Total	2010	2011	2012	2013	2014	Thereafter
	Payments Due in the Year Ending December 31, (In Thousands)						
Long-term debt:							
5.5% Convertible Senior Subordinated Notes	$ 29,400	$ -	$ -	$ 29,400	$ -	$ -	$ -
Secured Term Loan due 2012	50,000	-	-	50,000	-	-	-
Capital leases	1,742	532	462	378	335	35	-
Other	20,659	2,673	2,821	2,988	3,164	2,595	6,418
Total long-term debt	101,801	3,205	3,283	82,766	3,499	2,630	6,418
Interest payments on long-term debt (1)	14,606	4,582	4,380	3,121	710	507	1,306
Interest rate contracts (2)	1,929	1,084	742	103	-	-	-
Capital expenditures (3)	7,850	7,850	-	-	-	-	-
Operating leases	17,459	4,606	3,949	3,374	2,446	2,150	934
Futures/forward contracts	2,873	2,873	-	-	-	-	-
Accrued contractual manufacturing obligations	732	732	-	-	-	-	-
Purchase obligations	870	870	-	-	-	-	-
Other contractual obligations included in noncurrent accrued and other liabilities	4,405	-	155	115	103	105	3,927
Total	$ 152,525	$ 25,802	$ 12,509	$ 89,479	$ 6,758	$ 5,392	$ 12,585

(1) The estimated interest payments relating to variable interest rate debt are based on the effective interest rates at December 31, 2009.
(2) The estimated future cash flows are based on the estimated fair value of these contracts at December 31, 2009.
(3) Capital expenditures include only non-discretionary amounts in our 2010 capital expenditure budget.

Availability of Company's Income Tax Loss Carry-Overs

For a discussion on our income tax net operating loss carry-overs, see Note 14 of Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Our results of operations and operating cash flows are impacted by changes in market prices of copper, steel, anhydrous ammonia and natural gas, changes in market currency exchange rates, and changes in market interest rates.

Forward Sales Commitments Risk

Periodically, our Climate Control and Chemical Businesses enter into forward sales commitments of products for deliveries in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At December 31, 2009, we had $0.4 million of embedded losses associated with sales commitments with firm sales prices in our Chemical Business.

Commodity Price Risk

Our Climate Control Business buys substantial quantities of copper and steel for use in manufacturing processes and our Chemical Business buys substantial quantities of anhydrous ammonia and natural gas as feedstocks generally at market prices. As part of our raw material price risk management, periodically, our Climate Control Business enters into futures contracts for copper and our Chemical Business enters into futures/forward contracts for anhydrous ammonia and natural gas, which contracts are generally accounted for on a mark-to-market basis. At December 31, 2009, our purchase commitments under copper contracts were for 750,000 pounds of copper through May 2010 at a weighted-average cost of approximately $3.19 pound ($2,390,000) and a weighted-average market value of approximately $3.35 per pound ($2,512,000). In addition, our Chemical Business had contractual rights under natural gas call contracts for approximately 150,000 MMBtu of natural gas through February 2010 at a weighted-average price of $6.00 per MMBtu ($900,000). At December 31, 2009, the weighted-average market value of these natural gas call contracts (unrealized gain) was approximately $0.19 per MMBtu ($29,000).

Foreign Currency Risk

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically entered into foreign currency contracts. At December 31, 2009, our commitments under these contracts were for the receipt of approximately 336,000 Euros through April 2010 at a weighted-average contract exchange rate of 1.435, which rate approximated the market exchange rate.

Interest Rate Risk

Our interest rate risk exposure results from our debt portfolio which is impacted by short-term rates, primarily variable-rate borrowings from commercial banks, and long-term rates, primarily fixed-rate notes, some of which prohibit prepayment or require a substantial premium payment with the prepayment.

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. At December 31, 2009, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.24% on $25 million and matures in April 2012. Also, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.595% on $25 million and matures in April 2012. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2009, the fair value of these contracts (unrealized loss) was $1.9 million.

The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive debt agreements and the estimated future cash flows and related estimated weighted-average receive rate for our interest rate sensitive interest rate swaps as of December 31, 2009.

	Years ending December 31, (Dollars In Thousands)						
	2010	2011	2012	2013	2014	Thereafter	Total
Expected maturities of long-term debt (1):							
Variable rate debt	$ 123	$ 122	$ 50,130	$ 138	$ 147	$ 1,893	$ 52,553
Weighted-average interest rate	3.41 %	3.40 %	3.50 %	6.00 %	6.00 %	6.00 %	3.60 %
Fixed rate debt	$ 3,082	$ 3,161	$ 32,636	$ 3,361	$ 2,483	$ 4,525	$ 49,248
Weighted-average interest rate	5.82 %	5.79 %	5.91 %	6.52 %	6.67 %	6.78 %	6.06 %
Estimated future cash flows of interest rate swaps (2):							
Variable to Fixed	$ 1,084	$ 742	$ 103	$ -	$ -	$ -	$ 1,929
Weighted-average pay rate	3.42 %	3.42 %	3.42 %	- %	- %	- %	3.42 %
Weighted-average receive rate	0.84 %	2.01 %	2.97 %	- %	- %	- %	2.15 %

(1) The variable and fixed rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2009.

(2) The estimated future cash flows and related weighted-average receive rate are based on the estimated fair value of these contracts as of December 31, 2009.

The following table presents our purchase commitments under futures/forward contracts and related weighted-average contract costs/exchange rate by contract terms as of December 31, 2009.

	Years ending December 31, (Dollars In Thousands, Except For Per Pound)						
	2010	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**
Futures/Forward contracts:							
Copper:							
Total cost of contracts	$ 2,390						$ 2,390
Weighted-average cost per pound	$ 3.19						$ 3.19
Foreign Currency (1):							
Total cost of contract	$ 483						$ 483
Weighted-average contract exchange rate	0.70						0.70

(1) Our commitments under these contracts are to pay in U.S Dollars and receive approximately 336,000 Euros.

Our long-term debt agreements are the only financial instruments with fair values significantly different from their carrying amounts. At December 31, 2009 and 2008, the estimated fair value of the Secured Term Loan is based on defined LIBOR rates plus 7% and 10%, respectively, utilizing information obtained from the lender. Fair values for fixed rate borrowings, other than the 2007 Debentures, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration our current credit worthiness. At December 31, 2009 and 2008, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures. The following table shows the estimated fair value and carrying value of our borrowings at:

	December 31, 2009		December 31, 2008	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Rate:				
Secured Term Loan	$ 27,640	$ 50,000	$ 20,939	$ 50,000
Working Capital Revolver Loan	-	-	-	-
Other debt	2,553	2,553	8	8
Fixed Rate:				
5.5% Convertible Senior Subordinated Notes	29,106	29,400	27,338	40,500
Other bank debt and equipment financing	20,231	19,848	14,949	14,652
	$ 79,530	$ 101,801	$ 63,234	$ 105,160

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We have included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporate by reference the relevant portions of those statements and information into this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, we have concluded, with the participation of our Principal Executive Officer and our Principal Financial Officer, that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on our assessment, we believe that, as of December 31, 2009, our internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on the following page.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of LSB Industries, Inc.

We have audited LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LSB Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, LSB Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LSB Industries, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 of LSB Industries, Inc. and our report dated March 8, 2010 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 8, 2010

ITEM 9B. OTHER INFORMATION

None.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein relate to, among other things,

- a factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives;
- for the short term, we do expect to see lower demand for most of our Climate Control products;
- tax credits and incentives, and certain planned direct spending by the federal government contained in the American Reinvestment and Recovery Act of 2009, could stimulate sales of our geothermal heat pump products, as well as other products that could be used to modernize federally owned and operated buildings, military installations, public housing and hospitals;
- the market share for commercial water source heat pumps relative to other types of heating and air-conditioning systems will continue to grow due to the relative efficiency and longevity of such systems, as well as due to the emergence of the replacement market for those systems;
- the energy efficiency, longer life, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, as well as tax incentives that are available to builders and homeowners when installing geothermal systems, will continue to increase demand for our geothermal products;
- levels of repair, replacement, and new construction activity generally drive demand in the geothermal and water source heat pumps and hydronic fan coil markets;
- our investment in the Climate Control Business will continue if customer product order intake levels warrant such investment, and our investments will increase our capacity to produce and distribute our Climate Control products;
- to ship substantially all of the customer product orders included in the Climate Control Business' backlog within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms beyond twelve months;
- no difficulties in obtaining necessary materials for our Climate Control Business;
- the ability to pass to our customers the majority of any raw material cost increases in the form of higher prices, but the timing of these price increases could lag the increases in the cost of materials, having sufficient sources for materials, and a shortage of raw materials could impact production of our Climate Control products;

- to continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new markets served by the Climate Control Business;
- the market demand for our industrial acids and mining products will be flat to slightly up, for the first half of 2010, and the nitrogen fertilizer supply and demand fundamentals appear to be favorable; however, it is possible that the fertilizer outlook could be adversely affected by lower grain prices, unanticipated spikes in natural gas prices, or unfavorable weather conditions;
- when producing at a sustained level, we expect the Pryor Facility to produce and sell at an annualized rate of approximately 325,000 tons of UAN and 35,000 tons of anhydrous ammonia;
- we can obtain anhydrous ammonia from other sources in the event of an interruption of service under our current supply contract;
- the overall commercial construction sector is not expected to recover during 2010,but there is a projected increase in both single-family residential and multi-family construction during 2010;
- for 2010, the potential sales level remains uncertain for the Climate Control Business;
- to see continued slowness in our Climate Control Business' results in the short-term;
- that the recently enacted federal tax credits for GHPs should have a positive impact on sales of those highly energy efficient and green products;
- the Pryor Facility monthly operating start up costs, prior to production of UAN at sustained targeted rates, are approximately $1.6 million in addition to variable costs such as natural gas and electricity;
- our Chemical Business' sales in the industrial, mining and agricultural sectors for 2010 will continue to be affected by the overall economic conditions;
- our primary cash needs will be for working capital and capital expenditures for 2010;
- we and our subsidiaries plan to rely upon internally generated cash flows, cash and short-term investments on hand, secured property and equipment financing, and the borrowing availability under the Working Capital Revolver Loan to fund operations and pay obligations;
- the amount of committed and planned capital expenditures for 2010, including the amounts for the Climate Control and Chemical Businesses;
- the amount of Turnaround Costs and expenses associated with environmental regulatory compliance to be incurred in 2010;
- while future emission regulations or new laws appear likely, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results;
- the actual development of claims could exceed our estimates as they relate to our accrued liabilities;
- meeting all required covenant tests for all quarters and the year ending in 2010, and
- environmental and health laws and enforcement policies thereunder could result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from our facilities or the use or disposal of certain of its chemical products.

While we believe the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to,

- changes in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material changes in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such,
- additional releases (particularly air emissions) into the environment,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to pay or secure additional financing for planned capital expenditures,
- material changes in the cost of certain precious metals, anhydrous ammonia, natural gas, copper and steel,
- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- changes in the production efficiency of our facilities,
- adverse results in any of our pending litigation,
- activating operations at full production rates at the Pryor Facility,
- inability to obtain necessary raw materials,
- other factors described in the MD&A contained in this report, and
- other factors described in “Risk Factors”.

Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

General

The Certificate of Incorporation and By-laws of the Company provide for the division of the Board of Directors into three classes, each class consisting as nearly as possible of one-third of the whole. The term of office of one class of directors expires each year; with each class of directors elected for a term of three years and until the shareholders elect their qualified successors.

The Company's By-laws provide that the Board of Directors, by resolution from time to time, may fix the number of directors that shall constitute the whole Board of Directors. The By-laws presently provide that the number of directors may consist of not less than 3 nor more than 14. The Board of Directors currently has set the number of directors at 14.

Only persons who are nominated in accordance with the procedures set forth in our Bylaws are eligible for election as directors. Pursuant to the August 20, 2009 amendments to our Bylaws, nominations of persons for election to the Board of Directors may be made at a meeting of stockholders at which directors are to be elected only (i) by or at the direction of the Board of Directors; or (ii) by any stockholder of the Company entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in our Bylaws. A director nomination made by a stockholder must be delivered or mailed to and received at our principal executive offices not less than 120 nor more than 150 days prior to the date of the meeting; provided, however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such date, notice by the stockholder to be timely must be so delivered, or mailed and received not later than the 90th day prior to such annual meeting, or if later, the 10th day following the date on which the public disclosure of the date of such annual meeting was so made.

Our Nominating and Governance Committee reviews the composition of the Board to assess the Board performance, composition, and effectiveness. The Nominating Committee values certain characteristics to all Board members, including personal and professional integrity, reputation, outstanding professional achievement, and sound business judgment. The Nominating Committee evaluates each individual director in the context of the Board as a whole with the goal of recommending an effective group with a diversity of experience and skills that exercises sound business judgment in the interest of our business and our shareholders.

Directors

Raymond B. Ackerman, age 87. Mr. Ackerman first became a director in 1993. His term will expire in 2011. From 1952 until his retirement in 1992, Mr. Ackerman served as Chairman of the Board and President of Ackerman McQueen, Inc., the largest advertising and public relations firm headquartered in Oklahoma. He currently serves as Chairman Emeritus of the firm. He retired as a Rear Admiral in the United States Naval Reserve. He is a graduate of Oklahoma City University, and in 1996, was awarded an honorary doctorate from the school. He was elected to the Oklahoma Hall of Fame in 1993 and the Oklahoma Commerce and Industry Hall of Honor in

1998. He served as the President of the Oklahoma City Chamber of Commerce, the United Way, Allied Arts and six other Oklahoma City non-profit organizations. Mr. Ackerman's advertising and public relations experience, and his leadership skills and business experience, among other factors, led the Board to conclude that he should serve as a director.

Robert C. Brown, M.D., age 78. Dr. Brown first became a director in 1969. His term will expire in 2012. Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. Dr. Brown received both his undergraduate and medical degrees from Tufts University after which he spent two years as a doctor in the United States Navy and over three years at the Mayo Clinic. Dr. Brown is also a Clinical Professor at Oklahoma University Health Science Center. Dr. Brown has experience with and insight into all aspects of developing and growing a company and as President and Chief Executive Officer oversaw the launch and sale of a medical claims clearinghouse which was sold, ultimately, to WebMD. Dr. Brown is currently President and Chief Executive Officer of ClaimLogic L.L.C., a medical claims clearinghouse specializing in the provision of medical clearinghouse services to university affiliated hospitals and other medical providers throughout the United States. Dr. Brown served as President of the Medical Staff of Baptist Medical Center of Oklahoma. He is a Board member of Integris Physicians Services, Inc. Dr. Brown's leadership experience, entrepreneurial business experience and broad range of knowledge of the Company history and business through his service as a director, among other factors, led the Board to conclude that he should serve as a director.

Charles A. Burtch, age 74. Mr. Burtch first became a director in 1999. His term will expire in 2010. Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica's asset-based lending division for the western third of the United States. He retired in 1998 and has since been engaged as a private investor. Mr. Burtch is a graduate of Arizona State University. Mr. Burtch's financial experience and his experience as executive vice president of a large commercial bank, among other factors, led the Board to conclude that he should serve as a director.

Robert A. Butkin, age 57. Mr. Butkin first became a director in August 2007. His term will expire in 2010. Mr. Butkin is currently a Professor of Law at the University of Tulsa College of Law. He was Dean of the Tulsa College of Law from 2005 to 2007. Mr. Butkin also serves as President of BRJN Capital Corporation a private investment company. Mr. Butkin served as Assistant Attorney General for the State of Oklahoma from 1987 to 1993, and served from 1995 to 2005 as the State Treasurer of Oklahoma. He has served in various organizations, including holding the presidency of the Southern State Treasurers Association. He chaired the Banking, Collateral and Cash Management Committee for the National Association of State Treasurers ("NAST"). In addition, from 1981 to 1995, he served on the Board of Citizens Bank of Velma, Oklahoma, and he served as Chairman of the Board of that bank from 1991 to 1994. He attended and received a Bachelor of Arts degree from Yale College. He received his Juris Doctorate from the University of Pennsylvania Law School in 1978. Mr. Butkin's leadership skills and financial experience obtained through serving as State Treasurer of Oklahoma, chairman of the banking committee of NAST, leading his private investment company, and service as the dean of a major law school in the State of Oklahoma, among other factors, led the Board to conclude that he should serve as a director.

Barry H. Golsen, J.D., age 59. Mr. Golsen first became a director in 1981. His term will expire in 2012. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994, and has been the President of our Climate Control Business for more than five years. Mr. Golsen served as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma. Mr. Golsen's extensive experience in the climate control industry, his depth of knowledge and understanding of the business in which the Company operates, and his demonstrated leadership skills within the Company, among other factors, led the Board to conclude that he should serve as a director.

Jack E. Golsen, age 81. Mr. Golsen first became a director in 1969. His term will expire in 2010. Mr. Golsen, founder of the Company, is our Chairman of the Board of Directors and Chief Executive Officer and has served in that capacity since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen is a Trustee of Oklahoma City University. During his career, he acquired or started the companies which formed the Company. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A. which was formerly owned by the Company. In 1972 he was recognized nationally as the person who prevented a widespread collapse of the Wall Street investment banking industry. Refer to "The Second Crash" by Charles Ellis, and five additional books about the Wall Street crisis. Mr. Golsen's demonstrated leadership skills and extensive experience and understanding in all industries in which the Company operates, his financial experience and broad business knowledge, among other factors, led the Board to conclude that he should serve as a director.

David R. Goss, age 69. Mr. Goss first became a director in 1971. His term will expire in 2012. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University. Mr. Goss's accounting and financial experience and extensive knowledge of the industries in which the Company operates, among other factors, led the Board to conclude that he should serve as a director.

Bernard G. Ille, age 83. Mr. Ille first became a director in 1971. His term will expire in 2011. Mr. Ille served as President and Chief Executive Officer of United Founders Life from 1966 to 1988. He served as President and Chief Executive Officer of First Life Assurance Company from 1988, until it was acquired by another company in 1994. During his tenure as President of these two companies, he served as Chairman of the Oklahoma Guaranty Association for ten years and was President of the Oklahoma Association of Life Insurance Companies for two terms. He was a director of Landmark Land Company, Inc., which was the parent company of First Life. He is also a director for Quail Creek Bank, N.A. Mr. Ille is currently President of BML Consultants and a private investor. He is a graduate of the University of Oklahoma. Mr. Ille's leadership of a major insurance company in Oklahoma, his financial and insurance background, and his investment experience, among other factors, led the Board to conclude that she should serve as a director.

Gail P. Lapidus, age 58. The Board of Directors appointed Ms. Lapidus as a director in February 2010 to fill a newly-created vacancy. Her term will expire in 2012. Ms. Lapidus is the Executive Director and CEO of Family & Children's Services ("FCS"), a premiere human services provider in the Tulsa, Oklahoma metro area. Ms. Lapidus has been with the 85 year old agency for 35 years and has served as its Executive Director since 1986. During her tenure, FCS has become the largest outpatient community mental health center in the state of Oklahoma for children, families and individuals without sufficient economic resources or health insurance. FCS, which has an annual budget of more than $33 million and a staff of over 500, has attracted national recognition and research grants for the services it provides. Ms. Lapidus received her undergraduate degree and a Master's Degree in Social Work from the University of Oklahoma where she was later named an inaugural inductee into the Hall of Honor for outstanding leadership in professional practice. Ms. Lapidus's management and leadership experience as the executive director of FCS, among other factors, led the Board to conclude that she should serve as a director.

Donald W. Munson, age 77. Mr. Munson first became a director in 1997. His term will expire in 2011. From 1988, until his retirement in 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to 1998, he served as Executive Vice President of Lennox Industries' Division Operations, President of Lennox Canada and Managing Director of Lennox Industries' European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company located in Scotland, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. He is currently a consultant. Mr. Munson is a resident of England. He has degrees in mechanical engineering and business administration from the University of Minnesota. Mr. Munson's extensive experience in the climate control industry, and his leadership skills obtained through his service as senior executive and a managing director of Lennox Industries, among other factors, led the Board to conclude that he should serve as a director.

Ronald V. Perry, age 60. Mr. Perry first became a director in August 2007. His term will expire in 2011. Mr. Perry currently serves as President of Prime Time Travel, which he founded in 1979. He also serves on the Alumni Board of Directors for Leadership Oklahoma City and is a member of the Metro Technology Centers Board of Directors. Mr. Perry has served in various charitable and civic organizations. Mr. Perry is also a past President of the Oklahoma City Food Bank and has served as President of the OKC Food Bank Board of Directors. In 2007, the mayor of Oklahoma City appointed Mr. Perry to serve as a commissioner on the Oklahoma City Convention and Visitors Bureau. Mr. Perry graduated from Oklahoma State University, with a Bachelor's degree in Business Administration. Mr. Perry's leadership skills, business experience and promotions experience, among other factors, led the Board to conclude that he should serve as a director.

Horace G. Rhodes, age 82. Mr. Rhodes first became a director in 1996. His term will expire in 2010. Mr. Rhodes is the Chairman of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such capacity and has practiced law for many years. From 1972 until 2001, he served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association ("OLHIGA"). Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma. Mr. Rhodes' experience as a leader of an Oklahoma law firm, his depth of understanding of corporations and business transactions obtained through 40 years of practice as a corporate lawyer with expertise in mergers and acquisitions, his financial and investment experience gained through one year as treasurer and seven years as president of a life insurance company, together with his unique financial experience as an insurance industry regulator for three years, among other factors, led the Board to conclude that he should serve as a director.

Tony M. Shelby, age 68. Mr. Shelby first became a director in 1971. His term will expire in 2011. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than five years. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University. Mr. Shelby's financial and accounting experience, his demonstrated leadership skills within the Company, and extensive understanding of the industries in which the Company operates, among other factors, led the Board to conclude that he should serve as a director.

John A. Shelley, age 59. Mr. Shelley first became a director in 2005. His term will expire in 2012. Mr. Shelley is the President and Chief Executive Officer of The Bank of Union ("Bank of Union") located in Oklahoma. He has held this position since 1997. Prior to 1997, Mr. Shelley held various senior level positions in financial institutions in Oklahoma including the position of President of Equity Bank for Savings, N.A., a savings and loan that was owned by the Company prior to 1994. Mr. Shelley is a graduate of the University of Oklahoma. Mr. Shelley's experience in the banking industry and his financial experience obtained through his service as CEO of the Bank of Union, among other factors, led the Board to conclude that he should serve as a director.

Executive Officers

Certain information concerning our executive officers is contained in Part I of this annual report on Form 10-K under the caption "Executive Officers of the Registrant" and is incorporated by reference herein.

Family Relationships

Jack E. Golsen is the father of Barry H. Golsen and the brother-in-law of Robert C. Brown. Robert C. Brown is the uncle of Barry H. Golsen. David M. Shear is the nephew by marriage to Jack E. Golsen and son-in-law of Robert C. Brown. Although not executive officers or directors of the Company, Steve J. Golsen, the son of Jack E. Golsen, brother of Barry H. Golsen, and the nephew of Robert C. Brown, is the Chief Operating Officer of our Climate Control Business, and Heidi Brown Shear, Vice President and Managing Counsel of the Company, is the daughter of Robert C. Brown and spouse of David M. Shear.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors, officers, and beneficial owners of more than 10% of the Company's common stock to file with the Securities and Exchange Commission reports of holdings and changes in beneficial ownership of the Company's stock. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 2009, or written representations that no Form 5 was required to be filed, the Company believes that during 2009 all directors and officers of the Company and beneficial owners of more than 10% of the Company's common stock filed timely their required Forms 3, 4, or 5, except (a) Robert Butkin and Mike Tepper each inadvertently filed one late Form 4 to report one transaction, and (b) Bernie Ille filed one late Form 5 to amend a prior filed Form 4.

Code of Ethics

The Chief Executive Officer, the Chief Financial Officer, the principal accounting officer, and the controller of the Company and each of the our subsidiaries, or persons performing similar functions, are subject to our Code of Ethics. We and each of our subsidiary companies have adopted a Statement of Policy Concerning Business Conduct applicable to our employees.

Our Code of Ethics and Statement of Policy Concerning Business Conduct are available on our website at www.lsb-okc.com. We will post any amendments to these documents, as well as any waivers that are required to be disclosed pursuant to the rules of either the Securities and Exchange Commission or the NYSE Euronext ("NYSE"), on our website.

Audit Committee

We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Bernard Ille (Chairman), Charles Burtch, Horace Rhodes, Ray Ackerman and John Shelley. The Board has determined that each member of the Audit Committee is independent, as defined in the listing standards of the NYSE as of the Company's fiscal year end. During 2009, the Audit Committee had seven meetings.

Audit Committee Financial Expert

While the Board of Directors endorses the effectiveness of our Audit Committee, its membership does not presently include a director that qualifies for designation as an "audit committee financial expert." However, each of the current members of the Audit Committee is financially literate and able to read and understand fundamental financial statements and at least one of its members has financial management expertise. The Board of Directors believes that the background and experience of each member of the Audit Committee is sufficient to fulfill the duties of the Audit Committee. For these reasons, although members of our Audit Committee are not professionally engaged in the practice of accounting or auditing, our Board of Directors has concluded that the ability of our Audit Committee to perform its duties is not impaired by the absence of an "audit committee financial expert."

Nominating and Corporate Governance Committee

We have a separately-designated standing Nominating and Corporate Governance Committee (the "Nominating Committee"). The members of the Nominating Committee are Messrs. Ray Ackerman, Bernard Ille, Horace Rhodes, and John Shelley (Chairman). The Board has determined that each member of the Nominating Committee is independent, in accordance with Section 10A-3 of the Exchange Act and the listing standards of the NYSE. During 2009, the Nominating Committee had two meetings.

Compensation and Stock Option Committee

The Compensation and Stock Option Committee (the "Compensation Committee") has three members and met two times during 2009. The Compensation Committee is comprised of Messrs. Horace Rhodes (Chairman), Charles Burtch and Bernard Ille, non-employee, independent directors in accordance with the rules of the NYSE. The Board has adopted a Compensation and Stock Option Committee Charter, which governs the responsibilities of the Compensation Committee. This charter is available on the Company's website at www.lsb-okc.com, and is also available from the Company upon request.

The Compensation Committee's responsibilities include, among other duties, the responsibility to:

- establish the base salary, incentive compensation and any other compensation for the Company's executive officers;
- administer the Company's management incentive and stock-based compensation plans, non-qualified death benefits, salary continuation and welfare plans, and discharge the duties imposed on the Compensation Committee by the terms of those plans; and
- perform other functions or duties deemed appropriate by the Board.

Decisions regarding non-equity compensation of non-executive officers of the Company and the executive officers of the Company named in the Summary Compensation Table (the "named executive officers") other than the Chief Executive Officer and the President, are made by the Company's Chief Executive Officer and presented for approval or modification by the Committee.

The agenda for meetings of the Compensation Committee is determined by its Chairman with the assistance of the Company's Chief Executive Officer. Committee meetings are regularly attended by the Chief Executive Officer. At each Compensation Committee meeting, the Compensation Committee also meets in executive session without the Chief Executive Officer. The Committee's Chairman reports to the Board the Compensation Committee's recommendations on compensation for the Chief Executive Officer and the President. The Chief Executive Officer may be delegated authority to fulfill certain administrative duties regarding the compensation programs.

The Compensation Committee has authority under its charter to retain, approve fees for, and terminate advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. If an outside consultant is engaged, the Compensation Committee reviews the total fees paid to such outside consultant by the Company to ensure that the consultant maintains its objectivity and independence when rendering advice to the Compensation Committee. For 2009, no outside consultants were engaged by the Compensation Committee.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

Our long-term success depends on our ability to efficiently operate our facilities, to continue to develop our product lines and technologies, and to focus on developing our product markets. To achieve these goals, it is important that we be able to attract, motivate, and retain highly talented individuals who are committed to our values and goals.

The Compensation Committee has responsibility for the establishment in consultation with management, of our compensation philosophy for our senior executive officers and the implementation and oversight of a compensation program consistent with the philosophy. This group of senior executive officers includes the named executive officers, as well as our other executives.

A primary objective of the Compensation Committee is to ensure that the compensation paid to the senior executive officers is fair, reasonable, competitive, and provides incentives for superior performance. The Compensation Committee is responsible for approval of all decisions for the direct compensation, including the base salary and bonuses, stock options and other benefit programs for the Company’s senior executive officers, including the named executive officers.

In general, the day-to-day administration of savings, health and welfare plans and policies are handled by a team of our legal and finance department employees. The Compensation Committee (or Board) remains responsible for key policy changes outside of the day to day requirements necessary to maintain these plans and policies.

Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program rewards the executive’s achievements and contribution towards the Company achieving its long-term strategic goals. However, the Compensation Committee does not believe that executive compensation should be tied to specific numeric or formulaic financial goals or stock price achievement by the Company. The Compensation Committee recognizes that, given the volatility of the markets in which we do business, our economic performance in any given time frame may not be an accurate measurement of our senior executive officer’s performance.

The Compensation Committee values both personal contribution and teamwork as factors to be rewarded. The Compensation Committee believes that it is important to align executives’ interests with those of stockholders through the use of stock option incentive programs. When granted, stock options are granted with an exercise price equal to their grant date value, in accordance with our stock option incentive programs. The Compensation Committee evaluates both performance and compensation and considers previously granted options to ensure that we maintain our ability to attract and retain highly talented employees in key positions, and that compensation provided to key employees will remain competitive relative to our other senior executive officers. The Compensation Committee believes that executive compensation packages should include both cash and stock-based compensation, as well as other benefit programs to encourage senior executive officers to remain with the Company and have interests aligned with those of the Company. As a result, the Compensation Committee reviews the number of stock options exercised by senior executive officers during recent periods, if any, as well as stock options currently held by the senior executive officers. This analysis enables the Compensation Committee to determine whether the grant of additional stock based compensation may be advisable to ensure that our senior executive officers' interests are aligned with those of the Company. Based on the foregoing, the Compensation Committee bases it executive compensation program on the following criteria:

- Compensation should be based on the level of job responsibility, executive performance, and Company performance.
- Compensation should enable us to attract and retain key talent.
- Compensation should be competitive with compensation offered by other companies that compete with us for talented individuals in our geographic area.
- Compensation should reward performance.
- Compensation should motivate executives to achieve our strategic and operational goals.

Setting Executive Compensation

The Compensation Committee sets annual cash and non-cash executive compensation to reward the named executive officers for achievement and to motivate the named executive officers to achieve long-term business objectives. The Compensation Committee is unable to use peer group comparisons in determining the compensation package because of the diverse nature of our lines of business. Although the Compensation Committee has not engaged outside consultants to assist in conducting its annual review of the total compensation program, it may do so in the future. The Compensation Committee reviewed some generally available compensation information for companies of our size. The Compensation Committee considered base salary and current bonus awards in determining overall compensation. The Compensation Committee does not have a policy allocating long term and currently paid compensation. The Compensation Committee also considered the allocation between cash and non-cash compensation amounts, but does not have a specific formula or required allocation between such compensation amounts. The Compensation Committee compares the Chief Executive Officer's total compensation to the total compensation of our other named executive officers over time. However, the Compensation Committee has not established a target ratio between total compensation of the Chief Executive Officer and the median total compensation level for the next lower tier of management. The Compensation Committee also considers internal pay equity among the named executive officers and in relation to next lower tier of management in order to maintain compensation levels that are consistent with the individual contributions and responsibilities of those executive officers. The Compensation Committee does not consider amounts payable under severance agreements when setting the annual compensation of the named executive officers.

Role of Executive Officers in Compensation Decisions

Our Chief Executive Officer annually reviews the performance of each of our named executive officers (other than the Chief Executive Officer and the President) and presents to the Compensation Committee recommendations with respect to salary, bonuses and other benefit items. The Compensation Committee considers and reviews such recommendations in light of the Compensation Committee's philosophy and objections and exercises its discretion in accepting or modifying the recommended compensation. In determining compensation for the Chief Executive Officer and the President, the Compensation Committee reviews the responsibilities and performance of each of them. Such review includes interviewing both the Chief Executive Officer and the President and consideration of the Compensation Committee's observations of the Chief Executive Officer and the President during the applicable year.

2009 Executive Compensation Components

For the fiscal year ended December 31, 2009, the principal components of compensation for the named executive officers were:

- base salary;
- cash bonus;
- death benefit and salary continuation programs; and
- perquisites and other personal benefits.

The Compensation Committee did not award equity-based compensation, such as stock options, to the named executive officers in 2009. As discussed below, the Compensation Committee awarded salary increases and bonuses to the named executive officers for 2009. Those awards were considered sufficient to provide competitively based incentives to our executives to advance company performance, without granting equity based compensation as well.

Base Salary

We provide the named executive officers and other senior executive officers with base salary to compensate them for services rendered during the year. We do not have a defined benefit or qualified retirement plan for our executives. This factor is considered when setting the base compensation for senior executive officers.

Base salaries are determined for the named executive officers in the discretion of the Compensation Committee based upon the recommendations of the Chief Executive Officer's assessment of the executive's compensation, both individually and relative to the other senior executive officers, and based upon an assessment of the individual performance of the executive during the preceding year. In determining the base salary for the Chief Executive Officer and the President, the Compensation Committee exercises its judgment based on its observations of such senior executive officers and the Compensation Committee's assessment of such officers' contribution to the Company's performance and other leadership achievements. Although the Compensation Committee does not use specific performance targets to set base salaries or bonuses, the Compensation Committee awarded salary increases in 2009 based on the above criteria and with consideration of the overall performance of the Company during challenging economic conditions.

Bonuses

The Compensation Committee may award cash bonuses to the named executive officers to reward outstanding performance. The Compensation Committee awarded bonuses to the named executive officers in 2009 based upon the Compensation Committee's review of the performance and the recommendation of the Chief Executive Officer. No bonus is guaranteed, and there is no defined range of bonus amounts that the Compensation Committee may award. Bonus awards are made at the Compensation Committee's discretion based upon an assessment of an individual's overall contribution to the Company.

Death Benefit and Salary Continuation Plans

The Company sponsors non-qualified arrangements to provide a death benefit to the designated beneficiary of certain key employees (including certain of the named executive officers) in the event of such executive's death (the "Death Benefit Plans"). We also have a non-qualified arrangement with certain key employees (including certain of the named executive officers) of the Company and its subsidiaries to provide compensation to such individuals in the event that they are employed by the Company at age 65 (the "Salary Continuation Plans").

Attributed costs of the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2009, are discussed in footnote (1) and included in column (i) of the "Summary Compensation Table."

The Compensation Committee believes that the Death Benefit and Salary Continuation Plans are significant factors in:

- enabling the Company to retain its named executive officers;
- encouraging our named executive officers to render outstanding service; and
- maintaining competitive levels of total compensation.

Perquisites and Other Personal Benefits

The Company and the Compensation Committee believe that perquisites are necessary and appropriate parts of total compensation that contribute to our ability to attract and retain superior executives. Accordingly, the Company and the Compensation Committee provided our named executive officers and certain other executive officers a limited number of perquisites that are reasonable and consistent with our overall compensation program.

We currently provide the named executive officers with the use of our automobiles, provide cell phones that are used primarily for business purposes, and pay the country club dues for certain of the executive officers. The executive officers are expected to use the country club in large part for business purposes.

The Compensation Committee periodically reviews the levels of perquisites provided to the named executive officers.

Severance Agreements

We have entered into change of control severance agreements with certain key employees, including the named executive officers. The severance agreements are designed to promote stability and continuity of senior management. The severance agreements provide generally that if a executive officer who is a party to a severance agreement is terminated, other than for cause, within 24 months after the occurrence of a change-in-control of the Company or the executive officer terminates his employment for good reason following a change in control, the Company must pay the executive officer an amount equal to 2.9 times the officer's average annual gross salary for the last five years preceding the change in control. The Compensation Committee believes that the severance agreements are an important element in retaining our senior management. These severance agreements are described under “Severance Agreements” below. Information regarding applicable payments under such agreements for the named executive officers is provided under the heading “Potential Payments Upon Termination or Change-In-Control.”

Employment Agreement

We have no employment agreements with our named executive officers, except with Jack E. Golsen, our Chief Executive Officer. The terms of Mr. Golsen’s employment agreement are described below under “Employment Agreement.” We believe that Mr. Golsen’s employment agreement promotes stability in our senior management and encourages Mr. Golsen to provide superior service to us. The current term of the Employment Agreement expires March 21, 2011, but will automatically renew for up to three additional three-year periods, unless earlier terminated by either party with one years’ notice.

Ownership Guidelines

At this time, we have not established any guidelines which require our executive officers to acquire and hold our common stock. However, our named executive officers have historically acquired and maintained a significant ownership position in our common stock.

Tax and Accounting Implications

Deductibility of Executive Compensation - Section 162(m) of the Internal Revenue Code, provides that the Company may not deduct compensation of more than $1,000,000 of employee remuneration for named executive officers. However, the statute exempts qualifying performance-based compensation from the deduction limit when specified requirements are met. In the past, the Company has granted non-qualifying stock options to the named executive officers that do not meet the performance-based compensation criteria and are subject to the Section 162(m) limitation.

As a result of the exercise of non-qualifying stock options, the Company’s aggregate reported compensation, for tax purposes, to Jack E. Golsen, Barry H. Golsen, and David M. Shear exceeded the Section 162(m) deductibility limits in 2008 and 2007 by $350,000 and $3,418,000, respectively (none in 2009). For 2008, Barry H. Golsen’s compensation exceeded the deductibility limit by $350,000, which represents a cost to the company of $137,000 as a result of the lost tax deduction. For 2007, Jack E. Golsen’s compensation exceeded the deductibility limit by $3,349,000, which represents a cost to the company of $1,306,000 as a result of the lost tax deduction and David M. Shear’s compensation exceeded the deductibility limit by $69,000 which represents a cost to the company of $27,000 as a result of the lost tax deductions. The Company's compensation deduction was not limited by Section 162(m) in 2009.

Accounting for Stock-Based Compensation - The Company accounts for stock-based payments, including its incentive and nonqualified stock options, in accordance with United States generally accepted accounting principles.

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Compensation and Stock Option Committee Report

The Compensation and Stock Option Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation and Stock Option Committee recommended to the Board that the Compensation Discussion and Analysis be included herein.

Submitted by the Compensation and Stock Option Committee of the Company's Board of Directors.

Horace G. Rhodes, Chairman
Charles A. Burtch
Bernard G. Ille

The following table summarizes the total compensation paid or earned by each of the named executive officers for each of the three fiscal years in the period ended December 31, 2009. The Company did not grant equity-based awards to the named executive officers during 2009, 2008 or 2007.

Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (1)	Total ($)
Jack E. Golsen,									
Chairman of the Board	2009	636,323	200,000	-	-	-	-	713,556	1,549,879
of Directors and	2008	575,554	200,000	-	-	-	-	682,646	1,458,200
Chief Executive Officer	2007	523,400	50,000	-	-	-	-	645,010	1,218,410
Tony M. Shelby,									
Executive Vice President	2009	275,000	125,000	-	-	-	-	16,824	416,824
of Finance and Chief	2008	268,654	125,000	-	-	-	-	15,574	409,228
Financial Officer	2007	255,000	90,000	-	-	-	-	22,773	367,773
Barry H. Golsen,									
Vice Chairman of the Board of									
Directors, President, and	2009	527,523	200,000	-	-	-	-	16,887	744,410
President of the Climate Control	2008	479,446	175,000	-	-	-	-	27,546	681,992
Business	2007	433,100	100,000	-	-	-	-	22,191	555,291
David R. Goss,	2009	270,500	100,000	-	-	-	-	4,195	374,695
Executive Vice President of	2008	259,923	85,000	-	-	-	-	14,440	359,363
Operations	2007	240,500	55,000	-	-	-	-	12,361	307,861
David M. Shear,	2009	275,000	100,000	-	-	-	-	9,068	384,068
Senior Vice President and	2008	264,423	100,000	-	-	-	-	17,149	381,572
General Counsel	2007	240,000	75,000	-	-	-	-	9,961	324,961

(1) As discussed below under "1981 Agreements" and "2005 Agreement," the Company entered into individual death benefit agreements in 1981 (amended in 2008 to comply with Section 409A of the Internal Revenue Code ("Section 409A")) and a death benefit agreement in 2005. Reported compensation for the death benefit under these agreements is the greater of:

- the expense incurred associated with our accrued death benefit liability; or
- the pro rata portion of life insurance premium expense to fund the undiscounted death benefit.

Amounts accrued under these agreements are not paid until the death of the named executive officer.

As discussed below under "1992 Agreements", the Company entered into benefit agreements in 1992 (and amended in 2008 to comply with Section 409A), which include a death benefit until the employee reaches age 65 or benefits for life commencing when the employee reaches age 65. Compensation reported for these benefits is the greater of:

- the expense incurred associated with our accrued benefit liability or
- the pro rata portion of life insurance premium expense to fund the undiscounted death benefit.

The amounts set forth under "All Other Compensation" are comprised of compensation relating to these agreements and perquisites for 2009, as follows:

	1981 Agreements	1992 Agreements	2005 Agreement	Other (A)	Total
Jack E. Golsen	$ 215,229	$ -	$ 490,157	$ 8,170	$ 713,556
Tony M. Shelby	$ 7,250	$ -	$ -	$ 9,574	$ 16,824
Barry H. Golsen	$ 517	$ 10,287	$ -	$ 6,083	$ 16,887
David R. Goss	$ 1,132	$ -	$ -	$ 3,063	$ 4,195
David M. Shear	$ -	$ 4,946	$ -	$ 4,122	$ 9,068

(A) Amount relates to the personal use of automobiles, cell phones and country club dues.

The Company did not grant equity-based awards to the named executive officers during 2009, 2008 or 2007.

Employment Agreement

We have an employment agreement with Jack E. Golsen, which requires the Company to employ Mr. Golsen as an executive officer of the Company. The employment agreement was amended in 2008 to comply with Section 409A. The employment agreement may be terminated by either party by written notice at least one year prior to the expiration of the then current term. The current term of the employment agreement expires March 21, 2011, but will be automatically renewed for up to three additional three-year periods. Under the terms of such employment agreement, Mr. Golsen shall:

- be paid an annual base salary at his 1995 base rate, as adjusted from time to time by the Compensation Committee, but such shall never be adjusted to an amount less than Mr. Golsen's 1995 base salary,
- be paid an annual bonus in an amount as determined by the Compensation Committee, and
- receive from the Company certain other fringe benefits (vacation; health and disability insurance).

The employment agreement provides that Mr. Golsen's employment may not be terminated, except:

- upon conviction of a felony involving moral turpitude after all appeals have been exhausted ("Conviction"),
- Mr. Golsen's serious, willful, gross misconduct or willful, gross negligence of duties resulting in material damage to the Company and its subsidiaries, taken as a whole, unless Mr. Golsen believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest ("Misconduct"), and
- Mr. Golsen's death.

However, no termination for a Conviction or Misconduct may occur unless and until the Company has delivered to Mr. Golsen a resolution duly adopted by an affirmative vote of three-fourths of the entire membership of the Board of Directors at a meeting called for such purpose after reasonable notice given to Mr. Golsen finding, in good faith, that Mr. Golsen violated such item.

If Mr. Golsen's employment is terminated for reasons other than due to a Conviction or Misconduct, then he shall, pursuant to the employment agreement, in addition to his other rights and remedies, receive and the Company shall pay to Mr. Golsen:

- a cash payment, on the date of termination, a sum equal to the amount of Mr. Golsen's annual base salary at the time of such termination and the amount of the last bonus paid to Mr. Golsen prior to such termination times the number of years remaining under the then current term of the employment agreement, and
- provide to Mr. Golsen all of the fringe benefits that the Company was obligated to provide during his employment under the employment agreement for the remainder of the term of the employment agreement.

If there is a change in control (as defined in the severance agreement between Mr. Golsen and the Company as discussed below under "Severance Agreements") and within 24 months after such change in control Mr. Golsen is terminated, other than for Cause (as defined in the severance agreement), then in such event, the severance agreement between Mr. Golsen and the Company shall be controlling.

In the event Mr. Golsen becomes disabled and is not able to perform his duties under the employment agreement as a result thereof for a period of 12 consecutive months within any two-year period, the Company shall pay Mr. Golsen his full salary for the remainder of the term of the employment agreement and thereafter 60% of such salary until Mr. Golsen's death.

1981 Agreements

During 1981, the Company entered into individual death benefit agreements (the "1981 Agreements") with certain key employees (including certain of the named executive officers). Each named executive officer will receive a monthly benefit for a period of 10 years if the officer dies while in the employment of the Company or a wholly-owned subsidiary of the Company. The 1981 Agreements provide that the Company may terminate the agreement as to any officer at anytime prior to the officer's death. The Company has purchased life insurance on the life of each officer covered under the 1981 Agreements to provide a source of funds for the Company's obligations under the 1981 Agreements. The Company is the owner and sole beneficiary of each of the insurance policies and the proceeds are payable to the Company upon the death of the officer.

The following table sets forth the amounts of annual benefits payable to the designated beneficiary or beneficiaries of the named executive officer's under the 1981 Agreements.

Name of Individual	Amount of Annual Payment
Jack E. Golsen	$ 175,000
Tony M. Shelby	$ 35,000
Barry H. Golsen	$ 30,000
David R. Goss	$ 35,000
David M. Shear	N/A

1992 Agreements

During 1992, the Company entered into individual benefit agreements with certain key employees of the Company and its subsidiaries (including certain of the named executive officers) to provide compensation to such individuals in the event that they are employed by the Company or a subsidiary of the Company at age 65 (the "1992 Agreements"). The 1992 Agreements were amended in 2008 to comply with Section 409A. As relating to the named executive officers, under the 1992 Agreements, the officer is eligible to receive a designated benefit ("Benefit") as set forth in the 1992 Agreements. The officer will receive the Benefit beginning at the age 65 for the remainder of the officer's life. If prior to attaining the age 65, the officer dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the officer will receive a monthly benefit ("Death Benefit") for a period of ten years. The 1992 Agreements provide that the Company may terminate the agreement as to any officer at any time and for any reason prior to the death of the officer. The Company has purchased insurance on the life of each officer covered under the 1992 Agreements. The Company is the owner and sole beneficiary of each insurance policy, and the proceeds are payable to the Company to provide a source of funds for the Company's obligations under the 1992 Agreements. Under the terms of the 1992 Agreements, if the officer becomes incapacitated prior to retirement or prior to reaching age 65, the officer may request the Company to cash-in any life insurance on the life of such officer purchased to fund the Company's obligations under the 1992 Agreements. Jack E. Golsen does not participate in the 1992 Agreements.

The following table sets forth the amounts of annual benefits payable to the named executive officers under the 1992 Agreements and the net cash surrender value of the associated life insurance policies at December 31, 2009.

Name of Individual	Amount of Annual Benefit	Amount of Annual Death Benefit	Amount of Net Cash Surrender Value
Jack E. Golsen	N/A	N/A	N/A
Tony M. Shelby	$ 15,605	N/A	$ -
Barry H. Golsen	$ 17,480	$ 11,596	$ 41,847
David R. Goss	$ 17,403	N/A	$ 61,113
David M. Shear	$ 17,822	$ 7,957	$ -

2005 Agreement

During 2005, the Company entered into a death benefit agreement (“2005 Agreement”) with Jack E. Golsen. This agreement replaced existing benefits that were payable to Mr. Golsen. The 2005 Agreement provides that, upon Mr. Golsen’s death, the Company will pay to Mr. Golsen’s family or designated beneficiary $2.5 million to be funded from the net proceeds received by the Company under certain life insurance policies on Mr. Golsen’s life that were purchased and are owned by the Company. The 2005 Agreement requires that the Company is obligated to keep in existence no less than $2.5 million of the stated death benefit. The life insurance policies in force provide an aggregate stated death benefit to the Company, as beneficiary, of $7 million.

401(k) Plan

We maintain The LSB Industries, Inc. Savings Incentive Plan (the “401(k) Plan”) for the employees (including the named executive officers) of the Company and its subsidiaries, excluding employees covered under union agreements and certain other employees. As relating to the named executive officers, the 401(k) Plan is funded by the officer’s contributions. The Company and its subsidiaries make no contributions to the 401(k) Plan for any of the named executive officers. The amount that an officer may contribute to the 401(k) Plan equals a certain percentage of the employee’s compensation, with the percentage based on the officer’s income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the officer’s compensation each pay period, in accordance with the officer’s instructions, and pays the amount into the 401(k) Plan pursuant to the officer’s election. The salary and bonus set forth in the Summary Compensation Table above include any amounts contributed by the named executive officers during the 2009, 2008 and 2007 fiscal years pursuant to the 401(k) Plan.

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Outstanding Equity Awards At December 31, 2009

	Options Awards (1)				
(a)	(b)	(c)	(d)	(e)	(f)
Name	Number of Securities Underlying Unexercised Options (#) Exercisable[(2)]	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date[(2)]
Jack E. Golsen	-	-	-	-	-
Tony M. Shelby	15,000	-	-	2.73	11/29/2011
Barry H. Golsen	11,250	-	-	2.73	11/29/2011
David R. Goss	-	-	-	-	-
David M. Shear	-	-	-	-	-

(1) There were no unvested stock awards at December 31, 2009.
(2) Options expiring on November 29, 2011, were granted on November 29, 2001 and were fully vested on November 28, 2005.

Options Exercised in 2009 (1)

	Option Awards	
(a)	(b)	(c)
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise(2) ($)
Jack E. Golsen	-	-
Tony M. Shelby	100,000	1,283,000
Barry H. Golsen	-	-
David R. Goss	80,000	1,005,800
David M. Shear	-	-

(1) There were no stock awards that vested in 2009.
(2) Value realized was determined using the difference between the exercise price of the options and the closing price of our common stock on the date of exercise.

Severance Agreements

We have entered into severance agreements with each of the named executive officers and certain other officers, which were amended in 2008 to comply with Section 409A. Each severance agreement provides (among other things) that if, within 24 months after the occurrence of a change in control (as defined) of the Company, the Company terminates the officer's employment other than for cause (as defined), or the officer terminates his employment for good reason (as defined), the Company must pay the officer an amount equal to 2.9 times the officer's base amount (as defined). The phrase "base amount" means the average annual gross compensation paid by the Company to the officer and includable in the officer's gross income during the most recent five-year period immediately preceding the change in control. If the officer has been employed by the Company for less than five years, the base amount is calculated with respect to the most recent number of taxable years ending before the change in control that the officer worked for the Company.

The severance agreements provide that a "change in control" means a change in control of the Company of a nature that would require the filing of a Form 8-K with the SEC and, in any event, would mean when:

- any individual, firm, corporation, entity, or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of 30% or more of the combined voting power of the Company's outstanding voting securities having the right to vote for the election of directors, except acquisitions by:
  - any person, firm, corporation, entity, or group which, as of the date of the severance agreement, has that ownership, or
  - Jack E. Golsen, his wife; his children and the spouses of his children; his estate; executor or administrator of any estate, guardian or custodian for Jack E. Golsen, his wife, his children, or the spouses of his children, any corporation, trust, partnership, or other entity of which Jack E. Golsen, his wife, children, or the spouses of his children own at least 80% of the outstanding beneficial voting or equity interests, directly or indirectly, either by any one or more of the above-described persons, entities, or estates; and certain affiliates and associates of any of the above-described persons, entities, or estates;
- individuals who, as of the date of the severance agreement, constitute the Board of Directors of the Company (the "Incumbent Board") and who cease for any reason to constitute a majority of the Board of Directors except that any person becoming a director subsequent to the date of the severance agreement, whose election or nomination for election is approved by a majority of the Incumbent Board (with certain limited exceptions), will constitute a member of the Incumbent Board; or
- the sale by the Company of all or substantially all of its assets.

Except for the severance agreement with Jack E. Golsen, the termination of an officer's employment with the Company "for cause" means termination because of:

- the mental or physical disability from performing the officer's duties for a period of 120 consecutive days or one hundred eighty days (even though not consecutive) within a 360 day period;

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- the conviction of a felony;
- the embezzlement by the officer of Company assets resulting in substantial personal enrichment of the officer at the expense of the Company; or
- the willful failure (when not mentally or physically disabled) to follow a direct written order from the Company's Board of Directors within the reasonable scope of the officer's duties performed during the 60 day period prior to the change in control.

The definition of "Cause" contained in the severance agreement with Jack E. Golsen means termination because of:

- the conviction of Mr. Golsen of a felony involving moral turpitude after all appeals have been completed; or
- if due to Mr. Golsen's serious, willful, gross misconduct or willful, gross neglect of his duties has resulted in material damages to the Company and its subsidiaries, taken as a whole, provided that:
  - no action or failure to act by Mr. Golsen will constitute a reason for termination if he believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and
  - failure of Mr. Golsen to perform his duties hereunder due to disability shall not be considered willful, gross misconduct or willful, gross negligence of his duties for any purpose.

The termination of an officer's employment with the Company for "good reason" means termination because of:

- the assignment to the officer of duties inconsistent with the officer's position, authority, duties, or responsibilities during the 60 day period immediately preceding the change in control of the Company or any other action which results in the diminishment of those duties, position, authority, or responsibilities;
- the relocation of the officer;
- any purported termination by the Company of the officer's employment with the Company otherwise than as permitted by the severance agreement; or
- in the event of a change in control of the Company, the failure of the successor or parent company to agree, in form and substance satisfactory to the officer, to assume (as to a successor) or guarantee (as to a parent) the severance agreement as if no change in control had occurred.

Except for the severance agreement with Jack E. Golsen, each severance agreement expires on the earlier of: (a) three years after the date of the severance agreement, or (b) the date of retirement from the Company; however, beginning on the first anniversary of the severance agreement and on each annual anniversary thereafter, the term of the severance agreement automatically extends for an additional one-year period, unless the Company gives notice otherwise at least 60 days prior to the anniversary date. The severance agreement with Jack E. Golsen is effective for a period of three years from the date of the severance agreement; except that, commencing on the date one year after the date of such severance agreement and on each anniversary thereafter, the term of such severance agreement shall be automatically extended so as to terminate three years from such renewal date, unless the Company gives notices otherwise at least one year prior to the renewal date.

Potential Payments Upon Termination or Change-In-Control

The following table reflects the amount that would have been payable to each of the named executive officers under the applicable agreement if the respective trigger event had occurred on December 31, 2009. [(1)]

Severance Pay Trigger Event

Name and Executive Benefit and Payments Upon Separation	Voluntary Termination ($)	Involuntary Other Than For Cause Termination ($)	Involuntary For Cause Termination ($)	Involuntary Other Than For Cause Termination - Change of Control ($)	Voluntary For Good Reason Termination - Change of Control ($)	Disability/ Incapacitation ($)	Death ($)
Jack E. Golsen: (2)(3)(6)							
Salary	-	795,404	-	1,849,489	1,849,489	3,143,436	-
Bonus	-	250,000	-	-	-	-	4,250,000
Death Benefits	-	-	-	-	-	-	57,135
Other	-		-	-	-	-	
Tony M. Shelby: (3)(4)(5)							
Salary	-	-	-	996,624	996,624	-	-
Death Benefits	-	-	-	-	-	-	350,000
Other	230,225	-	-	-	-	-	-
Barry H. Golsen: (3)(4)(5)							
Salary	-	-	-	1,645,541	1,645,541	-	-
Death Benefits	-	-	-	-	-	-	415,962
David R. Goss: (3)(4)(5)							
Salary	-	-	-	923,367	923,367	-	-
Death Benefits	-	-	-	-	-	-	350,000
Other	245,233	-	-	-	-	-	-
David M. Shear: (3)(5)							
Salary	-	-	-	912,495	912,495	-	-
Death Benefits	-	-	-	-	-	-	79,567

(1) This amount does not include the amount realizable under outstanding stock options granted to the named executive officers, all of which are fully vested. See “Outstanding Equity Awards at December 31, 2009.”
(2) See, “Employment Agreement,” above for a description of the terms of Mr. Golsen’s employment agreement.
(3) See, “Severance Agreements,” above for a description of the terms of our severance agreements.
(4) See, “1981 Agreements” for a discussion of the terms of our death benefit agreements.
(5) See, “1992 Agreements” for a description of the terms of our retention and death benefit agreements.
(6) See, “2005 Agreement” for a description of the terms of Mr. Golsen’s death benefit agreement.

Our Compensation Policies May Discourage Other Parties From Attempting to Acquire Us

We have entered into severance agreements with our executive officers and some of the executive officers of our subsidiaries that provide, among other things, that if, within a specified period of time after the occurrence of a change in control of our Company, these officers are terminated, other than for cause, or the officer terminates his employment for good reason, we must pay such officer an amount equal to 2.9 times the officer's average annual gross salary for the last five years preceding the change in control. See "Severance Agreements" and "Employment Agreement," above. These agreements may discourage a third party tender offer, proxy contest, or other attempts to acquire control of us and could have the effect of making it more difficult to remove incumbent management.

Compensation of Directors

In 2009, we compensated our non-employee directors for their services as directors on our Board. Our Directors were not awarded stock options or other equity based compensation in 2009. Directors who are employees of the Company receive no compensation for their services as directors.

The following table summarizes the compensation paid by us to our non-employee directors during the year ended December 31, 2009.

Director Compensation Table

(a)	(b)	(h)
Name	Fees Earned or Paid in Cash ($) (1)	Total ($)
Raymond B. Ackerman	40,500	40,500
Robert C. Brown, M.D.	40,000	40,000
Charles A. Burtch	40,000	40,000
Robert A. Butkin	39,500	39,500
Bernard G. Ille	40,500	40,500
Donald W. Munson	40,500	40,500
Ronald V. Perry	40,500	40,500
Horace G. Rhodes	40,500	40,500
John A. Shelley	40,500	40,500

(1) This amount includes as to each director, an annual fee of $13,000 for services as a director and $500 for each Board meeting attended during 2009. In addition, each director that serves on one or more committees of the Board receives an additional $25,000 for such service. As noted below, each of our directors served on at least one committee during 2009:

- Mr. Ackerman is a member of the Audit Committee, Nominating and Corporate Governance Committee and Public Relations and Marketing Committee.
- Dr. Brown is a member of the Benefits and Programs Committee. The amount shown above does not include amounts paid by the Company to Dr. Brown for consulting services rendered by him or his affiliated medical group, which amounts are described under "Item 13 - Certain Relationships and Related Party Transactions, and Director Independence - Related Party Transactions."
- Mr. Burtch is a member of the Audit Committee and Compensation Committee.
- Mr. Butkin is a member of the Business Development Committee.
- Mr. Ille is a member of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Public Relations and Marketing Committee.
- Mr. Munson is a member of the Business Development Committee.
- Mr. Perry is a member of the Public Relations and Marketing Committee.
- Mr. Rhodes is a member of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee.
- Mr. Shelley is a member of the Audit Committee, Public Relations and Marketing Committee and Nominating and Corporate Governance Committee.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee has the authority to set the compensation of all of our officers. This Compensation Committee considers the recommendations of the Chief Executive Officer when setting the compensation of our officers. The Chief Executive Officer does not make a recommendation regarding his own salary, and does not make any recommendation as to the President's salary. The members of the Compensation Committee are the following non-employee directors: Horace G. Rhodes (Chairman), Charles A. Burtch, and Bernard G. Ille. Neither Mr. Rhodes, Mr. Burtch nor Mr. Ille is, or ever has been, an officer or employee of the Company or any of its subsidiaries. None of our executive officers or members of the Compensation Committee had any relationship requiring disclosure under Item 404 of Regulation S-K during 2009.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth the information as of December 31, 2009, with respect to our equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	848,775	$ 8.23	870,000
Equity compensation plan not approved by stockholders (1)	22,500	$ 2.73	-
Total	871,275	$ 8.09	870,000

(1) Non-Stockholder Approved Plan From time to time, the Compensation Committee and/or the Board of Directors has approved the grants of certain nonqualified stock options as the Board has determined to be in our best interest to compensate directors, officers, or employees for service to the Company. The exercise price of each such option is equal to the market value of our common stock at the date of grant and each option expires ten years from the grant date. All outstanding options under this plan were exercisable at December 31, 2009.

On November 29, 2001, we granted to certain employees of the Company nonqualified stock options to acquire 102,500 shares of common stock in consideration of services to the Company. As of December 31, 2009, 22,500 shares remain issuable under the nonqualified stock options at an exercise price of $2.73 per share. The nonqualified stock options were not approved by our stockholders.

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information as of February 28, 2010, regarding the ownership of our voting common stock and voting preferred stock by each person (including any “group” as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that we know to be beneficial owner of more than 5% of our voting common stock and voting preferred stock. A person is deemed to be the beneficial owner of shares of the Company which he or she could acquire within 60 days of February 28, 2010.

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Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially owned (1)		Percent of Class+
Jack E. Golsen and certain	Common	4,720,009	(3) (4)	21.1 %
members of his family (2)	Voting Preferred	1,020,000	(5)	99.9 %

+ Because of the requirements of the SEC as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown for an individual may include shares also considered beneficially owned by others. Any shares of stock which a person does not own, but which he or she has the right to acquire within 60 days of February 28, 2010 are deemed to be outstanding for the purpose of computing the percentage of outstanding stock of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

(1) We based the information with respect to beneficial ownership on information furnished by the above-named individuals or entities or contained in filings made with the Securities and Exchange Commission or the Company's records.

(2) Includes Jack E. Golsen ("J. Golsen") and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen ("B. Golsen") (a director, Vice Chairman of the Board of Directors, and President of the Company and its climate control business); son, Steven J. Golsen ("S. Golsen") (executive officer of several subsidiaries of the Company), Golsen Family LLC ("LLC") which is wholly-owned by J. Golsen (43.516% owner), Sylvia H. Golsen (43.516% owner), B. Golsen (4.323% owner), S. Golsen (4.323% owner), and Linda F. Rappaport (4.323% owner and daughter of J. Golsen ("L. Rappaport")), and SBL LLC ("SBL") which is wholly-owned by the LLC (49% owner), B. Golsen (17% owner), S. Golsen (17% owner), and L. Rappaport (17% owner). J Golsen and Sylvia H. Golsen are the managers of the LLC and share voting and dispositive power over the shares beneficially owned by the LLC. J. Golsen and B. Golsen, as the only directors and officers of SBL, share the voting and dispositive power of the shares beneficially owned by SBL and its wholly owned subsidiary, Golsen Petroleum Corp ("GPC"). The address of Jack E. Golsen, Sylvia H. Golsen, and Barry H. Golsen is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th Street, Oklahoma City, Oklahoma 73179. SBL's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.

(3) Includes (a) the following shares over which J. Golsen has the sole voting and dispositive power: (i) 4,000 shares that he has the right to acquire upon conversion of a promissory note; (ii) 263,320 shares of common stock owned of record by certain trusts for the benefit of B. Golsen, S. Golsen and L. Rappaport over which J. Golsen is the trustee of each of these trusts; and (iii) 200,406 shares held in certain trusts for the benefit of grandchildren and great grandchildren of J. Golsen and Sylvia H. Golsen over which J. Golsen is the trustee; (b) 653,976 shares owned of record by the LLC and 133,333 shares that the LLC has the right to acquire upon the conversion of 4,000 shares of the Series B Preferred owned of record by the LLC; (c) 296,639 shares over which B. Golsen has the sole voting and dispositive power, 533 shares owned of record by B. Golsen's wife, over which he shares the voting and dispositive power, and

11,250 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (d) 263,915 shares over which S. Golsen has the sole voting and dispositive power and 11,250 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (e) 30,000 shares over which L. Rappaport has the sole voting and dispositive power and 36,400 shares that she has the right to acquire upon conversion of $1 million principal amount of the 2007 Debentures; (f) 1,602,099 shares owned of record by SBL, 400,000 shares that SBL has the right to acquire upon conversion of 12,000 shares of Series B Preferred owned of record by SBL, 250,000 shares that SBL has to right to acquire upon conversion of 1,000,000 shares of the Series D Preferred owned of record by SBL and 145,600 shares issuable shares upon the conversion of $4 million principal amount of the 2007 Debentures owned of record by SBL, and (g) 283,955 shares owned of record by GPC, which is a wholly-owned subsidiary of SBL, and 133,333 shares that GPC has the right to acquire upon conversion of 4,000 shares of Series B Preferred owned of record by GPC. See "Certain Relationships and Related Transactions".

(4) J. Golsen and Sylvia H. Golsen disclaim beneficial ownership of the shares over which B. Golsen, S. Golsen and L. Rappaport each have sole voting and investment power. Sylvia H. Golsen, B. Golsen, S. Golsen and L. Rappaport disclaim beneficial ownership of the shares that J. Golsen has sole voting and investment power over as noted in footnote (3)(a) above. B. Golsen, S. Golsen and L. Rappaport disclaim beneficial ownership of the shares owned of record by the LLC, except to the extent of their respective pecuniary interest therein. S. Golsen and L. Rappaport disclaims beneficial ownership of the shares owned of record by SBL and GPC and all shares beneficially owned by SBL through the LLC, except to the extent of his pecuniary interest therein. L. Rappaport disclaims beneficial ownership of the shares over which her spouse has sole voting and investment power over.

(5) Includes: (a) 4,000 shares of Series B Preferred owned of record by the LLC; (b) 12,000 shares of Series B Preferred owned of record by SBL; (c) 4,000 shares Series B Preferred owned of record by SBL's wholly-owned subsidiary, GPC, over which SBL, J. Golsen, and B. Golsen share the voting and dispositive power and (d) 1,000,000 shares of Series D Preferred owned of record by SBL.

Security Ownership of Management

The following table sets forth certain information obtained from our directors and executive officers as a group as to their beneficial ownership of our voting common stock and voting preferred stock as of February 28, 2010.

Name of Beneficial Owner	Title of Class	Amount of Shares Beneficially Owned (1)		Percent of Class+
Raymond B. Ackerman	Common	15,875	(2)	*
Michael G. Adams	Common	22,475	(3)	*
Robert C. Brown, M.D.	Common	131,154	(4)	*
Charles A. Burtch	Common	1,825	(5)	*
Robert A. Butkin	Common	1,825	(6)	*
Barry H. Golsen	Common	3,197,395	(7)	14.4 %
	Voting Preferred	1,016,173	(7)	99.9 %
Jack E. Golsen	Common	4,070,022	(8)	18.3 %
	Voting Preferred	1,020,000	(8)	99.9 %
David R. Goss	Common	222,321	(9)	1.0 %
Bernard G. Ille	Common	15,825	(10)	*
Jim D. Jones	Common	80,000	(11)	*
Gail P. Lapidus	Common	-		-
Donald W. Munson	Common	7,565	(12)	*
Ronald V. Perry	Common	825	(13)	*
Horace G. Rhodes	Common	17,325	(14)	*
Harold L. Rieker, Jr.	Common	5,575	(15)	*
Paul H. Rydlund	Common	18,000	(16)	*
David M. Shear	Common	90,581	(17)	*
Tony M. Shelby	Common	180,889	(18)	*
John A. Shelley	Common	3,655	(19)	*
Michael D. Tepper	Common	59,455	(20)	*
Directors and Executive Officers as a group number	Common	5,253,614	(21)	23.5 %
(20 persons)	Voting Preferred	1,020,000		99.9 %

* Less than 1%.

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+ See footnote "+" to the table under "Security Ownership of Certain Beneficial Owners."

(1) We based the information, with respect to beneficial ownership, on information furnished by each director or officer, contained in filings made with the SEC, or contained in our records.

(2) This amount includes (a) 1,450 shares held by Mr. Ackerman's trust and 825 shares of common stock that Mr. Ackerman may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ackerman possesses sole voting and dispositive power and (b) 13,600 shares are held in a trust owned by Mrs. Ackerman, of which Mrs. Ackerman is trustee.

(3) This amount includes 10,000 shares held by Mr. Adams' trust over which Mr. Adams possesses sole voting and dispositive power, and 12,475 shares that Mr. Adams may acquire pursuant to currently exercisable stock options.

(4) This amount includes 61,160 shares held in a joint account owned by a trust, of which Dr. Brown's wife is the trustee, and by a trust, of which Dr. Brown is the trustee. As trustees, Dr. Brown and his wife share voting and dispositive power over these shares. The amount also includes (a) 825 shares of common stock that Dr. Brown may purchase pursuant to currently exercisable non-qualified stock options, (b) 18,442 shares held in a profit sharing plan of which Dr. Brown is the trustee and holds voting and dispositive power over the shares and (c) 50,727 shares owned by Robert C. Brown, MD, Inc. over which Dr. Brown has voting and dispositive power. The amount shown does not include shares owned directly, or through trusts, by the children of Dr. Brown and the son-in-law of Dr. Brown, David M. Shear, all of which Dr. Brown disclaims beneficial ownership.

(5) Mr. Burtch has the sole voting and dispositive power over these shares, which include 825 shares of common stock that Mr. Burtch may purchase pursuant to currently exercisable non-qualified stock options.

(6) This amount includes (a) 1,000 shares that are held in certain trusts and (b) 825 shares of common stock that Mr. Butkin may purchase pursuant to currently exercisable non-qualified stock options over which Mr. Butkin has voting and dispositive power.

(7) See footnotes (2), (3), (4), and (5) of the table under "Security Ownership of Certain Beneficial Owners" for a description of the amount and nature of the shares beneficially owned by B. Golsen.

(8) See footnotes (2), (3), (4), and (5) of the table under "Security Ownership of Certain Beneficial Owners" for a description of the amount and nature of the shares beneficially owned by J. Golsen.

(9) Mr. Goss has the sole voting and dispositive power over these shares.

(10) The amount includes 15,000 shares held by Mr. Ille's trust and 825 shares of common stock that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille possesses sole voting and dispositive power.

(11) Mr. Jones and his wife share voting and dispositive power over these shares, which include 15,000 shares that Mr. Jones may acquire pursuant to currently exercisable stock options, over which Mr. Jones has sole voting and dispositive power.

(12) Mr. Munson has the sole voting and dispositive power over these shares, which include 825 shares that Mr. Munson may acquire pursuant to currently exercisable non-qualified stock options.

(13) This amount represents shares that Mr. Perry may acquire pursuant to currently exercisable stock options, over which Mr. Perry has sole dispositive power.

(14) The amount includes (a) 16,000 shares of common stock, including 15,000 shares held by a trust, and (b) 825 shares of common stock that Mr. Rhodes may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Rhodes has the sole voting and dispositive power, and (c) 500 shares held by a revocable trust over which Mr. Rhodes' wife has voting and dispositive power.

(15) This amount represents shares that Mr. Rieker may acquire pursuant to currently exercisable stock options, over which Mr. Rieker has sole dispositive power.

(16) Mr. Rydlund has the sole voting and dispositive power over these shares, which include 11,500 shares that Mr. Rydlund may acquire pursuant to currently exercisable stock options plans.

(17) These shares are held in a joint account owned by Mr. Shear's revocable trust of which Mr. Shear is the trustee and by Mr. Shear's spouse's revocable trust of which his spouse is the trustee. As trustees, Mr. Shear and his wife share voting and dispositive power over these shares. This amount does not include, and Mr. Shear disclaims beneficial ownership of the shares beneficially owned by Mr. Shear's wife, which consist of 8,988 shares, the beneficial ownership of which is disclaimed by her, that are held by trusts of which she is the trustee.

(18) Mr. Shelby has the sole voting and dispositive power over these shares, which include 15,000 shares that Mr. Shelby may acquire pursuant to currently exercisable stock options plans.

(19) Mr. Shelley has the sole voting and dispositive power over these shares which include 825 shares that Mr. Shelley may acquire pursuant to currently exercisable non-qualified stock options.

(20) The amount includes 2,000 shares of common stock, including 57,455 shares held by a trust, over which Mr. Tepper has the sole voting and dispositive power.

(21) The shares of common stock include 78,225 shares of common stock that executive officers and directors have the right to acquire within 60 days under our stock option plans and 1,066,266 shares of common stock that executive officers, directors, or entities controlled by our executive officers and directors, have the right to acquire within 60 days under other convertible securities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Policy as to Related Party Transaction

Pursuant to the Audit Committee Charter, our Audit Committee reviews any related party transactions involving any of our directors and executive officers. The following related party transactions were reviewed by the Audit Committee or the Board of Directors as a whole.

Related Party Transactions

Golsen Group

The Golsen Group has acquired from an unrelated third party $5,000,000 of the 2007 Debentures. During 2009, we incurred interest expense of $275,000 relating to the debentures held by the Golsen Group, of which $137,500 remains accrued at December 31, 2009. We also paid interest of $137,500 that was accrued at December 31, 2008.

In March 2009, we paid dividends totaling approximately $240,000 and $60,000 on our Series B Preferred and our Series D Preferred, respectively. In February 2010, we declared dividends totaling approximately $240,000 and $60,000 on our Series B Preferred and our Series D Preferred, respectively. All of the outstanding shares of Series B Preferred and Series D Preferred are owned by the Golsen Group.

During 2009, the Company incurred costs of approximately $1,400 for office improvements from a company owned by Linda Golsen Rappaport, the daughter of Jack E. Golsen, our Chairman and Chief Executive Officer, and sister of Barry H. Golsen, our President.

During 2009, the Golsen Group occupied approximately 1,500 square feet of office space in our corporate offices for which the annual rent is $12,000.

Steven J. Golsen, Chief Operating Officer of our Climate Control Business, 2009 compensation was approximately $483,000, which included $150,000 bonus and $6,100 automobile allowance. Heidi Brown Shear, Vice President and Managing Counsel to the Company, 2009 compensation was approximately $164,000, which included $35,000 bonus and $4,000 automobile allowance.

Northwest

Northwest Internal Medicine Associates ("Northwest"), a division of Plaza Medical Group, P.C., has an agreement with the Company to perform medical examinations of the management and supervisory personnel of the Company and its subsidiaries. Each year, we pay Northwest $2,000 a month to perform such examinations, under the agreement. Dr. Robert C. Brown (a director of the Company) is Vice President and Treasurer of Plaza Medical Group, P.C. In addition, Dr. Brown receives a fee of $2,000 per month to perform medical director consulting services for the Company in connection with the Company's self-insured health plan and workmen's compensation benefits.

Board Independence

The Board of Directors has determined that each of Messrs. Ackerman, Burtch, Butkin, Ille, Munson, Rhodes, Perry, Shelley and Ms. Lapidus is an “independent director” in accordance with the current listing standards of the NYSE.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of the Company’s annual financial statements for the fiscal years ended December 31, 2009 and 2008, for the reviews of the financial statements included in the Company’s Quarterly Reports on Form 10-Q for those fiscal years, and for review of documents filed with the SEC for those fiscal years were approximately $1,321,000 and $1,397,000, respectively.

Audit-Related Fees

Ernst & Young LLP billed the Company $32,700 and $25,000 during 2009 and 2008, respectively, for audit-related services relating to benefit plan audits.

Tax Fees

Ernst & Young LLP billed $664,559 and $538,095 during 2009 and 2008, respectively, for tax services to the Company, and included tax return review and preparation and tax consultations and planning.

All Other Fees

The Company did not engage its accountants to provide any other services for the fiscal years ended December 31, 2009 and 2008.

Engagement of the Independent Registered Public Accounting Firm

The Audit Committee is responsible for approving all engagements with Ernst & Young LLP to perform audit or non-audit services for us prior to us engaging Ernst & Young LLP to provide those services. All of the services under the headings Audit Related, Tax Services, and All Other Fees were approved by the Audit Committee in accordance with paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X of the Exchange Act. The Audit Committee of the Company’s Board of Directors has considered whether Ernst & Young LLP’s provision of the services described above for the fiscal years ended December 31, 2009 and 2008 is compatible with maintaining its independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Company appear immediately following this Part IV:

(a) (2) Financial Statement Schedules

The Company has included the following schedules in this report:

We have omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in our Consolidated Financial Statements, including the notes to those statements.

(a)(3) Exhibits

3(i).1 Restated Certificate of Incorporation, as amended, which the Company hereby incorporates by reference from Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended December 31, 2008.

3(ii).4 Amended and Restated Bylaws of LSB Industries, Inc. dated August 20, 2009, as amended February 18, 2010.

4.1 Specimen Certificate for the Company's Noncumulative Preferred Stock, having a par value of $100 per share, which the Company incorporates by reference from Exhibit 4.1 to the Company's Form 10-K for the fiscal year ended December 31, 2005.

4.2 Specimen Certificate for the Company's Series B Preferred Stock, having a par value of $100 per share, which the Company hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848.

4.3 Specimen of Certificate of Series D 6% Cumulative, Convertible Class C Preferred Stock, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

4.4 Specimen Certificate for the Company's Common Stock, which the Company incorporates by reference from Exhibit 4.4 to the Company's Registration Statement No. 33-61640.

4.5 Renewed Rights Agreement, dated as of December 2, 2008, between the Company and UMB Bank, n.a., which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated December 5, 2008.

4.6 First Amendment to Renewed Rights Agreement, dated December 3, 2008, between LSB Industries, Inc. and UMB Bank, n.a., which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 8-K, dated December 5, 2008.

4.7 Redemption Notice, dated July 12, 2007, for the LSB Industries, Inc.'s $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated July 11, 2007.

4.8 Amended and Restated Loan and Security Agreement by and among LSB Industries, Inc., ThermaClime, Inc. and each of its subsidiaries that are Signatories, the lenders and Wells Fargo Foothill, Inc., which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2007.

4.9 First Amendment to the Amended and Restated Loan and Security Agreement, dated as of November 24, 2009, by and among LSB Industries, Inc., ThermaClime, Inc. and each of its subsidiaries that are Signatories, the lenders and Wells Fargo Foothill, Inc.

4.10 Loan Agreement, dated September 15, 2004 between ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., Orix Capital Markets, L.L.C. and LSB Industries, Inc. ("Loan Agreement"), which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated September 16, 2004. The Loan Agreement lists numerous Exhibits and Schedules that are attached thereto, which will be provided to the Commission upon the Commission's request.

4.11 First Amendment, dated February 18, 2005 to Loan Agreement, dated as of September 15, 2004, among ThermaClime, Inc., and certain subsidiaries of ThermaClime, Cherokee Nitrogen Holdings, Inc., and Orix Capital Markets, L.L.C., which the Company hereby incorporates by reference from Exhibit 4.21 to the Company's Form 10-K for the fiscal year ended December 31, 2004.

4.12 Waiver and Consent, dated as of January 1, 2006 to the Loan Agreement dated as of September 15, 2004 among ThermaClime, Inc., and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., Orix Capital Markets, L.L.C. and LSB Industries, Inc., which the Company hereby incorporates by reference from Exhibit 4.23 to the Company's Form 10-K for the fiscal year ended December 31, 2005.

4.13 Consent of Orix Capital Markets, LLC and the Lenders of the Senior Credit Agreement, dated May 12, 2006, to the interest rate of a loan between LSB and ThermaClime and the utilization of the loan proceeds by ThermaClime and the waiver of related covenants, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 2006.

4.14 Term Loan Agreement, dated as of November 2, 2007, among LSB Industries, Inc., ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., the Lenders, the Administrative and Collateral Agent and the Payment Agent, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2007.

4.15 Certificate of 5.5% Senior Subordinated Convertible Debentures due 2012, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated June 28, 2007.

4.16 Indenture, dated June 28, 2007, by and among the Company and UMB Bank, n.a., which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 8-K, dated June 28, 2007

4.17 Registration Rights Agreement, dated June 28, 2007, by and among the Company and the Purchasers set forth in the signature pages thereto, which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 8-K, dated June 28, 2007.

4.18 Business Loan Agreement, dated effective June 30, 2009, between Prime Financial Corporation and INTRUST Bank, N.A., which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended June 30, 2009.

4.19 Promissory Note, dated July 6, 2009, between Prime Financial Corporation and INTRUST Bank, N.A., which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 2009.

10.1 Limited Partnership Agreement dated as of May 4, 1995 between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner, which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995. See SEC file number 001-07677.

10.2 Form of Death Benefit Plan Agreement between the Company and the employees covered under the plan, which the Company incorporates by reference from Exhibit 10.2 to the Company's Form 10-K for the fiscal year ended December 31, 2005.

10.3 Amendment to Non-Qualified Benefit Plan Agreement, dated December 17, 2008, between Barry H. Golsen and the Company, which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K, dated December 23, 2008. Each Amendment to Non-Qualified Benefit Plan Agreement with David R. Goss and Steven J. Golsen is substantially the same as this exhibit and will be provided to the Commission upon request.

10.4 The Company's 1993 Stock Option and Incentive Plan, which the Company incorporates by reference from Exhibit 10.3 to the Company's Form 10-K for the fiscal year ended December 31, 2005.

10.5 The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the fiscal year ended December 31, 1998. See SEC file number 001-07677.

10.6 LSB Industries, Inc. Outside Directors Stock Option Plan, which the Company hereby incorporates by reference from Exhibit "C" to the Company's Proxy Statement, dated May 24, 1999 for its 1999 Annual Meeting of Stockholders. See SEC file number 001-07677.

10.7 Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and Dan Ellis, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form S-8, dated September 10, 2007.

10.8 Nonqualified Stock Option Agreement, dated June 19, 2006, between LSB Industries, Inc. and John Bailey, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form S-8, dated September 10, 2007.

10.9 LSB Industries, Inc. 2008 Incentive Stock Plan, effective June 5, 2008, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated June 6, 2008.

10.10 Severance Agreement, dated January 17, 1989 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.13 to the Company's Form 10-K for the fiscal year ended December 31, 2005. The Company also entered into identical agreements with Tony M. Shelby, David R. Goss, Barry H. Golsen, David M. Shear, and Jim D. Jones and the Company will provide copies thereof to the Commission upon request.

10.11 Amendment to Severance Agreement, dated December 17, 2008, between Barry H. Golsen and the Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, dated December 23, 2008. Each Amendment to Severance Agreement with Jack E. Golsen, Tony M. Shelby, David R. Goss and David M. Shear is substantially the same as this exhibit and will be provided to the Commission upon request.

10.12 Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996, which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995. See SEC file number 001-07677.

10.13 First Amendment to Employment Agreement, dated April 29, 2003 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.52 to the Company's Form 10-K/A Amendment No.1 for the fiscal year ended December 31, 2002.

10.14 Third Amendment to Employment Agreement, dated December 17, 2008, between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated December 23, 2008.

10.15 Nitric Acid Supply Operating and Maintenance Agreement, dated October 23, 2008, between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience, LLC, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2008. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #22844, DATED NOVEMBER 24, 2008, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.16 Inentioanlly left blank

10.17 Intentionally left blank

10.18 Omnibus Termination Agreement, dated June 23, 2009, by and among Bayer MaterialScience LLC (as successor in interest to Bayer Corporation); El Dorado Nitrogen, L.P. (as successor in interest to El Dorado Nitrogen Company); El Dorado Chemical Company; Wells Fargo Bank Northwest, N.A. (as successor in interest to Boatmen's Trust Company of Texas); Bal Investment & Advisory, Inc. (as successor in interest to Security Pacific Leasing Corporation); Wilmington Trust Company; and Bayerische Landesbank, New York Branch, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed June 29, 2009.

10.19 Assignment of Fixed Price Purchase Option, dated June 23, 2009, between El Dorado Nitrogen, L.P. and Bayer MaterialScience LLC., which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed June 29, 2009.

10.20 Loan Agreement dated December 23, 1999 between Climate Craft, Inc. and the City of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Amendment No. 2 to its 1999 Form 10-K. See SEC file number 001-07677.

10.21 Assignment, dated May 8, 2001 between Climate Master, Inc. and Prime Financial Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.22 Agreement for Purchase and Sale, dated April 10, 2001 by and between Prime Financial Corporation and Raptor Master, L.L.C., which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.23 Amended and Restated Lease Agreement, dated May 8, 2001 between Raptor Master, L.L.C. and Climate Master, Inc., which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.24 Option Agreement, dated May 8, 2001 between Raptor Master, L.L.C. and Climate Master, Inc., which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2001.

10.25 First Amendment to Amended and Restated Lease Agreement, dated April 1, 2007, between Raptor Master, L.L.C. and Climate Master, Inc., which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the fiscal year ended December 31, 2007.

10.26 Asset Purchase Agreement, dated October 22, 2001 between Orica USA, Inc. and El Dorado Chemical Company and Northwest Financial Corporation, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #12179, DATED MAY 24, 2006, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.27 AN Supply Agreement, dated effective January 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR THE PURPOSES OF THIS REQUEST.**

10.28 First Amendment to AN Supply Agreement, dated effective March 1, 2010, between El Dorado Chemical Company and Orica International Pte Ltd.

10.29 Agreement, dated August 1, 2007, between El Dorado Chemical Company and United Steelworkers of America International Union AFL-CIO and its Local 13-434, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company’s Form 8-K, dated July 29, 2008.

10.30 Agreement, dated October 17, 2007, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company’s Form 8-K, dated May 14, 2008.

10.31. Agreement, dated November 12, 2007, between United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local No. 00417 and Cherokee Nitrogen Company, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company’s Form 8-K, dated March 27, 2008.

10.32 Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8-K, dated December 12, 2002. The asset purchase agreement contains a brief list identifying all schedules and exhibits to the asset purchase agreement. Such schedules and exhibits are not filed, and the Registrant agrees to furnish supplementally a copy of the omitted schedules and exhibits to the Commission upon request.

10.33 Purchase Confirmation, dated July 1, 2006, between Koch Nitrogen Company and Cherokee Nitrogen Company, which the Company hereby incorporates by reference from Exhibit 10.40 to the Company’s Form 10-K for the fiscal year ended December 31, 2006. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #20082, DATED NOVEMBER 16, 2007, GRANTING CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT, AS AMENDED.**

10.34 Anhydrous Ammonia Sales Agreement, dated effective January 1, 2009 between Koch Nitrogen International Sarl and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company’s Form 10-K for the fiscal year ended December 31, 2008. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #23318, DATED APRIL 24, 2009, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.35 Second Amendment to Anhydrous Ammonia Sales Agreement, dated February 23, 2010, between Koch Nitrogen International Sarl and El Dorado Chemical Company. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR THE PURPOSES OF THIS REQUEST.**

10.36 Urea Ammonium Nitrate Purchase and Sale Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC., which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, filed May 13, 2009. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #23659, DATED JUNE 9, 2009, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.37 Amendment No. 1 to Urea Ammonium Nitrate Purchase and Sale Agreement, dated October 29, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company’s Form 8-K, filed November 4, 2009. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF #24284, DATED NOVEMBER 19, 2009, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.38 Railcar Management Agreement, dated May 7, 2009, between Pryor Chemical Company and Koch Nitrogen Company, LLC, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, filed May 13, 2009.

10.39	Purchase Agreement, dated June 28, 2007, by and among the Company and the investors identified on the Schedule of Purchasers attached thereto, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 8-K, dated June 28, 2007.
10.40	Agreement, dated November 10, 2006 by and among LSB Industries, Inc., Kent C. McCarthy, Jayhawk Capital Management, L.L.C., Jayhawk Institutional Partners, L.P. and Jayhawk Investments, L.P., which the Company hereby incorporates by reference from Exhibit 99(d)(1) to the Company's Schedule TO-I, filed February 9, 2007.
12.1	Calculation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends.
14.1	Code of Ethics for CEO and Senior Financial Officers of Subsidiaries of LSB Industries, Inc.
21.1	Subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Jack E. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
31.2	Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
32.1	Certification of Jack E. Golsen, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
32.2	Certification of Tony M. Shelby, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LSB INDUSTRIES, INC.

Dated: March 8, 2010	By: /s/ Jack E. Golsen Jack E. Golsen Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Dated: March 8, 2010	By: /s/ Tony M. Shelby Tony M. Shelby Executive Vice President of Finance and Chief Financial Officer (Principal Financial Officer)
Dated: March 8, 2010	By: /s/ Harold L. Rieker Jr. Harold L. Rieker Jr. Vice President and Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 8, 2010	By: /s/ Jack E. Golsen Jack E. Golsen, Director
Dated: March 8, 2010	By: /s/ Tony M. Shelby Tony M. Shelby, Director
Dated: March 8, 2010	By: /s/ Barry H. Golsen Barry H. Golsen, Director
Dated: March 8, 2010	By: /s/ David R. Goss David R. Goss, Director
Dated: March 8, 2010	By: /s/ Raymond B. Ackerman Raymond B. Ackerman, Director
Dated: March 8, 2010	By: /s/ Robert C. Brown MD Robert C. Brown MD, Director
Dated: March 8, 2010	By: /s/ Charles A. Burtch Charles A. Burtch, Director
Dated: March 8, 2010	By: /s/ Robert A. Butkin Robert A. Butkin, Director
Dated: March 8, 2010	By: /s/ Bernard G. Ille Bernard G. Ille, Director
Dated: March 8, 2010	By: Gail P. Lapidus, Director
Dated: March 8, 2010	By: /s/ Donald W. Munson Donald W. Munson, Director
Dated: March 8, 2010	By: /s/ Ronald V. Perry Ronald V. Perry, Director
Dated: March 8, 2010	By: /s/ Horace G. Rhodes Horace G. Rhodes, Director
Dated: March 8, 2010	By: /s/ John A. Shelley John A. Shelley, Director

LSB Industries, Inc.

Consolidated Financial Statements
And Schedules for Inclusion in Form 10-K
For the Fiscal Year ended December 31, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 14 to the consolidated financial statements, in 2007, the Company adopted a new accounting principle related to uncertain income tax provisions.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2010 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 8, 2010

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2009	December 31, 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **61,739**	$ 46,204
Restricted cash	**30**	893
Short-term investments	**10,051**	-
Accounts receivable, net	**57,762**	78,846
Inventories	**51,013**	60,810
Supplies, prepaid items and other:		
Prepaid insurance	**4,136**	3,373
Prepaid income taxes	**1,642**	-
Precious metals	**13,083**	14,691
Supplies	**4,886**	4,301
Other	**1,626**	1,378
Total supplies, prepaid items and other	**25,373**	23,743
Deferred income taxes	**5,527**	11,417
Total current assets	**211,495**	221,913
Property, plant and equipment, net	**117,962**	104,292
Other assets:		
Debt issuance costs, net	**1,652**	2,607
Investment in affiliate	**3,838**	3,628
Goodwill	**1,724**	1,724
Other, net	**1,962**	1,603
Total other assets	**9,176**	9,562
	$ **338,633**	$ 335,767

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LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 2009	December 31, 2008
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 37,553**	$ 43,014
Short-term financing	**3,017**	2,228
Accrued and other liabilities	**23,054**	39,236
Current portion of long-term debt	**3,205**	1,560
Total current liabilities	**66,829**	86,038
Long-term debt	**98,596**	103,600
Noncurrent accrued and other liabilities	**10,626**	9,631
Deferred income taxes	**11,975**	6,454
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	**2,000**	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	**1,000**	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 25,369,095 shares issued (24,958,330 at December 31, 2008)	**2,537**	2,496
Capital in excess of par value	**129,941**	127,337
Accumulated other comprehensive loss	**-**	(120)
Retained earnings	**41,082**	19,804
	176,560	152,517
Less treasury stock, at cost:		
Common stock, 4,143,362 shares (3,848,518 at December 31, 2008)	**25,953**	22,473
Total stockholders' equity	**150,607**	130,044
	$ 338,633	$ 335,767

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Income

	Year ended December 31, 2009	2008	2007
	(In Thousands, Except Per Share Amounts)		
Net sales	$ **531,838**	$ 748,967	$ 586,407
Cost of sales	**394,424**	610,087	453,814
Gross profit	**137,414**	138,880	132,593
Selling, general and administrative expense	**96,374**	86,646	75,033
Provisions for losses on accounts receivable	**90**	371	858
Other expense	**527**	1,184	1,186
Other income	**(287)**	(8,476)	(3,495)
Operating income	**40,710**	59,155	59,011
Interest expense	**6,746**	11,381	12,078
Gains on extinguishment of debt	**(1,783)**	(5,529)	-
Non-operating other income, net	**(130)**	(1,096)	(1,264)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	**35,877**	54,399	48,197
Provisions for income taxes	**15,024**	18,776	2,540
Equity in earnings of affiliate	**(996)**	(937)	(877)
Income from continuing operations	**21,849**	36,560	46,534
Net loss (income) from discontinued operations	**265**	13	(348)
Net income	**21,584**	36,547	46,882
Dividends, dividend requirements and stock dividends on preferred stocks	**306**	306	5,608
Net income applicable to common stock	$ **21,278**	$ 36,241	$ 41,274
Income (loss) per common share:			
Basic:			
Income from continuing operations	$ **1.01**	$ 1.71	$ 2.09
Net income (loss) from discontinued operations	**(.01)**	-	.02
Net income	$ **1.00**	$ 1.71	$ 2.11
Diluted:			
Income from continuing operations	$ **.97**	$ 1.58	$ 1.82
Net income (loss) from discontinued operations	**(.01)**	-	.02
Net income	$ **.96**	$ 1.58	$ 1.84

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock - Preferred	Treasury Stock - Common	Total
					(In Thousands)				
Balance at December 31, 2006	20,215	$ 28,870	$ 2,022	$ 79,838	$ (701)	$ (47,962)	$ (797)	$ (17,636)	$ 43,634
Net income						46,882			46,882
Amortization of cash flow hedge					290				290
Total comprehensive income									47,172
Dividends paid on preferred stocks						(2,934)			(2,934)
Cumulative effect adjustment (See Note 14)						(120)			(120)
Stock-based compensation				421					421
Conversion of debentures to common stock	565		57	3,681					3,738
Exercise of stock options	582		58	1,480				(16)	1,522
Exercise of warrant	113		12	381					393
Income tax benefit from exercise of stock options				1,740					1,740
Exchange of 305,807 shares of non-redeemable preferred stock for 2,262,965 shares of common stock	2,263	(15,290)	226	27,367		(12,303)			-
Conversion of 167,475 shares of non-redeemable preferred stock for 724,993 shares of common stock	725	(8,374)	72	8,301					(1)
Redemption of 25,820 shares of non-redeemable preferred stock		(1,291)							(1,291)
Cancellation of 18,300 shares of non-redeemable preferred stock (1)		(915)		118			797		-
Conversion of 98 shares of redeemable preferred stock to common stock	4			9					9
Balance at December 31, 2007	24,467	$ 3,000	$ 2,447	$ 123,336	$ (411)	$ (16,437)	$ -	$ (17,652)	$ 94,283

(1) These shares represent the shares of Series 2 Preferred previously held as treasury stock. As the result of the cancellation, no shares of Series 2 Preferred were issued and outstanding at December 31, 2007.

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LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock - Common	Total
	(In Thousands)							
Net income						$ 36,547		$ 36,547
Amortization of cash flow hedge					291			291
Total comprehensive income								36,838
Dividends paid on preferred stocks						(306)		(306)
Stock-based compensation				811				811
Exercise of stock options	490		49	797				846
Income tax benefit from exercise of stock options				2,390				2,390
Acquisition of 400,000 shares of common stock							(4,821)	(4,821)
Conversion of 38 shares of redeemable preferred stock to common stock	1			3				3
Balance at December 31, 2008	24,958	3,000	2,496	127,337	(120)	19,804	(22,473)	130,044
Net income						21,584		21,584
Amortization of cash flow hedge					120			120
Total comprehensive income								21,704
Dividends paid on preferred stocks						(306)		(306)
Stock-based compensation				1,021				1,021
Exercise of stock options	409		41	848			(280)	609
Excess income tax benefit associated with stock-based compensation				731				731
Acquisition of 275,900 shares of common stock							(3,200)	(3,200)
Conversion of 36 shares of redeemable preferred stock to common stock	2			4				4
Balance at December 31, 2009	25,369	$ 3,000	$ 2,537	$ 129,941	$ -	$ 41,082	$ (25,953)	$ 150,607

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31, 2009	2008	2007
		(In Thousands)	
Cash flows from continuing operating activities			
Net income	**$ 21,584**	$ 36,547	$ 46,882
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Net loss (income) from discontinued operations	**265**	13	(348)
Deferred income taxes	**11,231**	(263)	(4,700)
Gains on extinguishment of debt	**(1,783)**	(5,529)	-
Losses on sales and disposals of property and equipment	**378**	158	378
Gain on litigation judgment associated with property, plant and equipment	**-**	(3,943)	-
Depreciation of property, plant and equipment	**15,601**	13,830	12,271
Amortization	**757**	1,186	2,082
Stock-based compensation	**1,021**	811	421
Provisions for losses on accounts receivable	**90**	371	858
Provision for (realization of) losses on inventory	**(2,404)**	3,824	(384)
Provision for (realization of) losses on firm sales commitments	**371**	-	(328)
Provisions for impairment on long-lived assets	**-**	192	250
Equity in earnings of affiliate	**(996)**	(937)	(877)
Distributions received from affiliate	**786**	735	765
Changes in fair value of commodities contracts	**(138)**	5,910	172
Changes in fair value of interest rate contracts	**(508)**	2,863	580
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Accounts receivable	**22,118**	(8,776)	(4,392)
Inventories	**11,880**	(7,758)	(11,044)
Prepaid and accrued income taxes	**(2,738)**	(2,836)	3,909
Other supplies and prepaid items	**230**	(4,145)	(4,857)
Accounts payable	**(6,154)**	2,214	(5,110)
Commodities contracts	**(5,922)**	(172)	(408)
Customer deposits	**(2,607)**	(6,283)	6,587
Deferred rent expense	**(1,424)**	(2,876)	(931)
Other current and noncurrent liabilities	**(3,965)**	6,879	5,023
Net cash provided by continuing operating activities	**57,673**	32,015	46,799

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LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31, 2009	2008	2007
		(In Thousands)	
Cash flows from continuing investing activities			
Capital expenditures	**$ (28,891)**	$ (32,108)	$ (14,341)
Proceeds from property insurance recovery associated with property, plant and equipment	**364**	-	-
Proceeds from litigation judgment associated with property, plant and equipment	-	5,948	-
Payment of legal costs relating to litigation judgment associated with property, plant and equipment	-	(1,884)	-
Proceeds from sales of property and equipment	**15**	74	271
Purchase of short-term investments	**(10,051)**	-	-
Proceeds from (deposits of) current and noncurrent restricted cash	**863**	(690)	3,478
Purchase of interest rate cap contracts	-	-	(621)
Other assets	**(360)**	(379)	(168)
Net cash used by continuing investing activities	**(38,060)**	(29,039)	(11,381)
Cash flows from continuing financing activities			
Proceeds from revolving debt facilities	**519,296**	662,402	529,766
Payments on revolving debt facilities	**(519,296)**	(662,402)	(556,173)
Proceeds from 5.5% convertible debentures, net of fees	-	-	56,985
Proceeds from Secured Term Loan	-	-	50,000
Proceeds from other long-term debt, net of fees	**8,566**	-	2,424
Payments on Senior Secured Loan	-	-	(50,000)
Acquisitions of 5.5% convertible debentures	**(8,938)**	(13,207)	-
Payments on other long-term debt	**(2,327)**	(1,047)	(8,248)
Payments of debt issuance costs	**(26)**	-	(1,403)
Proceeds from short-term financing and drafts payable	**3,866**	3,178	1,456
Payments on short-term financing and drafts payable	**(3,077)**	(1,869)	(3,523)
Proceeds from exercises of stock options	**609**	846	1,522
Proceeds from exercise of warrant	-	-	393
Purchases of treasury stock	**(3,200)**	(4,821)	-
Excess income tax benefit associated with stock-based compensation	**911**	2,390	1,740
Dividends paid on preferred stocks	**(306)**	(306)	(2,934)
Acquisition of non-redeemable preferred stock	-	-	(1,292)
Net cash provided (used) by continuing financing activities	**(3,922)**	(14,836)	20,713
Cash flows of discontinued operations:			
Operating cash flows	**(156)**	(160)	(162)
Net increase (decrease) in cash and cash equivalents	**15,535**	(12,020)	55,969
Cash and cash equivalents at beginning of year	**46,204**	58,224	2,255
Cash and cash equivalents at end of year	**$ 61,739**	$ 46,204	$ 58,224

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LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	2009	2008	2007
		(In Thousands)	
Supplemental cash flow information:			
Cash payments for:			
Interest on long-term debt and other	**$ 6,908**	$ 6,562	$ 9,162
Income taxes, net of refunds	**$ 5,559**	$ 19,469	$ 1,646
Noncash investing and financing activities:			
Receivables associated with property insurance claims	**$ 846**	$ -	$ -
Debt issuance costs	**$ 34**	$ -	$ 3,026
Current and noncurrent other assets, accounts payable, other liabilities, and long-term debt associated with additions of property, plant and equipment	**$ 5,023**	$ 7,975	$ 1,937
Debt issuance costs associated with the acquisitions of the 5.5% convertible debentures	**$ 379**	$ 764	$ -
Debt issuance costs associated with 7% convertible debentures converted to common stock	**$ -**	$ -	$ 266
7% convertible debentures converted to common stock	**$ -**	$ -	$ 4,000
Series 2 preferred stock converted to common stock of which $12,303,000 was charged to accumulated deficit in 2007	**$ -**	$ -	$ 27,593

See accompanying notes.

LSB Industries, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the “Company”, “We”, “Us”, or “Our”) and its subsidiaries. We are a manufacturing, marketing and engineering company. Primarily through our wholly-owned subsidiary ThermaClime, Inc. (“ThermaClime”) and its subsidiaries, we are principally engaged in the manufacture and sale of geothermal and water source heat pumps and air handling products (the "Climate Control Business") and the manufacture and sale of chemical products (the "Chemical Business"). The Company and ThermaClime are holding companies with no significant assets or operations other than cash, cash equivalents, short-term investments, and our investments in our subsidiaries. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made in our consolidated financial statements for 2008 and 2007 to conform to our consolidated financial statement presentation for 2009, including the change in our classification of principal payments under capital lease obligations from “capital expenditures” that are included in net cash used by continuing investing activities to “payments on other long-term debt” that are included in net cash used by continuing financing activities. This change in classification is consistent with the underlying principles of United States generally accepted accounting principles (“GAAP”). This change resulted in a decrease in net cash used by continuing investing activities and an increase in net cash used by financing activities of $448,000 for 2008 and a decrease in net cash provided by financing activities of $467,000 for 2007.

2. Summary of Significant Accounting Policies

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Investments, which consist of highly liquid investments with original maturities of three months or less, are considered cash equivalents.

Restricted Cash - Restricted cash consists of cash balances that are legally restricted or designated by the Company for specific purposes.

Short-Term Investments - Investments, which consist of certificates of deposit with an original maturity of 13 weeks, are considered short-term investments. These investments are carried at cost which approximates fair value. All of these investments were held by financial institutions within the United States and none of these investments were in excess of the federally insured limits.

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Credit Risk - Our sales to contractors and independent sales representatives are generally subject to a mechanic's lien in the Climate Control Business. Our other sales are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the consolidated financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due (determined based upon how recently payments have been received). Our periodic assessment of accounts and credit loss provisions are based on our best estimate of amounts that are not recoverable.

Inventories - Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At December 31, 2009 and 2008, we had inventory reserves for certain slow-moving inventory items (primarily Climate Control products) and inventory reserves for certain nitrogen-based inventories produced by our Chemical Business because cost exceeded the net realizable value.

Precious Metals - Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed. Occasionally, during major maintenance or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within the manufacturing equipment. Recoveries of precious metals are recognized at historical FIFO costs. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals.

Property, Plant and Equipment - Property, plant and equipment are carried at cost. For financial reporting purposes, depreciation is primarily computed using the straight-line method over the estimated useful lives of the assets. Leases meeting capital lease criteria have been capitalized and included in property, plant and equipment. Amortization of assets under capital leases is included in depreciation expense. No provision for depreciation is made on construction in progress or capital spare parts until such time as the relevant assets are put into service. Maintenance, repairs and minor renewals are charged to operations while major renewals and improvements are capitalized in property, plant and equipment.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. Assets to be disposed are reported at the lower of the carrying amounts of the assets or fair values less costs to sell. At December 31, 2009, we had no long-lived assets to be classified as assets held for sale.

2. Summary of Significant Accounting Policies (continued)

For 2008 and 2007, we obtained estimates from external sources and made internal estimates based on inquiry and other techniques of the fair values of certain capital spare parts and idle assets in our Chemical Business and certain non-core equipment included in our Corporate assets in order to determine recoverability of the carrying amounts of such assets.

Debt Issuance Costs - Debt issuance costs are amortized over the term of the associated debt instrument. In general, if debt is extinguished prior to maturity, the associated debt issuance costs, if any, are written off and included in the gain or loss on extinguishment of debt.

Goodwill - Goodwill is reviewed for impairment at least annually. As of December 31, 2009 and 2008, goodwill was $1,724,000 of which $103,000 and $1,621,000 relates to business acquisitions in prior periods in the Climate Control and Chemical Businesses, respectively.

Accrued Insurance Liabilities - We are self-insured up to certain limits for group health, workers' compensation and general liability claims. Above these limits, we have commercial insurance coverage for our contractual exposure on group health claims and statutory limits under workers' compensation obligations. We also carry excess umbrella insurance of $50 million for most general liability and auto liability risks. We have a separate $30 million insurance policy covering pollution liability at our Chemical Business facilities. Additional pollution liability coverage for our other facilities is provided in our general liability and umbrella policies. Our accrued insurance liabilities are based on estimates of claims, which include the incurred claims amounts plus estimates of future claims development calculated by applying our historical claims development factors to our incurred claims amounts. We also consider the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims and other insurance-related costs. Potential legal fees and other directly related costs associated with insurance claims are not accrued but rather are expensed as incurred. Accrued insurance liabilities are included in accrued and other liabilities. It is possible that the actual development of claims could exceed our estimates.

Product Warranty - Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, that extends over several years. As such, we provide warranties after equipment shipment/start-up covering defects in materials and workmanship.

Generally, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start-up, whichever is shorter, and to ninety days for spare parts. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase or a specific

2. Summary of Significant Accounting Policies (continued)

product may be sold with an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations using a percentage of net sales, based upon our historical warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, or component thereof, or project installation, when such costs are probable and reasonably estimable. It is possible that future warranty costs could exceed our estimates.

Plant Turnaround Costs - We expense the costs relating to planned major maintenance activities (“Turnarounds”) as they are incurred by our Chemical Business.

Executive Benefit Agreements - We have entered into benefit agreements with certain key executives. Costs associated with these individual benefit agreements are accrued based on the estimated remaining service period when such benefits become probable they will be paid. Total costs accrued equal the present value of specified payments to be made after benefits become payable.

Income Taxes - We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to tax net operating loss (“NOL”) carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In addition, we do not recognize a tax benefit unless we conclude that it is more-likely-than-not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. We also record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

We reduce income tax expense for investment tax credits in the year the credit arises and is earned.

Income tax benefits credited to equity relate to tax benefits associated with amounts that are deductible for income tax purposes but do not affect earnings. These benefits are principally generated from exercises of non-qualified stock options.

2. Summary of Significant Accounting Policies (continued)

Contingencies - We accrue for contingent losses when such losses are probable and reasonably estimable. Estimates of potential legal fees and other directly related costs associated with loss contingencies are not accrued but rather are expensed as incurred. In addition, we recognize contingent gains when such gains are realized or realizable and earned. Our Chemical Business is subject to specific federal and state regulatory compliance laws and guidelines. We have developed policies and procedures related to regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. Loss contingency liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term.

Asset Retirement Obligations - We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Since we currently have no plans to discontinue the use of these facilities and the remaining lives of the facilities are indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

Stock Options - Equity award transactions with employees are measured based on the estimated fair value of the equity awards issued. For equity awards with only service conditions that have a graded vesting period, we recognize compensation cost on a straight-line basis over the requisite service period for the entire award. In addition, we issue new shares of common stock upon the exercise of stock options.

Revenue Recognition - We recognize revenue for substantially all of our operations at the time title to the goods transfers to the buyer and there remain no significant future performance obligations by us. Revenue relating to construction contracts is recognized using the percentage-of-completion method based primarily on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognized in the period in which they are determined. Sales of warranty contracts are recognized as revenue ratably over the life of the contract. See discussion above under "Product Warranty" for our accounting policy for recognizing warranty expense.

Recognition of Insurance Recoveries - If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. Amounts recoverable from our insurance carriers are included in accounts receivable.

2. Summary of Significant Accounting Policies (continued)

Cost of Sales - Cost of sales includes materials, labor and overhead costs to manufacture the products sold plus inbound freight, purchasing and receiving costs, inspection costs, internal transfer costs and warehousing costs (excluding certain handling costs directly related to loading product being shipped to customers in our Chemical Business which are included in selling, general and administrative expense). In addition, recoveries and gains from precious metals (Chemical Business), sales of material scrap (Climate Control Business), and business interruption insurance claims are reductions to cost of sales. Also gains and losses (realized and unrealized) from our commodities and foreign currency futures/forward contracts are included in cost of sales. In addition, provision for losses, if any, on firm sales commitments are included in cost of sales.

Selling, General and Administrative Expense - Selling, general and administrative expense ("SG&A") includes costs associated with the sales, marketing and administrative functions. Such costs include personnel costs, including benefits, advertising costs, commission expenses, warranty costs, office and occupancy costs associated with the sales, marketing and administrative functions. SG&A also includes outbound freight in our Climate Control Business and certain handling costs directly related to product being shipped to customers in our Chemical Business. These handling costs primarily consist of personnel costs for loading product into transportation equipment, rent and maintenance costs related to the transportation equipment, and certain indirect costs. Also, SG&A includes expenses associated with the start up of our previously idled chemical facility located in Pryor, Oklahoma (the "Pryor Facility") that we are in the process of activating.

Shipping and Handling Costs - For the Chemical Business in 2009, 2008, and 2007, shipping costs of $15,897,000, $16,333,000, and $15,209,000, respectively, are included in net sales as these costs relate to amounts billed to our customers. In addition, in 2009, 2008, and 2007, handling costs of $5,691,000, $5,432,000, and $5,249,000, respectively, are included in SG&A as discussed above under "Selling, General and Administrative Expense." For the Climate Control Business, shipping and handling costs of $7,910,000, $11,047,000, and $11,057,000 are included in SG&A for 2009, 2008, and 2007, respectively.

Advertising Costs - Costs in connection with advertising and promotion of our products are expensed as incurred. For 2009, 2008, and 2007 such costs amounted to $5,915,000, $2,180,000, and $1,791,000, respectively.

Derivatives, Hedges and Financial Instruments - Derivatives are recognized in the balance sheet and are measured at fair value. Changes in fair value of derivatives are recorded in results of operations unless the normal purchase or sale exceptions apply or hedge accounting is elected.

Income per Common Share - Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends, dividend requirements and stock dividends. Basic income per common share is based upon net income applicable to common stock and the weighted-average number of common shares outstanding during each

2. Summary of Significant Accounting Policies (continued)

year. Diluted income per share is based on net income applicable to common stock plus preferred stock dividends and dividend requirements on preferred stock assumed to be converted, if dilutive, and interest expense including amortization of debt issuance cost, net of income taxes, on convertible debt assumed to be converted, if dilutive, and the weighted-average number of common shares and dilutive common equivalent shares outstanding, and the assumed conversion of dilutive convertible securities outstanding.

Recently Issued Accounting Pronouncements - In March 2008, the Financial Accounting Standards Board ("FASB") issued new accounting standards requiring enhanced disclosures about an entity's derivative and hedging activities for the purpose of improving the transparency of financial reporting. The new disclosure requirements became effective for the Company on January 1, 2009 and were applied prospectively. See Note 16 - Derivatives, Hedges and Financial Instruments.

3. Income Per Share

The following is a summary of certain transactions which affected basic income per share or diluted income per share, if dilutive:

During 2009,
- we purchased 275,900 shares of treasury stock;
- we issued 409,325 shares of our common stock as the result of the exercise of stock options;
- we acquired $11,100,000 aggregate principal amount of our 5.5% Convertible Senior Subordinated Notes due 2012 (the "2007 Debentures"); and
- we paid cash dividends on our Series B 12% cumulative, convertible preferred stock ("Series B Preferred"), Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") and noncumulative redeemable preferred stock ("Noncumulative Preferred") totaling approximately $240,000, $60,000 and $6,000, respectively.

During 2008,
- we purchased 400,000 shares of treasury stock;
- we issued 490,304 shares of our common stock as the result of the exercise of stock options;
- we granted 417,000 shares of stock options;
- we acquired $19,500,000 aggregate principal amount of our 2007 Debentures; and
- we paid cash dividends on our Series B Preferred, Series D Preferred and Noncumulative Preferred totaling approximately $240,000, $60,000 and $6,000, respectively.

3. Income Per Share (continued)

During 2007,

- we sold $60,000,000 of the 2007 Debentures;
- the remaining $4,000,000 of the 7% Convertible Senior Subordinated Debentures due 2011 (the "2006 Debentures") was converted into 564,789 shares of common stock;
- we issued 2,262,965 shares of common stock for 305,807 shares of our Series 2 $3.25 convertible, exchangeable Class C preferred stock ("Series 2 Preferred") that were tendered pursuant to a tender offer;
- we redeemed 25,820 shares of our Series 2 Preferred and issued 724,993 shares of common stock for 167,475 shares of our Series 2 Preferred;
- we received shareholders' approval in granting 450,000 shares of non-qualified stock options on June 14, 2007;
- we issued 582,000 and 112,500 shares of our common stock as the result of the exercise of stock options and a warrant, respectively;
- we paid cash dividends of approximately $678,000 on the shares of Series 2 Preferred which we redeemed as discussed above; and
- we paid cash dividends on the Series B Preferred, Series D Preferred and Noncumulative Preferred totaling approximately $1,890,000, $360,000 and $6,000, respectively.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

3. Income Per Share (continued)

The following table sets forth the computation of basic and diluted net income per share:

	2009	2008	2007
	(Dollars In Thousands, Except Per Share Amounts)		
Numerator:			
Net income	**$ 21,584**	$ 36,547	$ 46,882
Dividends and dividend requirements on Series B Preferred	**(240)**	(240)	(240)
Dividends and dividend requirements on Series D Preferred	**(60)**	(60)	(60)
Dividends on Noncumulative Preferred	**(6)**	(6)	(6)
Dividend requirements on shares of Series 2 Preferred which did not exchange pursuant to tender offer or redemption in 2007 or exchange agreements in 2006	-	-	(272)
Dividends and dividend requirements on shares of Series 2 Preferred which were redeemed in 2007	-	-	(59)
Dividend requirements and stock dividend on shares of Series 2 Preferred pursuant to tender offer in 2007 (1)	-	-	(4,971)
Total dividends, dividend requirements and stock dividends on preferred stocks	**(306)**	(306)	(5,608)
Numerator for basic net income per share - net income applicable to common stock	**21,278**	36,241	41,274
Dividends and dividend requirements on preferred stock assumed to be converted, if dilutive	**306**	306	637
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	-	1,624	1,276
Numerator for diluted net income per common share	**$ 21,584**	$ 38,171	$ 43,187
Denominator:			
Denominator for basic net income per common share - weighted-average shares	**21,294,780**	21,170,418	19,579,664
Effect of dilutive securities:			
Convertible preferred stock	**938,006**	939,126	1,478,012
Stock options	**255,660**	544,994	1,160,100
Convertible notes payable	**4,000**	1,478,200	1,200,044
Warrant	-	-	77,824
Dilutive potential common shares	**1,197,666**	2,962,320	3,915,980
Denominator for dilutive net income per common share – adjusted weighted-average shares and assumed conversions	**22,492,446**	24,132,738	23,495,644
Basic net income per common share	**$ 1.00**	$ 1.71	$ 2.11
Diluted net income per common share	**$ .96**	$ 1.58	$ 1.84

3. Income Per Share (continued)

(1) As discussed in Note 18 - Non-Redeemable Preferred Stock, in February 2007 we began a tender offer to exchange shares of our common stock for up to 309,807 of the 499,102 outstanding shares of the Series 2 Preferred. The tender offer expired on March 12, 2007 and our board of directors accepted the shares tendered on March 13, 2007. Because the exchanges under the tender offer were pursuant to terms other than the original terms, the transactions were considered extinguishments of the preferred stock. In addition, the transactions qualified as induced conversions. The excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms was subtracted from net income in computing net income per share. Because our Series 2 Preferred are cumulative and the dividend requirements have been included in computing net income per share in previous periods and as an element of the exchange transactions, we effectively settled the dividends in arrears, the amount subtracted from net income in 2007 represents the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms less the dividends in arrears as March 13, 2007.

The following weighted-average shares of securities were not included in the computation of diluted net income per common share as their effect would have been antidilutive:

	2009	**2008**	**2007**
Convertible notes payable	**1,070,160**	-	-
Stock options	**398,699**	506,142	240,068
Series 2 Preferred pursuant to tender offer in 2007 (A)	-	-	261,090
	1,468,859	506,142	501,158

(A) The shares associated with the tender offer in 2007 were considered separately from other convertible shares of securities in computing net income per common share for 2007.

4. Accounts Receivable, net

	December 31,	
	2009	**2008**
	(In Thousands)	
Trade receivables	**$ 55,318**	$ 78,092
Insurance claims	**1,517**	252
Other	**1,603**	1,231
	58,438	79,575
Allowance for doubtful accounts	**(676)**	(729)
	$ 57,762	$ 78,846

4. Accounts Receivable, net (continued)

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas, however, eight customers (including their affiliates) account for approximately 24% of our total net receivables at December 31, 2009.

5. Inventories

	Finished Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
December 31, 2009:				
Climate Control products	**$ 6,680**	**$ 2,466**	**$ 19,410**	**$ 28,556**
Chemical products	**14,734**	**-**	**3,384**	**18,118**
Industrial machinery and components	**4,339**	**-**	**-**	**4,339**
	$ 25,753	**$ 2,466**	**$ 22,794**	**$ 51,013**
December 31, 2008:				
Climate Control products	$ 7,550	$ 2,954	$ 21,521	$ 32,025
Chemical products	18,638	-	5,656	24,294
Industrial machinery and components	4,491	-	-	4,491
	$ 30,679	$ 2,954	$ 27,177	$ 60,810

At December 31, 2009 and 2008, inventory reserves for certain slow-moving inventory items (Climate Control products) were $1,198,000 and $514,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were $478,000 and $3,627,000 at December 31, 2009 and 2008, respectively, because cost exceeded the net realizable value.

Changes in our inventory reserves are as follows:

	Balance at Beginning of Year	Additions-Provision for (realization of) losses	Deductions-Write-offs/ disposals	Balance at End of Year
		(In Thousands)		
2009	**$ 4,141**	**$ (2,404)**	**$ 61**	**$ 1,676**
2008	$ 473	$ 3,824	$ 156	$ 4,141
2007	$ 1,255	$ (384)	$ 398	$ 473

5. Inventories (continued)

The provision for (realization of) losses is included in cost of sales in the accompanying consolidated statements of income.

6. Precious Metals

At December 31, 2009 and 2008, precious metals were $13,083,000 and $14,691,000, respectively, and are included in supplies, prepaid items and other in the accompanying consolidated balance sheets.

Precious metals expense, net, consists of the following:

	2009	2008	2007
		(In Thousands)	
Precious metals expense	**$ 5,879**	$ 7,786	$ 6,352
Recoveries of precious metals	**(2,578)**	(1,458)	(1,783)
Gains on sales of precious metals	**-**	-	(2,011)
Precious metals expense, net	**$ 3,301**	$ 6,328	$ 2,558

Precious metals expense, net is included in cost of sales in the accompanying consolidated statements of income.

7. Property, Plant and Equipment

	Useful lives in years	December 31, 2009	December 31, 2008
		(In Thousands)	
Machinery, equipment and automotive	**3-20**	**$ 186,822**	$ 173,678
Buildings and improvements	**7-30**	**29,403**	28,457
Furniture, fixtures and store equipment	**3**	**5,986**	6,716
Assets under capital leases	**10**	**2,544**	1,076
Land improvements	**10**	**677**	-
Construction in progress	**N/A**	**17,223**	8,514
Capital spare parts	**N/A**	**3,253**	2,344
Land	**N/A**	**4,082**	4,082
		249,990	224,867
Less accumulated depreciation		**132,028**	120,575
		$ 117,962	$ 104,292

Machinery, equipment and automotive primarily includes the categories of property and equipment and estimated useful lives as follows: chemical processing plants and plant infrastructure (15-20 years); production, fabrication, and assembly equipment (7-15 years);

7. Property, Plant and Equipment (continued)

certain processing plant components (3-10 years); and trucks, automobiles, trailers, and other rolling stock (3-7 years). At December 31, 2009 and 2008, assets capitalized under capital leases consist of machinery, equipment and automotive. Accumulated depreciation for assets capitalized under capital leases were $428,000 and $193,000 at December 31, 2009 and 2008, respectively.

8. Debt Issuance Costs, net

Debt issuance costs of $1,652,000 and $2,607,000 are net of accumulated amortization of $3,368,000 and $2,980,000 as of December 31, 2009 and 2008, respectively.

During 2009, we acquired a portion of the 2007 Debentures. As a result, approximately $379,000 of the unamortized debt issuance costs associated with the 2007 Debentures acquired was charged against the gain on extinguishment of debt in 2009.

During 2008, we acquired a portion of the 2007 Debentures. As a result, approximately $764,000 of the unamortized debt issuance costs associated with the 2007 Debentures acquired was charged against the gain on extinguishment of debt in 2008.

During 2007, we incurred debt issuance costs of $4,429,000 which included $3,224,000 relating to the 2007 Debentures and $1,139,000 relating to the $50 million loan agreement ("Secured Term Loan"). In addition, the remaining portion of the 2006 Debentures was converted into our common stock. As a result of the conversions, approximately $266,000 of the remaining unamortized debt issuance costs associated with the 2006 Debentures were charged against capital in excess of par value in 2007. Also, the senior secured loan due in 2009 was repaid with the proceeds from the Secured Term Loan. As a result, approximately $1,331,000 of the remaining unamortized debt issuance and other debt-related costs associated with the senior secured loan was charged to interest expense in 2007.

9. Investment in Affiliate

Cepolk Holding, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership") which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). At December 31, 2009 and 2008, our investment was $3,838,000 and $3,628,000, respectively. As of December 31, 2009, the Partnership and general partner to the Partnership is indebted to a term lender ("Lender") of the Project for approximately $2,083,000 with a term extending to December 2010. CHI has pledged its limited partnership interest in the Partnership to the Lender as part of the Lender's collateral securing all obligations under the loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. No liability has been established for this pledge since it was entered into prior to January 1, 2003. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Lender be required to perform under this pledge.

10. Current and Noncurrent Accrued and Other Liabilities

	December 31, 2009	2008
	(In Thousands)	
Accrued payroll and benefits	**$ 5,900**	$ 6,422
Deferred revenue on extended warranty contracts	**4,884**	4,028
Accrued insurance	**3,667**	2,687
Accrued death benefits	**3,356**	2,971
Accrued warranty costs	**3,138**	2,820
Fair value of derivatives	**1,929**	8,347
Accrued interest	**1,593**	2,003
Accrued executive benefits	**1,102**	1,111
Accrued commissions	**1,035**	2,433
Accrued precious metals costs	**782**	1,298
Accrued contractual manufacturing obligations	**732**	2,230
Customer deposits	**635**	3,242
Billings in excess of costs and estimated earnings on uncompleted contracts	**616**	1,882
Accrued income taxes	**608**	1,704
Deferred rent expense	**-**	1,424
Other	**3,703**	4,265
	33,680	48,867
Less noncurrent portion	**10,626**	9,631
Current portion of accrued and other liabilities	**$ 23,054**	$ 39,236

11. Accrued Warranty Costs

Changes in our product warranty obligation (accrued warranty costs) are as follows:

	Balance at Beginning of Year	Additions-Charged to Costs and Expenses	Deductions-Costs Incurred	Balance at End of Year
		(In Thousands)		
2009	**$ 2,820**	**$ 5,252**	**$ 4,934**	**$ 3,138**
2008	$ 1,944	$ 5,514	$ 4,638	$ 2,820
2007	$ 1,251	$ 3,325	$ 2,632	$ 1,944

12. Redeemable Preferred Stock

At December 31, 2009 and 2008, we had 511 shares and 547 shares, respectively, outstanding of Noncumulative Preferred. Each share of Noncumulative Preferred, $100 par value, is convertible into 40 shares of our common stock at the option of the holder at any time and entitles the holder to one vote. The Noncumulative Preferred is redeemable at par at the option of the holder or the Company. The Noncumulative Preferred provides for a noncumulative annual dividend of 10%, payable when and as declared. During 2009, 2008, and 2007, our board of directors declared and we paid dividends totaling $6,000 ($10.00 per share), in each of the respective years on the then outstanding Noncumulative Preferred. At December 31, 2009 and 2008, the Noncumulative Preferred was $48,000 and $52,000, respectively, and is classified as accrued and other liabilities in the accompanying consolidated balance sheets.

13. Long-Term Debt

	December 31, 2009	December 31, 2008
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	**$ -**	-
5.5% Convertible Senior Subordinated Notes due 2012 (B)	**29,400**	40,500
Secured Term Loan due 2012 (C)	**50,000**	50,000
Other, with a current weighted-average interest rate of 6.30%, most of which is secured by machinery, equipment and real estate (D)	**22,401**	14,660
	101,801	105,160
Less current portion of long-term debt (E)	**3,205**	1,560
Long-term debt due after one year (E)	**$ 98,596**	$ 103,600

(A) ThermaClime and its subsidiaries (the "Borrowers") are parties to a $50 million revolving credit facility (the "Working Capital Revolver Loan") that provides for advances based on specified percentages of eligible accounts receivable and inventories for ThermaClime, and its subsidiaries. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .50% or LIBOR plus 1.75% and matures on April 13, 2012. The interest rate at December 31, 2009 was 3.75%. Interest is paid monthly, if applicable. The facility provides for up to $8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. As of December 31, 2009, amounts available for borrowing under the Working Capital Revolver Loan were approximately $49.2 million. Under the Working Capital Revolver Loan, as amended, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .375% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

13. Long-Term Debt (continued)

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding, if any, due and payable in full. The Working Capital Revolver Loan is secured by the assets of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries (“EDN”) but excluding the assets securing the Secured Term Loan discussed in (C) below and certain distribution-related assets of El Dorado Chemical Company (“EDC”). EDN is neither a borrower nor guarantor of the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately $194 million at December 31, 2009.

The Working Capital Revolver Loan, as amended, requires ThermaClime to meet certain financial covenants, including an EBITDA requirement of greater than $25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants during 2009. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers’ (which does not include the Company) ability, without consent of the lender and with certain exceptions, to:

- incur additional indebtedness,
- incur liens,
- make restricted payments or loans to affiliates who are not Borrowers,
- engage in mergers, consolidations or other forms of recapitalization, or
- dispose assets.

The Working Capital Revolver Loan also requires all collections on accounts receivable be made through a bank account in the name of the lender or their agent.

(B) On June 28, 2007, we entered into a purchase agreement with each of twenty two qualified institutional buyers (“QIBs”), pursuant to which we sold $60 million aggregate principal amount of the 2007 Debentures in a private placement to the QIBs pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the “Act”), afforded by Section 4(2) of the Act and Regulation D promulgated under the Act. We received net proceeds of approximately $57 million, after discounts and commissions. In connection with the closing, we entered into an indenture (the “Indenture”) with UMB Bank, as trustee, governing the 2007 Debentures. UMB Bank receives customary compensation from us for such services.

The 2007 Debentures bear interest at the rate of 5.5% per year and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year, which began on January 1, 2008.

13. Long-Term Debt (continued)

The 2007 Debentures are unsecured obligations and are subordinated in right of payment to all of our existing and future senior indebtedness, including indebtedness under our revolving debt facilities. The 2007 Debentures are effectively subordinated to all present and future liabilities, including trade payables, of our subsidiaries.

During 2009 and 2008, we acquired $11.1 million and $19.5 million, respectively, aggregate principal amount of the 2007 Debentures for approximately $8.9 million and $13.2 million, respectively, with each purchase being negotiated. As a result, we recognized a gain on extinguishment of debt of approximately $1.8 million and $5.5 million, respectively, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired. As the result of these acquisitions, only $29.4 million of the 2007 Debentures remain outstanding at December 31, 2009. In addition, see discussion concerning $5.0 million of the 2007 Debentures being held by Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") in Note 23 - Related Party Transactions.

The 2007 Debentures are convertible by the holders in whole or in part into shares of our common stock prior to their maturity. The conversion rate of the 2007 Debentures for the holders electing to convert all or any portion of a debenture is 36.4 shares of our common stock per $1,000 principal amount of debentures (representing a conversion price of $27.47 per share of common stock), subject to adjustment under certain conditions as set forth in the Indenture.

We may redeem some or all of the 2007 Debentures at any time on or after July 2, 2010, at a price equal to 100% of the principal amount of the 2007 Debentures, plus accrued and unpaid interest, all as set forth in the Indenture. The redemption price will be payable at our option in cash or, subject to certain conditions, shares of our common stock (valued at 95% of the weighted average of the closing sale prices of the common stock for the 20 consecutive trading days ending on the fifth trading day prior to the redemption date), subject to certain conditions being met on the date we mail the notice of redemption.

If a designated event (as defined in the Indenture) occurs prior to maturity, holders of the 2007 Debentures may require us to repurchase all or a portion of their 2007 Debentures for cash at a repurchase price equal to 101% of the principal amount of the 2007 Debentures plus any accrued and unpaid interest, as set forth in the Indenture. If a fundamental change (as defined in the Indenture) occurs on or prior to June 30, 2010, under certain circumstances, we will pay, in addition to the repurchase price, a make-whole premium on the 2007 Debentures converted in connection with, or tendered for repurchase upon, the fundamental change. The make-whole premium will be payable in our common stock or the same form of consideration into which our common stock has been exchanged or converted in the fundamental change. The amount of the make-whole premium, if any, will be based on our stock price on the effective date of the fundamental change. No make-whole premium will be paid if our stock price in connection with the fundamental change is less than or equal to $23.00 per share.

13. Long-Term Debt (continued)

At maturity, we may elect, subject to certain conditions as set forth in the Indenture, to pay up to 50% of the principal amount of the outstanding 2007 Debentures, plus all accrued and unpaid interest thereon to, but excluding, the maturity date, in shares of our common stock (valued at 95% of the weighted average of the closing sale prices of the common stock for the 20 consecutive trading days ending on the fifth trading day prior to the maturity date), if the common stock is then listed on an eligible market, the shares used to pay the 2007 Debentures and any interest thereon are freely tradable, and certain required opinions of counsel are received.

In 2007, we used a portion of the net proceeds to redeem our remaining outstanding shares of Series 2 Preferred; to repay certain outstanding mortgages and equipment loans; to pay dividends in arrears on our outstanding shares of Series B Preferred and Series D Preferred, all of which were owned by an affiliate; to reduce the outstanding borrowings under the Working Capital Revolver Loan; and to invest in highly liquid investments to be available for working capital.

In connection with using a portion of the net proceeds of the 2007 Debentures to initially reduce the outstanding borrowings under the Working Capital Revolver Loan, ThermaClime entered into a $25 million demand promissory note (“Demand Note”) with the Company. During 2009, ThermaClime made principal payments totaling $15 million on the Demand Note.

(C) In November 2007, ThermaClime and certain of its subsidiaries entered into a $50 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the previous senior secured loan. The Secured Term Loan matures on November 2, 2012.

The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at December 31, 2009 was approximately 3.28%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity.

The Secured Term Loan is secured by the real property and equipment located at our El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $63 million at December 31, 2009.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At December 31, 2009, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $79 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the year ended December 31, 2009.

13. Long-Term Debt (continued)

The maturity date of the Secured Term Loan can be accelerated by the lender upon the occurrence of a continuing event of default, as defined.

The Working Capital Revolver Loan agreement (discussed in (A) above) and the Secured Term Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of either of these agreements, the lenders may declare an event of default.

(D) Amounts include capital lease obligations of $1,742,000 and $716,000 at December 31, 2009 and 2008, respectively.

(E) Maturities of long-term debt for each of the five years after December 31, 2009 are as follows (in thousands):

2010	$	3,205
2011		3,283
2012		82,766
2013		3,499
2014		2,630
Thereafter		6,418
	$	101,801

14. Income Taxes

Provisions (benefits) for income taxes are as follows:

		2009		2008		2007
				(In Thousands)		
Current:						
Federal	**$**	**2,456**	$	17,388	$	5,260
State		**1,337**		1,651		1,980
Total Current	**$**	**3,793**	$	19,039	$	7,240
Deferred:						
Federal	**$**	**9,611**	$	595	$	(4,095)
State		**1,620**		(858)		(605)
Total Deferred	**$**	**11,231**	$	(263)	$	(4,700)
Provisions for income taxes	**$**	**15,024**	$	18,776	$	2,540

For 2009, the current provision for federal income taxes of approximately $2.5 million includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. The current provision for state income taxes of approximately $1.3 million in 2009 includes regular state income tax and provisions for uncertain state income tax positions as discussed below. In addition to the income tax provision from continuing operations, we allocated an income tax benefit of approximately $0.2 million to discontinued operations.

14. Income Taxes (continued)

The 2009 deferred tax provision of $11.2 million results from the recognition of changes in our prior year deferred tax assets and liabilities, and the utilization of state NOL carryforwards and other temporary differences. We reduce income tax expense for investment tax credits in the year they arise and are earned. The gross amount of the investment tax credits available to offset state income taxes is approximately $0.5 million and includes credits for the tax years 2004-2009. The investment tax credits do not expire and carryforward indefinitely.

During 2009, we utilized approximately $2.2 million of state NOL carryforwards to reduce the tax liability. We have remaining state tax NOL carryforwards of approximately $12.9 million that begin expiring in 2010.

During 2009, we determined it was more-likely-than-not that approximately $7.1 million of the state NOL carryforwards would not be able to be utilized before expiration and a valuation allowance for the deferred tax assets associated with these state NOL carryforwards, net of federal benefit, of approximately $0.4 million was maintained. We considered both positive and negative evidence in our determination. The negative evidence considered primarily included our history of losses by certain entities and jurisdictions, both as to amount and trend and uncertainties surrounding our ability to generate sufficient taxable income in the individual states to utilize these state NOL carryforwards.

Our overall effective tax rate of 40.7% in 2009 was primarily impacted by tax return to provision adjustments, permanent tax differences and tax credits.

For 2008, the current provision for federal income taxes of approximately $17.4 million includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. The current provision for state income taxes of approximately $1.7 million in 2008 includes regular state income tax and provisions for uncertain state income tax positions as discussed below. At December 31, 2007, we had federal and state NOL carryforwards and we utilized all of the federal NOL carryforwards during 2008 and a significant portion of the state NOL carryforwards.

The 2008 deferred tax benefit of $0.3 million results from the recognition of changes in our prior year deferred tax assets and liabilities, and the utilization of state NOL carryforwards and other temporary differences.

During 2008, we performed a detailed analysis of all our deferred tax assets and liabilities and determined that our state net NOL carryforwards were understated by approximately $34.2 million. The addition of the tax benefits of these state NOL carryforwards increased our deferred tax assets and decreased our deferred tax expense by approximately $1.1 million, net of the valuation allowance discussed below. During 2008, we utilized the remaining federal NOL carryforwards of approximately $0.7 million and approximately $32.8 million of state NOL carryforwards to reduce tax expense.

14. Income Taxes (continued)

During 2008, we determined it was more-likely-than-not that approximately $6.7 million of the state NOL carryforwards would not be able to be utilized before expiration and a valuation allowance for the deferred tax assets associated with these state NOL carryforwards, net of federal benefit, of approximately $0.3 million was established. We considered both positive and negative evidence in our determination. The negative evidence considered primarily included our history of losses by certain entities and jurisdictions, both as to amount and trend and uncertainties surrounding our ability to generate sufficient taxable income in the individual states to utilize these state NOL carryforwards.

Our overall effective tax rate in 2008 is reduced by permanent tax differences, the effect of the change to prior year deferred items and the provision for uncertain tax positions.

The current provision for federal income taxes of $5.3 million for 2007 includes regular federal income tax and alternative minimum income tax (“AMT”). The current provision of state income taxes of $2.0 million for 2007 includes the provision for 2007 state income taxes, as well as $1.0 million for uncertain state income tax positions recognized as discussed below.

The 2007 benefit for deferred taxes of $4.7 million results from the reversal of valuation allowance on deferred tax assets, the benefit of AMT credits, and other temporary differences. At December 31, 2006, we had regular NOL carryforwards of approximately $49.9 million. Our future tax benefits (NOL carryforwards and other temporary differences) are subject to a valuation allowance if it is determined that it is more-likely-than-not that such asset will not be realized. In determining whether it is more-likely-than-not that we will not realize such tax asset, we consider all negative and positive evidence (with more weight given to evidence that is “objective and verifiable”) in making the determination. Prior to 2007, we had valuation allowances in place against the net deferred tax assets arising from the NOL carryforwards and other temporary differences. Prior to 2007, management considered certain negative evidence in determining that it was “more-likely-than-not” that the net deferred tax assets would not be utilized in the foreseeable future, thus a valuation allowance was required.

The negative evidence considered primarily included our history of losses, both as to amount and trend and uncertainties surrounding our ability to generate sufficient taxable income to utilize these NOL carryforwards.

As the result of improving financial results during 2007 including some unusual transactions (settlement of pending litigation and insurance recovery of business interruption claim) and our expectation of generating taxable income in the future, we determined in the third quarter of 2007 that there was sufficient objective and verifiable evidence to conclude that it was more-likely-than-not that we would be able to realize the net deferred tax assets. As a result, we reversed the valuation allowances as a benefit for income taxes and recognized deferred tax assets and deferred tax liabilities.

14. Income Taxes (continued)

When non-qualified stock options ("NSOs") are exercised, the grantor of the options is permitted to deduct the spread between the fair market value of the stock issued and the exercise price of the NSOs as compensation expense in determining taxable income. Income tax benefits related to stock-based compensation deductions in excess of the compensation expense recorded for financial reporting purposes are not recognized in earnings as a reduction of income tax expense for financial reporting purposes. As a result, the stock-based compensation deduction recognized in our income tax return will exceed the stock-based compensation expense recognized in earnings. The excess tax benefit realized (i.e., the resulting reduction in the current tax liability) related to the excess stock-based compensation tax deduction of $0.9 million, $2.4 million and $1.7 million in 2009, 2008, and 2007, respectively, is accounted for as an increase in capital in excess of par value rather than a decrease in the provision for income taxes.

In addition, if the grantor of NSOs will not currently reduce its tax liability from the excess tax benefit deduction taken at the time of the taxable event (option exercised) because it has a NOL carryforward that is increased by the excess tax benefit, then the tax benefit should not be recognized until the deduction actually reduces current taxes payable. At December 31, 2009 and 2008, we had approximately $0.2 million and $0.6 million, respectively, in unrecognized federal and state tax benefits resulting from the exercise of NSOs. We estimate that the remaining portion of the benefit at December 31, 2009 will be realized in 2010 when our current tax liability is reduced by these items.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

14. Income Taxes (continued)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31, 2009 and 2008 include:

	2009	2008
	(In Thousands)	
Deferred tax assets		
Amounts not deductible for tax purposes:		
Allowance for doubtful accounts	**$ 747**	$ 775
Asset impairment	**735**	683
Inventory reserves	**691**	1,614
Deferred compensation	**3,718**	3,445
Other accrued liabilities	**4,204**	3,260
Uncertain income tax positions	**242**	411
Hedging	**853**	3,610
Other	**681**	452
Capitalization of certain costs as inventory for tax purposes	**1,152**	1,123
Net operating loss carryforwards	**644**	865
State tax credits	**523**	392
Total deferred tax assets	**14,190**	16,630
Less valuation allowance on deferred tax assets	**(358)**	(268)
Net deferred tax assets	**$ 13,832**	$ 16,362
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	**$ 16,488**	$ 9,860
Excess of book gain over tax gain resulting from sale of assets	**356**	340
Prepaid and other insurance reserves	**1,690**	-
Debt purchased at a discount	**713**	-
Investment in unconsolidated affiliate	**1,033**	1,199
Total deferred tax liabilities	**$ 20,280**	$ 11,399
Net deferred tax assets (liabilities)	**$ (6,448)**	$ 4,963
Consolidated balance sheet classification:		
Net current deferred tax assets	**$ 5,527**	$ 11,417
Net non-current deferred tax liabilities	**(11,975)**	(6,454)
Net deferred tax assets (liabilities)	**$ (6,448)**	$ 4,963
Net deferred tax assets (liabilities) by tax jurisdiction:		
Federal	**$ (6,525)**	$ 3,609
State	**77**	1,354
Net deferred tax assets (liabilities)	**$ (6,448)**	$ 4,963

14. Income Taxes (continued)

All of our income before taxes relates to domestic operations. Detailed below are the differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income from continuing operations before provision for income taxes" for the year ended December 31:

	2009	2008	2007
		(In Thousands)	
Provisions for income taxes at federal statutory rate	**$ 12,906**	$ 19,363	$ 17,176
Federal credits	**(211)**	-	-
State current and deferred income taxes	**1,832**	2,213	1,939
Provision (benefit) for uncertain tax positions	**(87)**	(74)	1,047
Other permanent differences	**299**	327	451
Domestic production activities deduction	**(282)**	(820)	-
Effect of change to prior year deferred items (A)	**-**	(1,827)	-
Changes in the valuation allowance (A)	**90**	268	(18,476)
Effect of tax return to tax provision reconciliation	**676**	-	-
State tax credits	**(108)**	(392)	-
Other	**(91)**	(282)	403
Provisions for income taxes	**$ 15,024**	$ 18,776	$ 2,540

(A) During 2008, we performed a detailed analysis of all our deferred tax assets and liabilities and determined that our deferred tax assets were understated by approximately $1,827,000. As a part of our analysis, we reviewed the realizability of these deferred tax assets and determined that a valuation allowance of approximately $268,000 was required. Accordingly, the addition of the deferred tax assets and the associated valuation allowance resulted in a tax benefit of $1,559,000 in our income tax provision for 2008.

As of December 31, 2006, we had $300,000 accrued for an uncertain tax position related to state income taxes. As the result of new accounting principles becoming effective January 1, 2007, we recognized a $120,000 increase in the liability for uncertain tax positions related to state income taxes, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. In 2007, we commissioned a nexus study by an independent public accounting firm to determine if we and our subsidiaries had any activities that would create nexus and to calculate the potential additional state income tax liability. As a result of this nexus study, we recognized additional current state income tax expense in 2007, which was partially offset by a deferred tax benefit from additional state NOL carryforwards.

14. Income Taxes (continued)

During 2008, we entered into multiple voluntary disclosure agreements with various states and resolved many of our outstanding state tax liabilities for payments of approximately $606,000. The settlement of many of these liabilities was for less than the amounts previously estimated and accrued. As a result, we reduced the uncertain tax position liability and state tax provision by $504,000. Additionally during 2008, we evaluated if we and our subsidiaries had any new nexus creating activities in any state taxing jurisdictions that had not previously been considered. As a result, we recognized additional state income tax expense of $391,000 in 2008.

During 2009, we continued to negotiate voluntary disclosure agreements with various states and resolved some of our outstanding state tax liabilities for payments of approximately $65,000. We evaluated if we and our subsidiaries had any new nexus creating activities in any state taxing jurisdiction that had not previously been considered and if all prior identifications of nexus creating activities were still warranted. As a result, we reduced our state income tax expense by $225,000 in 2009.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (uncertain tax position liability) is as follows:

	2009	**2008**	**2007**
		(In Thousands)	
Balance at beginning of year	**$ 898**	$ 1,617	$ 420
Additions based on tax positions related to the current year	**48**	-	192
Additions based on tax positions of prior years	**82**	391	1,031
Reductions for tax positions of prior years	**(355)**	(504)	(26)
Settlements	**(65)**	(606)	-
Balance at end of year	**$ 608**	$ 898	$ 1,617

If the tax benefit of these uncertain tax positions were recognized in the financial statements, the tax benefit would decrease the annual effective tax rate by reducing the total state tax provision by approximately $400,000, $300,000 and $700,000, net of federal expense, in 2009, 2008, and 2007, respectively.

During 2009, 2008, and 2007, we recognized $150,000, $181,000 and $253,000, respectively, in interest and penalties associated with unrecognized tax benefits. We had approximately $150,000 and $288,000 accrued for interest and penalties at December 31, 2009 and 2008, respectively.

We plan to continue to negotiate voluntary disclosure agreements and file prior year tax returns with various taxing authorities in 2010. Therefore, we anticipate that the total amount of unrecognized tax benefits will decrease by approximately $20,000 by December 31, 2010 as a result of state tax payments made as part of the voluntary disclosure agreement process or other resolutions.

14. Income Taxes (continued)

We and certain of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The federal tax returns for 1997 through 2005 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. With few exceptions, the 2006-2008 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

15. Commitments and Contingencies

Capital and Operating Leases - We and our subsidiaries lease certain property, plant and equipment under capital leases and non-cancelable operating leases. Leased assets meeting capital lease criteria have been capitalized and the present value of the related lease payments is included in long-term debt. Future minimum payments on leases with initial or remaining terms of one year or more at December 31, 2009, are as follows:

	Capital Leases	Operating Leases	Total
	(In Thousands)		
2010	$ 631	$ 4,606	$ 5,237
2011	527	3,949	4,476
2012	413	3,374	3,787
2013	349	2,446	2,795
2014	35	2,150	2,185
Thereafter	-	934	934
Total minimum lease payments	1,955	$ 17,459	$ 19,414
Less amounts representing interest	213		
Present value of minimum lease payments included in long-term debt	$ 1,742		

Expenses associated with our operating lease agreements, including month-to-month leases, was $8,584,000 in 2009, $13,801,000 in 2008 and $13,793,000 in 2007. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts.

Purchase and Sales Commitments - We have the following significant purchase and sales commitments.

Bayer Agreement - During October 2008, subsidiaries within our Chemical Business, EDN and EDC, entered into a new Nitric Acid Supply, Operating and Maintenance Agreement (the “Bayer Agreement”) with Bayer replacing a previous agreement between EDN, EDC and Bayer entered into during 1997. EDN operates Bayer’s nitric acid plant (the “Baytown Facility”) located within Bayer’s chemical manufacturing complex. The Bayer Agreement became effective on June 24, 2009, and is for an initial term of five years, with certain renewal options.

15. Commitments and Contingencies (continued)

Under the terms of the Bayer Agreement, Bayer purchases from EDN all of Bayer's requirements for nitric acid for use in Bayer's chemical manufacturing complex located in Baytown, Texas at a price covering EDN's costs plus a profit, with certain performance obligations on EDN's part. EDN purchases from Bayer ammonia, certain utilities, chemical additives and services as required for production of nitric acid at the Baytown Facility.

On June 23, 2009, Bayer purchased all of the nitric acid production assets comprising the Baytown Facility from a third party, except certain assets that are owned by EDN for use in the production process. EDN continues to be responsible for the maintenance and operation of the Baytown Facility in accordance with the terms of the Bayer Agreement.

If there is a change in control of EDN, Bayer has the right to terminate the Bayer Agreement upon payment of certain fees to EDN.

Anhydrous ammonia purchase agreement - Effective January 1, 2009, under an agreement with its principal supplier of anhydrous ammonia, Koch Nitrogen Company ("Koch"), EDC purchases a majority of its anhydrous ammonia requirements for its chemical production facility located in El Dorado, Arkansas (the "El Dorado Facility") through at least December 2010. See discussion concerning an extension of this agreement in Note 24 - Subsequent Events.

Ammonium nitrate supply agreement - In 2001, EDC entered into a long-term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with Orica USA, Inc. ("Orica"). Under the Supply Agreement, as amended, EDC will supply from the El Dorado Facility approximately 210,000 tons of industrial grade ammonium nitrate per year, which is approximately 81% of the plant's manufacturing capacity for that product, for a term through June 2011. See discussion concerning a new supply agreement in Note 24 - Subsequent Events.

UAN supply agreement - In 2009, one of our subsidiaries, Pryor Chemical Company ("PCC"), entered into a contract with Koch under which Koch agreed to purchase and distribute substantially all of the UAN produced at the Pryor Facility through June 30, 2014, but Koch has an option to terminate the agreement after November 1, 2010. Pursuant to the terms of the contract, the UAN will be priced at market prices less a distribution fee and certain shipping costs. As of December 31, 2009, the Pryor Facility was still in the process of being activated. As a result, sales of UAN by PCC did not occur in 2009 but are expected to commence in 2010.

Other purchase and sales commitments - See Note 16 - Derivatives, Hedges and Financial Instruments for our commitments relating to derivative contracts at December 31, 2009. In addition, we also had standby letters of credit outstanding of approximately $1.4 million at December 31, 2009. We also had deposits from customers of $0.6 million for forward sales commitments including $0.3 million relating to our Climate Control Business and $0.3 million relating to our Chemical Business at December 31, 2009.

15. Commitments and Contingencies (continued)

Performance and Payment Bonds – We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by our subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2009, we have agreed to indemnify the sureties for payments, up to $22.9 million, made by them in respect of such bonds. Approximately $21.7 million of these insurances bonds expire in 2010 while the remaining $1.2 million expire in 2011.

Universal Shelf Registration Statement - During 2009, our board of directors granted management the authority to file a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"). The shelf registration statement and related amendments have been filed and declared effective by the SEC.

Although we do not have any current plans to offer or sell any securities under the shelf registration statement, the shelf registration statement give us the ability to offer and sell up to $200 million of our securities consisting of common stock, preferred stock, debt (senior and subordinated), warrants, units or a combination thereof. We may offer and sell such securities from time to time and through one or more methods of distribution, subject to market conditions and our capital needs. The terms of any offering under the shelf registration statement would be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to completion of the offering.

Employment and Severance Agreements - We have an employment agreement and severance agreements with several of our officers. The agreements, as amended, provide for annual base salaries, bonuses and other benefits commonly found in such agreements. In the event of termination of employment due to a change in control (as defined in the agreements), the agreements provide for payments aggregating $10.8 million at December 31, 2009.

Legal Matters - Following is a summary of certain legal matters involving the Company.

A. Environmental Matters

Our operations are subject to numerous environmental laws ("Environmental Laws") and to other federal, state and local laws regarding health and safety matters ("Health Laws"). In particular, the manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under the Environmental Laws and the Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that material costs or liabilities will not be incurred by us in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder relating to our Chemical Business have in the past resulted, and could in the future result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from our facilities or the use or disposal of

15. Commitments and Contingencies (continued)

certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future.

We will recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Since we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

1. Discharge Water Matters

The El Dorado Facility owned by EDC generates process wastewater, which includes cooling tower and boiler blowdowns, contact storm water and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by a state National Pollutant Discharge Elimination System (“NPDES”) water discharge permit issued by the Arkansas Department of Environmental Quality (“ADEQ”), which permit is to be renewed every five years. The ADEQ issued to EDC a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility’s June 2007 limits, the El Dorado Facility has significantly reduced the contaminant levels of its wastewater.

The El Dorado Facility has demonstrated its ability to comply with the more restrictive permit limits, and believes that if it is required to meet the more restrictive dissolved minerals permit levels, it will be able to do so. The El Dorado Facility is currently having discussions with the ADEQ to modify and reduce the permit levels as to dissolved minerals, but, although the rule is a state rule, any revisions must also be approved by the United States Environmental Protection Agency (“EPA”) before it can become effective. Once the rule change is complete, the permit limits can be modified to incorporate achievable dissolved minerals permit levels. The ADEQ and the El Dorado Facility also entered into a Consent Administrative Order (“CAO”) which authorized the El Dorado Facility to continue operating through December 31, 2009 without incurring permit violations pending the modification of the permit to implement the revised rule.

In March 2009, the EPA notified the ADEQ that it disapproved the dissolved mineral rulemaking due to insufficient documentation. Representatives of EDC, ADEQ and the EPA have met to determine what additional information was required by the EPA. During January 2010, EDC

15. Commitments and Contingencies (continued)

received an Administrative Order from the EPA noting certain violations of the permit and requesting EDC to demonstrate compliance with the permit or provide a plan and schedule for returning to compliance. EDC has provided the EPA a response which states that the El Dorado Facility is now in compliance with the permit that the El Dorado Facility expects to maintain compliance and that all but fifteen of the alleged violations were resolved through the CAO with the ADEQ. During the meeting with the EPA prior to the issuance of the Administrative Order, the EPA advised EDC that its primary objective is to bring the El Dorado Facility into compliance with the permit requirements, but reserved the right to access penalties for past and continuing violations of the permit. As a result, it is unknown whether the EPA might elect to pursue civil penalties against EDC. Therefore, no liability has been established at December 31, 2009.

In addition, EDC has entered into a CAO that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. EDC is addressing the shallow groundwater contamination. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2009.

2. Air Matters

The EPA has sent information requests to most, if not all, of the nitric acid plants in the United States, including to us relating to our El Dorado, Cherokee and Baytown Facilities, requesting information under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. In connection with a review by our Chemical Business of these facilities in obtaining information for the EPA pursuant to the EPA's request, our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain changes to its production equipment may be needed in order to comply with the requirements of the Clean Air Act. If changes to the production equipment at these facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial.

Further, if it is determined that the equipment at any of our El Dorado, Cherokee and/or Baytown Facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed $27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the "best available control technology." We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties and may be required to make certain capital improvements to certain emission equipment as a result of the above described matter; however, at this time we are unable to determine the amount of any penalties that may be assessed, or the cost of additional capital improvements that may be required, by the EPA. Therefore no liability has been established at December 31, 2009.

3. Other Environmental Matters

In December 2002, two of our subsidiaries within our Chemical Business, sold substantially all of their operating assets relating to a Kansas chemical facility ("Hallowell Facility") but retained ownership of the real property. At December 31, 2002, even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. In connection with this sale, our subsidiary leased the real property to the buyer under a triple net long-term lease agreement. However, our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor ("Chevron") of a prior owner of the Hallowell Facility is a participating responsible party and has agreed, within certain limitations, to pay and has been paying one-half of the costs relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

Based on additional modeling of the site, our subsidiary and Chevron are pursuing a course with the state of Kansas of long-term surface and groundwater monitoring to track the natural decline in contamination, instead of the soil excavation proposed previously. Our subsidiary and Chevron submitted its final report on the groundwater monitoring and an addendum to the Mitigation Work Plan to the state of Kansas. The data from the monitoring program is being evaluated by the state of Kansas and the potential costs of additional monitoring or required remediation, if any, is unknown.

At December 31, 2009, our estimated allocable portion of the total estimated liability (which is included in current and noncurrent accrued and other liabilities) in connection with this remediation matter is approximately $305,000. This amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability will occur in the near term.

15. Commitments and Contingencies (continued)

B. Other Pending, Threatened or Settled Litigation

1. Climate Control Business

Wetherall v. Climate Master was a proposed class action filed in the Illinois state district court in September 2007 alleging that certain evaporator coils sold by one of our subsidiaries in the Climate Control Business, Climate Master, Inc. ("Climate Master"), in the state of Illinois from 1990 to approximately 2003 were defective. Prior to the hearing on class certification, the trial court granted Climate Master's motion for summary judgment and entered judgment in favor of Climate Master and against the plaintiffs based upon the statute of limitations and further denied class certification as moot because there were no other class representatives. Prior to the appeal deadline, a settlement agreement was entered into between the plaintiffs and Climate Master whereby the plaintiffs waived any right to appeal the judgment in favor of Climate Master for an insignificant amount, which consideration has been paid by Climate Master.

2. Other

The Jayhawk Group

In November 2006, we entered into an agreement with Jayhawk Capital Management, LLC, Jayhawk Investments, L.P., Jayhawk Institutional Partners, L.P. and Kent McCarthy, the manager and sole member of Jayhawk Capital, (collectively, the "Jayhawk Group"), in which the Jayhawk Group agreed, among other things, that if we undertook, in our sole discretion, within one year from the date of agreement a tender offer for our Series 2 Preferred or to issue our common stock for a portion of our Series 2 Preferred pursuant to a private exchange, that it would tender or exchange an aggregate of no more than 180,450 shares of the 340,900 shares of the Series 2 Preferred beneficially owned by the Jayhawk Group, subject to, among other things, the entities owned and controlled by Jack E. Golsen, our Chairman and Chief Executive Officer ("Golsen"), and his immediate family, that beneficially own Series 2 Preferred only being able to exchange or tender approximately the same percentage of shares of Series 2 Preferred beneficially owned by them as the Jayhawk Group is able to tender or exchange under the terms of the agreement. In addition, under the agreement, the Jayhawk Group agreed to vote its shares of our common stock and Series 2 Preferred "for" an amendment to the Certificate of Designation covering the Series 2 Preferred to allow us:

- for a period of five years from the completion of an exchange or tender to repurchase, redeem or otherwise acquire shares of our common stock, without approval of the outstanding Series 2 Preferred irrespective that dividends are accrued and unpaid with respect to the Series 2 Preferred; or
- to provide that holders of Series 2 Preferred may not elect two directors to our board of directors when dividends are unpaid on the Series 2 Preferred if less than 140,000 shares of Series 2 Preferred remain outstanding.

15. Commitments and Contingencies (continued)

During 2007, we made a tender offer for our outstanding Series 2 Preferred at the rate of 7.4 shares of our common stock for each share of Series 2 Preferred so tendered. In July 2007, we redeemed the balance of our outstanding shares of Series 2 Preferred. Pursuant to its terms, the Series 2 Preferred was convertible into 4.329 shares of our common stock for each share of Series 2 Preferred. As a result of the redemption, the Jayhawk Group converted the balance of its Series 2 Preferred pursuant to the terms of the Series 2 Preferred in lieu of having its shares redeemed.

During November 2008, the Jayhawk Group filed suit against us and Golsen in a lawsuit styled *Jayhawk Capital Management, LLC, et al. v. LSB Industries, Inc., et al.*, in the United States District Court for the District of Kansas at Kansas City. During March 2009, the Jayhawk Group amended its complaint alleging that the Jayhawk Group should have been able to tender all of its Series 2 Preferred pursuant to the tender offer, notwithstanding the above-described agreement, based on the following claims against us and Golsen:

- fraudulent inducement and fraud,
- violation of 10(b) of the Exchange Act and Rule 10b-5,
- violation of 17-12A501 of the Kansas Uniform Securities Act, and
- breach of contract.

The Jayhawk Group seeks damages in an unspecified amount based on the additional number of common shares it allegedly would have received on conversion of all of its Series 2 Preferred through the February 2007 tender offer, plus punitive damages. In addition, the amended complaint seeks damages of approximately $4,000,000 for accrued and unpaid dividends it purports are owed as a result of Jayhawk's July 2007 conversion of its remaining shares of Series 2 Preferred. In May 2008, the General Counsel for the Jayhawk Group offered to settle its claims against us and Golsen in return for a payment of $100,000, representing the approximate legal fees it had incurred investigating the claims at that time. Through counsel, we verbally agreed to the settlement offer and confirmed the agreement by e-mail. Afterward, the Jayhawk Group's General Counsel purported to withdraw the settlement offer, and asserted that Jayhawk is not bound by any settlement agreement. We contend that the settlement agreement is binding on the Jayhawk Group. Both Golsen and we have filed motions to dismiss the plaintiff's complaint in the federal court, and such motions to dismiss are pending. We intend to contest the lawsuit vigorously, and will assert that Jayhawk is bound by an agreement to settle the claims for $100,000. Our insurer, Chartis, has agreed to defend this lawsuit on our behalf and on behalf of Golsen and to indemnify under a reservation of rights to deny liability under certain conditions. We have incurred expenses associated with this matter up to our insurance deductible of $250,000. We believe our insurance coverage is adequate to cover any currently foreseeable losses associated with the Jayhawk claims. As a result, no liability remains outstanding relating to this matter as of December 31, 2009.

15. Commitments and Contingencies (continued)

Other Claims and Legal Actions

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance which generally includes a deductible of $250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible. In the opinion of management, after consultation with legal counsel, if those claims which we have not recognized were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

16. Derivatives, Hedges and Financial Instruments

We have three types of contracts that are accounted for on a fair value basis, which are interest rate contracts, commodities futures/forward contracts (“commodities contracts”) and foreign exchange contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. The valuation of these contracts was determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values. The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At December 31, 2008, the valuations of contracts classified as Level 3 were based on the average ask/bid prices obtained from a broker relating to a low volume market.

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In March 2005, we purchased two interest rate cap contracts for a cost of $590,000, which matured in March 2009. In April 2007, we purchased two interest rate cap contracts for a cost of $621,000, which set a maximum three-month LIBOR base rate of 5.35% on $50 million. In April 2008, we exchanged the two interest rate cap contracts purchased in 2007 for an interest rate cap contract (“2008 Interest Rate Cap Contract”), which sets a maximum three-month LIBOR base rate of 4.56% on $25 million. The cost basis of the 2008 Interest Rate Cap Contract was $239,000 based on the estimated fair value of the two contracts surrendered (which was also the carrying value at the time of the exchange). In April 2008, we also entered into an interest rate swap at no cost, which sets a fixed three-month LIBOR rate of 3.24% on $25 million and matures in April 2012. In September 2008, we exchanged the 2008 Interest Rate Cap Contract for an interest rate swap, which sets a fixed three-month LIBOR rate of 3.595% on $25 million and matures in April 2012. The cost basis of the new interest rate swap is $354,000 based on the estimated fair value of the 2008 Interest Rate Cap Contract surrendered (which was also the carrying value at the time of the exchange).

16. Derivatives, Hedges and Financial Instruments (continued)

These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. For 2009, 2008, and 2007, we recognized losses of $729,000, $2,871,000 and $355,000, respectively. In addition, the cash flows relating to the purchase of interest rate contracts are included in cash flows from continuing investing activities. Also the cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

Commodities Contracts

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and anhydrous ammonia and natural gas used by our Chemical Business. As part of our raw material price risk management, we periodically enter into futures/forward contracts for these materials, which contracts are generally accounted for on a mark-to-market basis. At December 31, 2009, our futures/forward copper contracts were for 750,000 pounds of copper through May 2010 at a weighted-average cost of $3.19 per pound. In addition, we had contractual rights under natural gas call contracts for approximately 150,000 MMBtu of natural gas through February 2010 at a weighted-average price of $6.00 per MMBtu. For 2009, 2008 and 2007, we recognized losses of $1,312,000, $7,717,000 and $1,317,000, respectively, on such contracts. In addition, the cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts, which set the U.S. Dollar/Euro exchange rates. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2009, our foreign exchange contracts were for the receipt of approximately 336,000 Euros through April 2010 at a weighted-average contract exchange rate of 1.435. For 2009 and 2008, we recognized losses of $32,000 and $187,000, respectively, on such contracts (none in 2007). In addition, the cash flows relating to these contracts are included in cash flows from continuing operating activities.

16. Derivatives, Hedges and Financial Instruments (continued)

The following details our assets and liabilities that are measured at fair value on a recurring basis at December 31, 2009 and 2008:

Description	Total Fair Value at December 31, 2009	Fair Value Measurements at December 31, 2009 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at December 31, 2008
			(In Thousands)		
Assets - Supplies, prepaid items and other:					
Commodities contracts	$ **150**	$ **121**	$ **29**	$ **-**	$ -
Foreign exchange contracts	**-**	**-**	**-**	**-**	35
Total	$ **150**	$ **121**	$ **29**	$ **-**	$ 35
Liabilities - Current and noncurrent accrued and other liabilities:					
Commodities contracts	$ **-**	$ **-**	$ **-**	$ **-**	$ 5,910
Interest rate contracts	**1,929**	**-**	**1,929**	**-**	2,437
Total	$ **1,929**	$ **-**	$ **1,929**	$ **-**	$ 8,347

The following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3), which related to commodities contracts:

	2009	**2008**
	(In Thousands)	
Beginning balance	$ **(1,388)**	$ -
Total realized and unrealized gain (loss) included in earnings	**493**	(1,388)
Purchases, issuances, and settlements	**895**	-
Transfers in and/or out of Level 3	**-**	-
Ending balance	$ **-**	$ (1,388)

16. Derivatives, Hedges and Financial Instruments (continued)

Realized and unrealized gains (losses) included in earnings and the income statement classifications are as follows:

	2009	2008
	(In Thousands)	
Total gains (losses) included in earnings:		
Cost of sales - Commodities contracts	**$ (1,312)**	$ (7,717)
Cost of sales - Foreign exchange contracts	**(32)**	(187)
Interest expense - Interest rate contracts	**(729)**	(2,871)
	$ (2,073)	$ (10,775)
Change in unrealized gains and losses relating to contracts still held at year end:		
Cost of sales - Commodities contracts	**$ 138**	$ (5,910)
Cost of sales - Foreign exchange contracts	**-**	35
Interest expense - Interest rate contracts	**508**	(2,825)
	$ 646	$ (8,700)

The following discussion of fair values is not indicative of the overall fair value of our assets and liabilities since it does not include all assets, including intangibles.

Our long-term debt agreements are the only financial instruments with fair values significantly different from their carrying amounts. At December 31, 2009 and 2008, the fair value for variable debt, excluding the Secured Term Loan, was believed to approximate their carrying value. At December 31, 2009 and 2008, the estimated fair value of the Secured Term Loan is based on defined LIBOR rates plus 7% and 10%, respectively, utilizing information obtained from the lender. The fair values of fixed rate borrowings, other than the 2007 Debentures, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration our current credit worthiness. At December 31, 2009 and 2008, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures. The estimated fair value and carrying value of our long-term debt are as follows:

16. Derivatives, Hedges and Financial Instruments (continued)

	December 31, 2009		December 31, 2008	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Rate:				
Secured Term Loan	**$ 27,640**	**$ 50,000**	$ 20,939	$ 50,000
Working Capital Revolver Loan	**-**	**-**	-	-
Other debt	**2,553**	**2,553**	8	8
Fixed Rate:				
5.5% Convertible Senior Subordinated Notes	**29,106**	**29,400**	27,338	40,500
Other bank debt and equipment financing	**20,231**	**19,848**	14,949	14,652
	$ 79,530	**$ 101,801**	$ 63,234	$ 105,160

Other

In 1997, we entered into an interest rate forward agreement to effectively fix the interest rate of a long-term lease commitment (not for trading purposes). In 1999, we executed a long-term lease agreement (initial lease term of ten years) and terminated the forward agreement at a net cost of $2.8 million. We historically accounted for this cash flow hedge under the deferral method (as an adjustment of the initial term lease rentals). As the result of accounting principles becoming effective in 2001, the remaining deferred cost amount was reclassified from other assets to accumulated other comprehensive loss and was being amortized to operations over the term of the lease arrangement, which expired in 2009. At December 31, 2008, accumulated other comprehensive loss consisted of the remaining deferred cost of $120,000 (none at December 31, 2009). The amount amortized to operations was $120,000, $291,000 and $290,000 for 2009, 2008, and 2007, respectively. The associated income tax benefits were minimal in 2009 and 2008 and there were no income tax benefits allocated to these expenses in 2007.

17. Stockholders' Equity

Approval of Stock Incentive Plan in 2008 - During the second quarter of 2008, our board of directors adopted our 2008 Incentive Stock Plan (the "2008 Plan"), which plan was approved by our shareholders at our annual meeting of shareholders held on June 5, 2008. The number of shares of our common stock available for issuance under the 2008 Plan is 1,000,000 shares, subject to adjustment. Under the 2008 Plan, awards may be made to any employee, officer or director of the Company and its affiliated companies. An award may also be granted to any consultant, agent, advisor or independent contractor for bona fide services rendered to the Company or any affiliate (as defined in the 2008 Plan), subject to certain conditions. The 2008 Plan will be administered by the compensation and stock option committee (the "Committee") of our board of directors.

17. Stockholders' Equity (continued)

Our board of directors or the Committee may amend the 2008 Plan, except that if any applicable statute, rule or regulation requires shareholder approval with respect to any amendment of the 2008 Plan, then to the extent so required, shareholder approval will be obtained. Shareholder approval will also be obtained for any amendment that would increase the number of shares stated as available for issuance under the 2008 Plan. Unless sooner terminated by our board of directors, the 2008 Plan expires on June 5, 2018.

The following may be granted by the Committee under the 2008 Plan:

Stock Options - The Committee may grant either incentive stock options or non-qualified stock options. The Committee sets option exercise prices and terms, except that the exercise price of a stock option may be no less than 100% of the fair market value, as defined in the 2008 Plan, of the shares on the date of grant. At the time of grant, the Committee will have sole discretion in determining when stock options are exercisable and when they expire, except that the term of a stock option cannot exceed 10 years.

Stock Appreciation Rights ("SARs") - The Committee may grant SARs as a right in tandem with the number of shares underlying stock options granted under the 2008 Plan or on a stand-alone basis. SARs are the right to receive payment per share of the SAR exercised in stock or in cash equal to the excess of the share's fair market value, as defined in the 2008 Plan, on the date of exercise over its fair market value on the date the SAR was granted. Exercise of an SAR issued in tandem with stock options will result in the reduction of the number of shares underlying the related stock option to the extent of the SAR exercise.

Stock Awards, Restricted Stock, Restricted Stock Units, and Other Awards - The Committee may grant awards of restricted stock, restricted stock units, and other stock and cash-based awards, which may include the payment of stock in lieu of cash (including cash payable under other incentive or bonus programs) or the payment of cash (which may or may not be based on the price of our common stock).

Stock-Based Compensation - During 2009, the Committee did not grant any awards under the 2008 Plan. During 2008, the Committee approved the grants under the 2008 Plan of 372,000 shares of qualified stock options (the "2008 Qualified Options") to certain employees and our board of directors (with each recipient abstaining as to himself) approved the grants of 45,000 shares of non-qualified stock options ("2008 Non-Qualified Options") to our outside directors. The exercise price of the 2008 Qualified and Non-Qualified Options was equal to the market value of our common stock at the date of grant. The 2008 Qualified and Non-Qualified Options vest at the end of each one-year period at the rate of 16.5% per year for the first five years and the remaining unvested options will vest at the end of the sixth year. Pursuant to the terms of the 2008 Non-Qualified Options, if a termination event occurs, as defined, the non-vested 2008 Non-Qualified Options will become fully vested and exercisable for a period of one year from the date of the termination event. Excluding the non-qualified stock options relating to a termination event, the 2008 Qualified and Non-Qualified Options expire in 2018. The fair value for the

17. Stockholders' Equity (continued)

2008 Qualified and Non-Qualified Options was estimated, using an option pricing model, as of the date of the grant, which date was also the service inception date.

On June 19, 2006, the Committee granted 450,000 shares of non-qualified stock options (the "2006 Options") to certain Climate Control Business employees, which were subject to shareholders' approval. The exercise price of the 2006 Options is $8.01 per share, which is based on the market value of our common stock at the date the board of directors granted the shares (June 19, 2006). The 2006 Options vest over a ten-year period at a rate of 10% per year and expire on September 16, 2016 with certain restrictions. The fair value for the 2006 Options was estimated, using an option pricing model, as of the date we received shareholders' approval which occurred during our 2007 annual shareholders' meeting on June 14, 2007. For accounting purposes, the grant date and service inception date is June 14, 2007.

The fair values for the 2008 Qualified and Non-Qualified Options and the 2006 Options were estimated using a Black-Scholes-Merton option pricing model with the following assumptions:

- risk-free interest rate based on an U.S. Treasury zero-coupon issue with a term approximating the estimated expected life as of the grant date;
- a dividend yield based on historical data;
- volatility factors of the expected market price of our common stock based on historical volatility of our common stock since it has been traded on the American Stock Exchange (and subsequently, the New York Stock Exchange), and;
- a weighted-average expected life of the options based on the historical exercise behavior of these employees and outside directors, if applicable.

The following table summarizes information about these granted stock options:

	2009	**2008**	**2007**
Weighted-average risk-free interest rate	**N/A**	2.91%	5.16%
Dividend yield	**N/A**	-	-
Weighted-average expected volatility	**N/A**	35.4%	24.7%
Weighted-average expected forfeiture rate	**N/A**	1.86%	0%
Weighted-average expected life (years)	**N/A**	5.98	5.76
Total weighted-average remaining vesting period (years)	**5.60**	6.64	8.46
Total fair value of options granted	**N/A**	$ 1,503,000	$ 6,924,000
Total stock-based compensation expense (1)	**$ 1,021,000**	$ 811,000	$ 421,000
Income tax benefit	**$ (408,000)**	$ (316,000)	$ (164,000)

(1) For 2009 and 2008, $977,000 and $803,000, respectively, is included in SG&A and $44,000, $8,000, respectively, is included in cost of sales. For 2007, the total amount is included in SG&A.

17. Stockholders' Equity (continued)

For the 2008 Qualified and Non-Qualified Options and the 2006 Options, we will be amortizing the respective total estimated fair value (adjusted for forfeitures) through 2014 and 2016, respectively. At December 31, 2009, the total stock-based compensation expense not yet recognized is $6,145,000 relating to the non-vested stock options.

Qualified Stock Option Plans - At December 31, 2009, we have options outstanding under a 1993 Stock Option and Incentive Plan ("1993 Plan"), a 1998 Stock Option Plan ("1998 Plan") and the 2008 Plan as discussed above. The 1993 and 1998 Plans have expired, and accordingly, no additional options may be granted from these plans. Options granted prior to the expiration of these plans continue to remain valid thereafter in accordance with their terms. As discussed above, under the 2008 Plan, we are authorized to grant awards (including options) to purchase up to 1,000,000 shares of our common stock. At December 31, 2009, there are 590,000 awards available to be granted under the 2008 Plan. At December 31, 2009, there were 3,500 options outstanding related to the 1993 Plan and 61,100 options outstanding relating to the 1998 Plan, all of which were exercisable, and 364,175 options outstanding relating to the 2008 Plan, of which 59,400 were exercisable. The exercise price of the outstanding options granted under these plans was equal to the market value of our common stock at the date of grant.

The following information relates to our qualified stock option plans:

	2009	
	Shares	**Weighted-Average Exercise Price**
Outstanding at beginning of year	**660,100**	**$ 6.09**
Granted	-	**$ -**
Exercised	**(224,325)**	**$ 1.42**
Cancelled, forfeited or expired	**(7,000)**	**$ 9.69**
Outstanding at end of year	**428,775**	**$ 8.47**
Exercisable at end of year	**124,000**	**$ 6.30**

	2009	**2008**	**2007**
Weighted-average fair value of options granted during year	**N/A**	$ 3.58	N/A
Total intrinsic value of options exercised during the year	**$ 3,051,000**	$ 3,140,000	$ 1,108,000
Total fair value of options vested during the year	**$ 220,000**	$ -	$ -

17. Stockholders' Equity (continued)

The following table summarizes information about qualified stock options outstanding and exercisable at December 31, 2009:

Exercise Prices	Stock Options Outstanding: Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 2.73	43,500	1.92	$ 2.73	$ 494,000
$ 5.10	21,100	5.92	$ 5.10	190,000
$ 7.86 - $ 8.17	69,000	8.92	$ 7.87	430,000
$ 9.69 - $ 9.97	295,175	8.83	$ 9.69	1,301,000
$ 2.73 - $ 9.97	428,775	8.00	$ 8.47	$ 2,415,000

Exercise Prices	Stock Options Exercisable: Shares Exercisable	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Exercisable
$ 2.73	43,500	1.92	$ 2.73	$ 494,000
$ 5.10	21,100	5.92	$ 5.10	190,000
$ 7.86 - $ 8.17	11,385	8.92	$ 7.87	71,000
$ 9.69 - $ 9.97	48,015	8.83	$ 9.69	212,000
$ 2.73 - $ 9.97	124,000	5.92	$ 6.30	$ 967,000

Non-Qualified Stock Option Plans - Our board of directors approved the grants of non-qualified stock options to our outside directors, our Chief Executive Officer, Chief Financial Officer and certain key employees, included in the tables below. The exercise prices are generally based on the market value of our common stock at the dates of grants.

In addition to the 2008 Plan as discussed above, we have an Outside Directors Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of our board of directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of options that may be issued under the Outside Director Plan is 400,000 of which 280,000 are available to be granted at December 31, 2009. At December 31, 2009, there are 45,000 options outstanding related to the 2008 Plan and no options outstanding related to the Outside Director Plan.

17. Stockholders' Equity (continued)

The following information relates to our non-qualified stock option plans:

	2009	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	627,500	$ 6.36
Granted	-	$ -
Exercised	(185,000)	$ 3.08
Surrendered, forfeited, or expired	-	$ -
Outstanding at end of year	442,500	$ 7.73
Exercisable at end of year	89,925	$ 6.68

	2009	2008	2007
Weighted-average fair value of options granted during year	N/A	$ 3.80	$ 15.39
Total intrinsic value of options exercised during the year	$ 2,201,000	$ 4,357,000	$ 10,042,000
Total fair value of options vested during the year	$ 721,000	$ 692,000	$ 692,000

The following tables summarize information about non-qualified stock options outstanding and exercisable at December 31, 2009:

	Stock Options Outstanding			
Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 2.73	22,500	1.92	$ 2.73	$ 256,000
$ 7.86	45,000	8.92	$ 7.86	281,000
$ 8.01	375,000	6.75	$ 8.01	2,283,000
$ 2.73 - $ 8.01	442,500	6.72	$ 7.73	$ 2,820,000

	Stock Options Exercisable			
Exercise Prices	Shares Exercisable	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Intrinsic Value of Shares Exercisable
$ 2.73	22,500	1.92	$ 2.73	$ 256,000
$ 7.86	7,425	8.92	$ 7.86	46,000
$ 8.01	60,000	6.75	$ 8.01	366,000
$ 2.73 - $ 8.01	89,925	5.72	$ 6.68	$ 668,000

17. Stockholders' Equity (continued)

Preferred Share Rights Plan - On January 5, 2009, a renewed shareholder rights plan became effective upon the expiration of our previous shareholder rights plan. The rights plan will impact a potential acquirer unless the acquirer negotiates with our board of directors and the board of directors approves the transaction. Pursuant to the renewed plan, one preferred share purchase right (a "Right") is attached to each currently outstanding or subsequently issued share of our common stock. Prior to becoming exercisable, the Rights trade together with our common stock. In general, the Rights will become exercisable if a person or group (other than the acquirer) acquires or announces a tender or exchange offer for 15% or more of our common stock. Each Right entitles the holder to purchase from us one one-hundredth of a share of Series 4 Junior Participating Preferred Stock, no par value (the "Preferred Stock"), at an exercise price of $47.75 per one one-hundredth of a share, subject to adjustment. If a person or group acquires 15% or more of our common stock, each Right will entitle the holder (other than the acquirer) to purchase shares of our common stock (or, in certain circumstances, cash or other securities) having a market value of twice the exercise price of a Right at such time. Under certain circumstances, each Right will entitle the holder (other than the acquirer) to purchase the common stock of the acquirer having a market value of twice the exercise price of a Right at such time. In addition, under certain circumstances, our board of directors may exchange each Right (other than those held by the acquirer) for one share of our common stock, subject to adjustment. If the Rights become exercisable, holders of our common stock (other than the acquirer), will receive the number of Rights they would have received if their units had been redeemed and the purchase price paid in our common stock. Our board of directors may redeem the Rights at a price of $0.01 per Right generally at any time before 10 days after the Rights become exercisable.

Other - In November 2007, the Jayhawk Group exercised a warrant to purchase 112,500 shares of our common stock for $3.49 per share.

During 2009 and 2008, we purchased 275,900 and 400,000 shares of treasury stock for the average price of $11.60 and $12.05 per share, respectively.

As of December 31, 2009, we have reserved 2.9 million shares of common stock issuable upon potential conversion of convertible debt, preferred stocks and stock options pursuant to their respective terms.

18. Non-Redeemable Preferred Stock

Series B Preferred - The 20,000 shares of Series B Preferred, $100 par value, are convertible, in whole or in part, into 666,666 shares of our common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitle the holder to one vote per share. The Series B Preferred provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. All of the outstanding shares of the Series B Preferred are owned by the Golsen Group.

18. Non-Redeemable Preferred Stock (continued)

Series 2 Preferred - The Series 2 Preferred had no par value and had a liquidation preference of $50.00 per share plus dividends in arrears and was convertible at the option of the holder at any time, unless previously redeemed, into our common stock at an initial conversion price of $11.55 per share (equivalent to a conversion rate of approximately 4.329 shares of common stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. As discussed below, upon the mailing of notice of certain corporate actions, holders had special conversion rights relating to a trade offer in 2007. The Series 2 Preferred was redeemable at our option, in whole or in part, at $50.00 per share, plus dividends in arrears to the redemption date. Dividends on the Series 2 Preferred were cumulative and payable quarterly in arrears. As the result of the transactions discussed below, no shares of Series 2 Preferred were issued and outstanding at December 31, 2009 and 2008.

Jayhawk Agreement in 2006

During November 2006, the Company entered into the Jayhawk Agreement with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed to tender (discussed below) 180,450 shares of the 346,662 shares of the Series 2 Preferred, if the Company made an exchange or tender offer for the Series 2 Preferred. In addition, as a condition to the Jayhawk Group's obligation to tender such shares of Series 2 Preferred in an exchange/tender offer, the Jayhawk Agreement further provided that the Golsen Group would exchange only 26,467 of the 49,550 shares of Series 2 Preferred beneficially owned by them. As a result, only 309,807 of the 499,102 shares of Series 2 Preferred outstanding would be eligible to participate in an exchange/tender offer, with the remaining 189,295 being held by the Jayhawk Group and the Golsen Group.

Completion of Tender Offer in 2007

On January 26, 2007, our board of directors approved and on February 9, 2007, we began a tender offer to exchange shares of our common stock for up to 309,807 of the 499,102 outstanding shares of the Series 2 Preferred. The tender offer expired on March 12, 2007 and our board of directors accepted the shares tendered on March 13, 2007. The terms of the tender offer provided for the issuance by the Company of 7.4 shares of common stock in exchange for each share of Series 2 Preferred tendered in the tender offer and the waiver of all rights to the dividends in arrears on the Series 2 Preferred tendered. As a result of this tender offer, we issued 2,262,965 shares of our common stock for 305,807 shares of Series 2 Preferred that were tendered. As a result, we effectively settled the dividends in arrears on the Series 2 Preferred tendered totaling approximately $7.3 million ($23.975 per share).

Because the exchanges under the tender offer were pursuant to terms other than the original terms, the transactions were considered extinguishments of the preferred stock. Also the transactions qualified as induced conversions. Accordingly, we recorded a charge (stock dividend) to accumulated deficit of approximately $12.3 million which equaled the excess of the fair value of the common stock issued over the fair value of the common stock issuable pursuant

18. Non-Redeemable Preferred Stock (continued)

to the original conversion terms. To measure fair value, we used the closing price of our common stock on March 13, 2007.

Included in the amounts discussed above and pursuant to the Jayhawk Agreement and the terms of the tender offer, the Jayhawk Group and the Golsen Group tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock. As a result, we effectively settled the dividends in arrears on these shares of Series 2 Preferred tendered totaling approximately $4.96 million with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

No fractional shares were issued so cash was paid in lieu of any additional shares in an amount equal to the fraction of a share times the closing price per share of our common stock on the last business day immediately preceding the expiration date of the tender offer.

Completion of Redemption in 2007

On July 11, 2007, our board of directors approved the redemption of all of our remaining outstanding Series 2 Preferred. We mailed a notice of redemption to all holders of record of our Series 2 Preferred on July 12, 2007. The redemption date was August 27, 2007, and each share of Series 2 Preferred that was redeemed received a redemption price of $50.00 plus $26.25 per share in dividends in arrears pro-rata to the date of redemption.

The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. If a holder converted its shares of Series 2 Preferred, the holder was not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted. As a result, 167,475 shares of Series 2 Preferred were converted (of which 155,012 shares were converted by the Jayhawk Group) into 724,993 shares of our common stock (of which 671,046 shares were issued to the Jayhawk Group).

As a result of the conversions, only 25,820 shares of Series 2 Preferred were redeemed (of which 23,083 shares were held by the Golsen Group) for a total redemption price of $1,291,000 (of which approximately $1,154,000 was paid to the Golsen Group). In addition, we paid approximately $678,000 in dividends in arrears (of which approximately $606,000 was paid to the Golsen Group). The shares of the Series 2 Preferred were redeemed using a portion of the net proceeds of the 2007 Debentures.

No fractional shares were issued so cash was paid in lieu of any additional shares in an amount equal to the fraction of a share times the closing price per share of our common stock on the day the respective shares were converted.

18. Non-Redeemable Preferred Stock (continued)

Other Series 2 Preferred Transactions

During 2007, we cancelled 18,300 shares of Series 2 Preferred previously held as treasury stock.

Series D Preferred - The Series D Preferred have no par value and are convertible, in whole or in part, into 250,000 shares of our common stock (1 share of common stock for 4 shares of preferred stock) at any time at the option of the holder. Dividends on the Series D Preferred are cumulative and payable annually in arrears at the rate of 6% per annum of the liquidation preference of $1.00 per share. Each holder of the Series D Preferred shall be entitled to .875 votes per share. All of the outstanding shares of Series D Preferred are owned by the Golsen Group.

Cash Dividends Paid - During 2009 and 2008, we paid the following cash dividends on our non-redeemable preferred stock in each of the respective year:

- $240,000 on the Series B Preferred ($12.00 per share); and
- $60,000 on the Series D Preferred ($0.06 per share).

In addition to the settlement of the dividends in arrears relating to the tender offer in 2007 as discussed above, during 2007, we paid the following cash dividends on our non-redeemable preferred stock:

- $1,890,000 on the Series B Preferred ($94.52 per share);
- $678,000 on the Series 2 Preferred ($26.25 per share); and
- $360,000 on the Series D Preferred ($0.36 per share).

At December 31, 2009, there were no dividends in arrears.

Other - At December 31, 2009, we are authorized to issue an additional 229,490 shares of $100 par value preferred stock and an additional 4,000,000 shares of no par value preferred stock. Upon issuance, our board of directors will determine the specific terms and conditions of such preferred stock.

19. Executive Benefit Agreements and Employee Savings Plans

In 1981, we entered into individual death benefit agreements with certain key executives ("1981 Agreements"). Under the 1981 Agreements, should the executive die while employed, we are required to pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. At December 31, 2009, the monthly installments specified in the 1981 Agreements total $34,000 and the aggregate undiscounted death benefits are $4,100,000. The benefits under the 1981 Agreements are forfeited if the respective executive's employment is terminated for any reason prior to death. The 1981 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

19. Executive Benefit Agreements and Employee Savings Plans (continued)

In 1992, we entered into individual benefit agreements with certain key executives ("1992 Agreements") that provide for annual benefit payments for life (in addition to salary) ranging from $16,000 to $18,000 payable in monthly installments when the employee reaches age 65. As of December 31, 2009 and 2008, the liability for benefits under the 1992 Agreements is $1,102,000 and $1,111,000, respectively, which is included in current and noncurrent accrued and other liabilities in the accompanying consolidated balance sheets. The liability reflects the present value of the remaining estimated payments at discount rates of 5.06% and 4.97% as of December 31, 2009 and 2008, respectively. Future estimated undiscounted payments aggregate to $2.0 million as of December 31, 2009. For 2009, 2008, and 2007, charges to SG&A for these benefits were $75,000, $166,000 and $106,000, respectively. As part of the 1992 Agreements, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. This amount is in addition to any amount payable under the 1981 Agreement should that executive have both a 1981 and 1992 agreement. At December 31, 2009, the aggregate undiscounted death benefit payments specified in the 1992 Agreements are $302,000. The benefits under the 1992 Agreements are forfeited if the respective executive's employment is terminated prior to age 65 for any reason other than death. The 1992 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

In 2005, we entered into a death benefit agreement ("2005 Agreement") with our CEO. The Death Benefit Agreement provides that, upon our CEO's death, we will pay to our CEO's designated beneficiary, a lump-sum payment of $2,500,000 to be funded from the net proceeds received by us under certain life insurance policies on our CEO's life that are owned by us. We are obligated to keep in existence life insurance policies with a total face amount of no less than $2,500,000 of the stated death benefit. As of December 31, 2009, the life insurance policies owned by us on the life of our CEO have a total face amount of $7,000,000. The benefit under the 2005 Agreement is not contingent upon continued employment and may be amended at any time by written agreement executed by the CEO and the Company.

As of December 31, 2009, the liability for death benefits under the 1981, 1992 and 2005 Agreements is $3,356,000 ($2,687,000 at December 31, 2008), which is included in current and noncurrent accrued and other liabilities. We accrue for such liabilities when they become probable and discount the liabilities to their present value.

To assist us in funding the benefit agreements discussed above and for other business reasons, we purchased life insurance contracts on various individuals in which we are the beneficiary. As of December 31, 2009, the total face amount of these policies is $20,672,000 of which $2,500,000 of the proceeds is required to be paid under the 2005 Agreement as discussed above. Some of these life insurance policies have cash surrender values that we have borrowed against. The cash surrender values are included in other assets in the amounts of $1,866,000 and $1,504,000, net of borrowings of $2,100,000 and $1,967,000 at December 31, 2009 and 2008, respectively. Increases in cash surrender values of $494,000, $461,000 and $548,000 are netted against the premiums paid for life insurance policies of $842,000, $832,000 and $836,000 in 2009, 2008, and 2007 respectively, and are included in SG&A.

19. Executive Benefit Agreements and Employee Savings Plans (continued)

We sponsor a savings plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. We do not presently contribute to this plan except for EDC and Cherokee Nitrogen Company's ("CNC") union employees and EDN employees, which amounts were not material for each of the three years ended December 31, 2009.

20. Property and Business Interruption Insurance Claims and Recoveries

Cherokee Facility - As a result of damage caused by Hurricane Katrina in August 2005, the natural gas pipeline servicing the chemical production facility located in Cherokee, Alabama (the "Cherokee Facility") suffered damage and the owner of the pipeline declared an event of Force Majeure. This event of Force Majeure caused curtailments and interruption in the delivery of natural gas to the Cherokee Facility through the first quarter of 2006. CNC's insurer was promptly put on notice of a claim and during 2006, CNC filed a business interruption claim relating to this incident. In 2007, we realized insurance recoveries of $3,750,000 relating to this business interruption claim, which were recorded as a reduction to cost of sales.

On February 5, 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. The fire was immediately extinguished and there were no injuries. The extent of the damage to the nitric acid plant has been determined; however, the final repair option has not yet been determined. The nitric acid plant that suffered the fire, with a current 182 ton per day capacity, is the smaller of the two nitric acid plants at the Cherokee Facility. The Cherokee Facility continues production with the larger of the nitric acid plants. Our insurance provides for replacement cost coverage relating to property damage with a $1,000,000 property loss deductible. Because our replacement cost coverage for property damages is estimated to exceed our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but we recorded a property insurance claim receivable relating to this event. At December 31, 2009, the balance of the insurance claim receivable relating to this event was $1,175,000.

Bryan Distribution Center - On July 30, 2009, one of our fifteen agricultural distribution centers operated by our Chemical Business was destroyed by fire, resulting in the cessation of operations at this center, which is located in Bryan, Texas ("Bryan Center"). The Bryan Center stored and sold agricultural chemical products, including fertilizer grade ammonium nitrate, potash and certain other fertilizer products. Our Chemical Business is in the process of rebuilding the Bryan Center. Our insurance provides for general liability coverage with a $250,000 loss deductible and for business interruption coverage and for replacement cost coverage relating to property damage with a total $100,000 loss deductible. As of December 31, 2009, a recovery, if any, from our business interruption coverage has not been recognized. Because our replacement cost coverage for property damages is estimated to exceed our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but we recorded an insurance claim receivable relating to this event. During 2009, we received $545,000 from our insurance carrier as a partial payment on our insurance claim, which amount was applied against our insurance claim receivable. At December 31, 2009, the balance of the insurance claim receivable relating to this event was $35,000.

21. Other Expense, Other Income and Non-Operating Other Income, net

	Year ended December 31, 2009	2008	2007
		(In Thousands)	
Other expense:			
Losses on sales and disposals of property and equipment	**$ 378**	$ 158	$ 378
Settlements and potential settlements of litigation and potential litigation (1)	**75**	592	350
Income tax related penalties	**35**	152	34
Impairments of long-lived assets (2)	**-**	192	250
Other miscellaneous expense (3)	**39**	90	174
Total other expense	**$ 527**	$ 1,184	$ 1,186
Other income:			
Litigation judgment, settlements and potential settlements (4)	**$ 50**	$ 8,235	$ 3,272
Other miscellaneous income (3)	**237**	241	223
Total other income	**$ 287**	$ 8,476	$ 3,495
Non-operating other income, net:			
Interest income	**$ 216**	$ 1,270	$ 1,291
Miscellaneous income (3)	**1**	-	73
Miscellaneous expense (3)	**(87)**	(174)	(100)
Total non-operating other income, net	**$ 130**	$ 1,096	$ 1,264

(1) For 2008, $325,000 related to settlements recognized associated with various asserted claims, of which $225,000 related to the Climate Control Business. In addition, $267,000 related to various settlements reached, of which $67,000 related to the Chemical Business. During 2007, a settlement was reached relating to alleged damages claimed by a customer of our Climate Control Business.

(2) Based on estimates of the fair values obtained from external sources and estimates made internally based on inquiry and other techniques, we recognized the following impairments:

	Year ended December 31, 2009	2008	2007
		(In Thousands)	
Corporate assets	**$ -**	$ 192	$ -
Chemical Business assets	**-**	-	250
	$ -	$ 192	$ 250

21. Other Expense, Other Income and Non-Operating Other Income, net (continued)

(3) Amounts represent numerous unrelated transactions, none of which are individually significant requiring separate disclosure.

(4) For 2008, income from litigation judgment and settlements includes approximately $7.6 million, net of attorneys' fees, relating to a litigation judgment involving a subsidiary within our Chemical Business. In June 2008, we received proceeds of approximately $11.2 million for this litigation judgment, which includes interest of approximately $1.4 million and from which we paid attorneys' fees of approximately $3.6 million. The payment of attorneys' fees of 31.67% of our recovery was contingent upon the cash receipt of the litigation judgment. Cash flows relating to this litigation judgment are included in cash flows from continuing operating activities, except for the portion of the judgment associated with the recovery of damages relating to property, plant and equipment and its pro-rata portion of the attorneys' fees. These cash flows are included in cash flows from continuing investing activities. In addition, a settlement was reached for $0.4 million for the recovery of certain environmental-related costs incurred in previous periods relating to property used by Corporate and other business operations. During 2007, our Chemical Business reached a settlement with Dynegy, Inc. and one of its subsidiaries, relating to a previously reported lawsuit. This settlement reflects the net proceeds of approximately $2.7 million received by the Cherokee Facility and the retention by the Cherokee Facility of a disputed accounts payable amount of approximately $0.6 million.

22. Segment Information

Factors Used by Management to Identify the Enterprise's Reportable Segments and Measurement of Segment Income or Loss and Segment Assets

We have two reportable segments: the Climate Control Business and the Chemical Business. Our reportable segments are based on business units that offer similar products and services. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

We evaluate performance and allocate resources based on operating income or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Description of Each Reportable Segment

Climate Control - The Climate Control Business segment manufactures and sells the following variety of heating, ventilation, and air conditioning ("HVAC") products:

- geothermal and water source heat pumps,
- hydronic fan coils, and
- other HVAC products including large custom air handlers, modular chiller systems and other products and services.

22. Segment Information (continued)

These HVAC products are primarily for use in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems. Our various facilities located in Oklahoma City comprise substantially all of the Climate Control segment's operations. Sales to customers of this segment primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world.

Chemical -The Chemical Business segment manufactures and sells:

- anhydrous ammonia, ammonium nitrate, urea ammonium nitrate, and ammonium nitrate ammonia solution for agricultural applications,
- concentrated, blended and regular nitric acid, mixed nitrating acids, metallurgical and commercial grade anhydrous ammonia, sulfuric acid, and high purity ammonium nitrate for industrial applications, and
- industrial grade ammonium nitrate and solutions for the mining industry.

Our primary chemical production facilities are located in El Dorado, Arkansas, Cherokee, Alabama and Baytown, Texas. Sales to customers of this segment primarily include industrial users of acids throughout the United States and parts of Canada; farmers, ranchers, fertilizer dealers and distributors located in the Central and Southeastern United States; and explosive manufacturers in the United States. During 2009, we proceeded to activate a portion of our previously idled Pryor Facility. We plan to produce and sell urea ammonium nitrate and anhydrous ammonia from this facility primarily to one customer pursuant to a purchase and sale agreement.

As of December 31, 2009, our Chemical Business employed 455 persons, with 156 represented by unions under agreements, which will expire in July through November of 2010.

Other - The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users located primarily in North America.

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Notes to Consolidated Financial Statements (continued)

22. Segment Information (continued)

Segment Financial Information

Information about our continuing operations in different industry segments for each of the three years in the period ended December 31, 2009 is detailed below.

	2009	2008	2007
		(In Thousands)	
Net sales:			
Climate Control:			
Geothermal and water source heat pumps	**$ 179,865**	$ 190,960	$ 165,115
Hydronic fan coils	**46,381**	83,472	85,815
Other HVAC products	**39,923**	36,948	35,435
Total Climate Control	**266,169**	311,380	286,365
Chemical:			
Agricultural products	**104,300**	152,802	117,158
Industrial acids and other chemical products	**95,997**	162,941	95,754
Mining products	**57,535**	108,374	75,928
Total Chemical	**257,832**	424,117	288,840
Other	**7,837**	13,470	11,202
	$ 531,838	$ 748,967	$ 586,407
Gross profit:			
Climate Control	**$ 92,409**	$ 96,633	$ 83,638
Chemical	**42,422**	37,991	44,946
Other	**2,583**	4,256	4,009
	$ 137,414	$ 138,880	$ 132,593
Operating income (loss):			
Climate Control	**$ 37,706**	$ 38,944	$ 34,194
Chemical	**15,122**	31,340	35,011
General corporate expenses and other business operations, net (1)	**(12,118)**	(11,129)	(10,194)
	40,710	59,155	59,011
Interest expense	**(6,746)**	(11,381)	(12,078)
Gains on extinguishment of debt	**1,783**	5,529	-
Non-operating income, net:			
Climate Control	**8**	1	2
Chemical	**31**	27	109
Corporate and other business operations	**91**	1,068	1,153
Provisions for income taxes	**(15,024)**	(18,776)	(2,540)
Equity in earnings of affiliate - Climate Control	**996**	937	877
Income from continuing operations	**$ 21,849**	$ 36,560	$ 46,534

22. Segment Information (continued)

(1) General corporate expenses and other business operations, net consist of the following:

	2009	2008	2007
		(In Thousands)	
Gross profit-Other	**$ 2,583**	$ 4,256	$ 4,009
Selling, general and administrative:			
Personnel costs	**(8,083)**	(7,937)	(6,879)
Professional fees	**(3,687)**	(4,759)	(4,299)
Office overhead	**(657)**	(650)	(646)
Property, franchise and other taxes	**(350)**	(313)	(314)
Advertising	**(258)**	(269)	(244)
Shareholders relations	**(35)**	(74)	(154)
All other	**(1,617)**	(1,498)	(1,626)
Total selling, general and administrative	**(14,687)**	(15,500)	(14,162)
Other income	**192**	766	53
Other expense	**(206)**	(651)	(94)
Total general corporate expenses and other business operations, net	**$ (12,118)**	$ (11,129)	$ (10,194)

Information about our property, plant and equipment and total assets by industry segment is detailed below:

	2009	2008	2007
		(In Thousands)	
Depreciation of property, plant and equipment:			
Climate Control	**$ 4,077**	$ 3,433	$ 3,195
Chemical	**11,291**	10,232	8,929
Corporate assets and other	**233**	165	147
Total depreciation of property, plant and equipment	**$ 15,601**	$ 13,830	$ 12,271
Additions to property, plant and equipment:			
Climate Control	**$ 6,438**	$ 12,111	$ 6,778
Chemical	**24,627**	25,130	9,151
Corporate assets and other	**271**	457	294
Total additions to property, plant and equipment	**$ 31,336**	$ 37,698	$ 16,223
Total assets at December 31:			
Climate Control	**$ 102,029**	$ 117,260	$ 102,737
Chemical	**143,800**	145,518	121,864
Corporate assets and other	**92,804**	72,989	82,953
Total assets	**$ 338,633**	$ 335,767	$ 307,554

22. Segment Information (continued)

Net sales by industry segment include net sales to unaffiliated customers as reported in the consolidated financial statements. Net sales classified as "Other" consist of sales of industrial machinery and related components. Intersegment net sales are not significant.

Gross profit by industry segment represents net sales less cost of sales. Gross profit classified as "Other" relates to the sales of industrial machinery and related components.

Our chief operating decision makers use operating income (loss) by industry segment for purposes of making decisions that include resource allocations and performance evaluations. Operating income (loss) by industry segment represents gross profit by industry segment less SG&A incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense.

Identifiable assets by industry segment are those assets used in the operations of each industry. Corporate assets and other are those principally owned by the parent company or by subsidiaries not involved in the two identified industries.

All net sales and long-lived assets relate to domestic operations for the periods presented.

Net sales to unaffiliated customers include foreign export sales as follows:

Geographic Area	2009	2008	2007
		(In Thousands)	
Canada	**$ 20,224**	$ 24,749	$ 14,206
Middle East	**4,440**	4,994	9,523
Mexico, Central and South America	**2,154**	2,954	2,053
Europe	**1,114**	2,119	3,069
South and East Asia	**1,124**	1,645	2,218
Caribbean	**443**	491	1,119
Other	**400**	148	129
	$ 29,899	$ 37,100	$ 32,317

Major Customers

Net sales to one customer, Bayer, of our Chemical Business segment represented approximately 7%, 11% and 7% of our total net sales for 2009, 2008 and 2007, respectively. See discussion concerning the Bayer Agreement in Note 15 – Commitments and Contingencies.

Net sales to one customer, Orica, of our Chemical Business segment represented approximately 7%, 11% and 9% of our total net sales for 2009, 2008 and 2007, respectively. See discussion concerning the supply agreement in Note 24 – Subsequent Events.

22. Segment Information (continued)

Unplanned Maintenance Downtime at the Cherokee Facility in 2008

During the third quarter of 2008, the Cherokee Facility experienced repeated unplanned maintenance downtime, which downtime reduced production and sales by our Chemical Business. As a result, interim repairs were made at the Cherokee Facility during this period. Due to this repeated downtime, the Cherokee Facility lost approximately 20 days of operation that negatively impacted our Chemical Business' operating results in 2008.

23. Related Party Transactions

Golsen Group

In connection with the completion of our March 2007 tender offer for our outstanding shares of our Series 2 Preferred, members of the Golsen Group tendered 26,467 shares of Series 2 Preferred in exchange for our issuance to them of 195,855 shares of our common stock. As a result, we effectively settled approximately $635,000 in dividends in arrears on the shares of Series 2 Preferred tendered. The tender by the Golsen Group was a condition of the Jayhawk Group's agreement to tender shares of Series 2 Preferred in the tender offer as discussed in Note 18.

After the completion of our March 2007 tender offer relating to the Series 2 Preferred, the Golsen Group held 23,083 shares of Series 2 Preferred. Pursuant to our redemption of the remaining outstanding Series 2 Preferred during August 2007, the Golsen Group redeemed 23,083 shares of Series 2 Preferred and received the cash redemption amount of approximately $1,760,000 pursuant to the terms of our redemption of all of our outstanding Series 2 Preferred. The redemption price was $50.00 per share of Series 2 Preferred, plus $26.25 per share in dividends in arrears pro-rata to the date of redemption.

In September 2007, we utilized a portion of the net proceeds of the sale of the 2007 Debentures and working capital to pay approximately $2,250,000 of dividends in arrears on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

In March 2008, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

During November 2008, the Golsen Group acquired from an unrelated third party $5,000,000 of the 2007 Debentures.

In January 2009, we paid interest of $137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2008.

23. Related Party Transactions (continued)

In March 2009, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

During 2009, we incurred interest expense of $275,000 relating to the debentures held by the Golsen Group, of which $137,500 remains accrued at December 31, 2009.

Quail Creek Bank

Bernard Ille, a member of our board of directors, is a director of Quail Creek Bank, N.A. (the “Bank”). The Bank was a lender to one of our subsidiaries. During 2007, the subsidiary made interest and principal payments on outstanding debt owed to the Bank in the respective amount of $.1 million and $3.3 million in 2007 (none in 2009 or 2008). The debt accrued interest at an annual interest rate of 8.25%. The loan was secured by certain of the subsidiary’s property, plant and equipment. This loan was paid in full in June 2007 utilizing a portion of the net proceeds of our sale of the 2007 Debentures.

24. Subsequent Events (Unaudited)

During February 2010, EDC signed an extension of EDC’s anhydrous ammonia purchase agreement with Koch Nitrogen International Sarl (“Koch”). Under the extension, Koch agrees to supply certain of EDC’s requirements of anhydrous ammonia through December 31, 2012.

During February 2010, EDC entered into a cost-plus supply agreement with Orica International Pte Ltd. (“Orica International”) to supply Orica International with 250,000 tons per year of industrial grade ammonium nitrate through December 2014. This new agreement, which became effective January 1, 2010, replaced EDC’s previous agreement to supply 210,000 tons per year of industrial grade ammonium nitrate to Orica USA, Inc.

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)

	Three months ended			
	March 31	June 30	September 30	December 31
2009				
Net sales	$ 150,197	$ 138,563	$ 127,778	$ 115,300
Gross profit (1)	$ 40,728	$ 37,827	$ 30,653	$ 28,206
Income from continuing operations (1) (2)	$ 11,745	$ 8,743	$ 1,103	$ 258
Net income (loss) from discontinued operations	(2)	(13)	(30)	(220)
Net income	$ 11,743	$ 8,730	$ 1,073	$ 38
Net income applicable to common stock	$ 11,437	$ 8,730	$ 1,073	$ 38
Income per common share:				
Basic:				
Income from continuing operations	$ .54	$ .41	$ .05	$ .01
Income (loss) from discontinued operations, net	-	-	-	(.01)
Net income	$ .54	$ .41	$ .05	$ -
Diluted:				
Income from continuing operations	$ .51	$ .38	$ .05	$ .01
Income (loss) from discontinued operations, net	-	-	-	(.01)
Net income	$ .51	$ .38	$ .05	$ -
2008				
Net sales	$ 160,455	$ 198,052	$ 210,920	$ 179,540
Gross profit (1)	$ 37,757	$ 43,741	$ 31,169	$ 26,213
Income from continuing operations (1) (2)	$ 10,907	$ 17,924	$ 4,157	$ 3,572
Net income (loss) from discontinued operations	-	(17)	4	-
Net income	$ 10,907	$ 17,907	$ 4,161	$ 3,572
Net income applicable to common stock	$ 10,601	$ 17,907	$ 4,161	$ 3,572
Income per common share:				
Basic:	$ .50	$ .85	$ .20	$ .17
Diluted:	$ .46	$ .75	$ .18	$ .16

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

(1) The following items increased (decreased) gross profit and income from continuing operations:

	Three months ended			
	March 31	June 30	September 30	December 31
	(In Thousands)			
Changes in unrealized gains (losses) relating to commodities contracts still held at period end:				
2009	$ (1,498)	$ 30	$ 385	$ 138
2008	$ 53	$ 808	$ (5,391)	$ (3,576)
Turnaround costs:				
2009	$ (120)	$ (484)	$ (2,078)	$ (731)
2008	$ (247)	$ (366)	$ (881)	$ (4,461)
Precious metals, net of recoveries:				
2009	$ 486	$ (1,543)	$ (841)	$ (1,403)
2008	$ (2,460)	$ (1,102)	$ (1,304)	$ (1,462)
Changes in inventory reserves:				
2009	$ 3,032	$ (8)	$ 162	$ (782)
2008	$ (169)	$ (15)	$ (216)	$ (3,424)
Unplanned maintenance downtime - Cherokee Facility:				
2008	$ -	$ -	$ (5,100)	$ -

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

(2) The following items increased (decreased) income from continuing operations:

	Three months ended March 31	June 30	September 30	December 31
	(In Thousands)			
Expenses associated with the Pryor Facility:				
2009	$ (1,996)	$ (3,217)	$ (7,058)	$ (4,965)
2008	$ (421)	$ (498)	$ (425)	$ (1,047)
Gain (loss) on extinguishment of debt:				
2009	$ 1,322	$ 421	$ 53	$ (13)
2008	$ -	$ -	$ -	$ 5,529
Judgment, settlements and potential settlements of litigation and potential litigation:				
2009	$ 50	$ (75)	$ -	$ -
2008	$ 350	$ 7,518	$ -	$ (225)
Benefit (provision) for income taxes:				
2009 (A)	$ (7,349)	$ (5,451)	$ (1,310)	$ (914)
2008 (B)	$ (6,720)	$ (10,709)	$ (2,388)	$ 1,041

(A) For the three months ended December 31, 2009, the provision for income taxes includes the impact of additional provisions totaling $538,000 relating to the adjustments necessary to reconcile the 2008 state income tax returns to the 2008 estimated tax provision.

(B) During the three months ended December 31, 2008, we performed a detailed analysis of all our deferred tax assets and liabilities and determined that our deferred tax assets were understated by approximately $1,827,000. As a part of our analysis, we reviewed the realizability of these deferred tax assets and determined that a valuation allowance of approximately $268,000 was required. Accordingly, the addition of the deferred tax assets and the associated valuation allowance resulted in a tax benefit of $1,559,000 in our income taxes for the three months ended December 31, 2008. In addition, the net effect of these adjustments increased basic and diluted net income per share by $0.07 and $0.06, respectively, for the year ended December 31, 2008.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Balance Sheets

The following condensed financial statements in this Schedule I are of the parent company only, LSB Industries, Inc.

	December 31, 2009	December 31, 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 23,071	$ 25,720
Accounts receivable, net	12	46
Supplies, prepaid items and other	93	85
Due from subsidiaries	17,544	32,235
Notes receivable from a subsidiary	10,000	31,400
Total current assets	50,720	89,486
Property, plant and equipment, net	258	186
Investments in and due from subsidiaries	146,402	100,179
Other assets, net	2,017	2,468
	$ 199,397	$ 192,319
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 257	$ 432
Accrued and other liabilities	1,186	3,816
Redeemable, noncumulative, convertible preferred stock	48	52
Current portion of long-term debt	8	9
Total current liabilities	1,499	4,309
Long-term debt	29,400	40,500
Due to subsidiaries	2,558	2,558
Noncurrent accrued and other liabilities	4,492	3,947
Stockholders' equity:		
Preferred stock	3,000	3,000
Common stock	2,537	2,496
Capital in excess of par value	129,941	127,337
Retained earnings	41,082	19,804
	176,560	152,637
Less treasury stock	15,112	11,632
Total stockholders' equity	161,448	141,005
	$ 199,397	$ 192,319

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Income

	Year ended December 31,		
	2009	2008	2007
		(In Thousands)	
Fees under service, tax sharing and management agreements with subsidiaries	$ 3,531	$ 3,501	$ 2,801
Selling, general and administrative expense	5,321	6,108	5,361
Litigation judgment	-	(7,560)	-
Gain on sale of precious metals	-	-	(4,259)
Other expense (income), net	82	65	(402)
Operating income (loss)	(1,872)	4,888	2,101
Interest expense	3,513	5,988	5,142
Gains on extinguishment of debt	(1,783)	(5,529)	-
Interest and other non-operating income, net	(2,328)	(3,342)	(3,309)
Income (loss) from continuing operations	(1,274)	7,771	268
Equity in earnings of subsidiaries	23,123	28,789	46,266
Net income (loss) from discontinued operations	(265)	(13)	348
Net income	$ 21,584	$ 36,547	$ 46,882

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Cash Flows

	Year ended December 31, 2009	2008	2007
		(In Thousands)	
Net cash flows provided (used) by operating activities	$ (4,899)	$ 1,140	$ 5,953
Cash flows from investing activities:			
Capital expenditures	(99)	(71)	(71)
Proceeds from litigation judgment associated with property, plant and equipment of a subsidiary	-	5,948	-
Payment of legal costs relating to litigation judgment associated with property, plant and equipment of a subsidiary	-	(1,884)	-
Proceeds from sales of property and equipment	-	-	2
Notes receivable from a subsidiary	-	-	(29,886)
Payments received on notes receivable from a subsidiary	21,400	4,886	-
Payment of senior unsecured notes of a subsidiary		-	6,950
Other assets	(283)	(274)	(147)
Net cash provided (used) by investing activities	21,018	8,605	(23,152)
Cash flows from financing activities:			
Acquisition of 5.5% convertible debentures	(8,938)	(13,207)	-
Payments on other long-term debt	(1)	(6)	(4)
Payments of debt issuance costs	-	-	(209)
Proceeds from 5.5% convertible debentures, net of fees	-	-	56,985
Net change in due to/from subsidiaries	(7,738)	(3,972)	(4,832)
Purchase of treasury stock	(3,200)	(4,821)	-
Proceeds from exercise of stock options	609	846	1,522
Proceeds from exercise of warrant	-	-	393
Excess income tax benefit associated with stock-based compensation	806	2,390	1,740
Dividends paid on preferred stocks	(306)	(306)	(2,934)
Acquisition of non-redeemable preferred stock	-	-	(1,292)
Net cash provided (used) by financing activities	(18,768)	(19,076)	51,369
Net increase (decrease) in cash	(2,649)	(9,331)	34,170
Cash and cash equivalents at the beginning of year	25,720	35,051	881
Cash and cash equivalents at the end of year	$ 23,071	$ 25,720	$ 35,051

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Notes to Condensed Financial Statements

1. Basis of Presentation - The accompanying condensed financial statements of the parent company include the accounts of LSB Industries, Inc. (the "Company") only. The Company's investments in subsidiaries are stated at cost plus equity in undistributed earnings (losses) of subsidiaries since date of acquisition. These condensed financial statements should be read in conjunction with the Company's consolidated financial statements.

2. Debt Issuance Costs - During 2009, we acquired a portion of the 2007 Debentures. As a result, approximately $379,000 of the unamortized debt issuance costs associated with the 2007 Debentures acquired was charged against the gain on extinguishment of debt in 2009.

During 2008, we acquired a portion of the 2007 Debentures. As a result, approximately $764,000 of the unamortized debt issuance costs associated with the 2007 Debentures acquired was charged against the gain on extinguishment of debt in 2008.

During 2007, we incurred debt issuance costs of $3,224,000 relating to the 2007 Debentures. In addition, the remaining portion of the 2006 Debentures was converted into our common stock. As a result of the conversions, approximately $266,000 of the remaining debt issuance costs, net of amortization, associated with the 2006 Debentures were charged against capital in excess of par value in 2007.

3. Commitments and Contingencies - The Company has guaranteed the payment of principal and interest under the terms of various debt agreements of its subsidiaries. Subsidiaries' long-term debt outstanding at December 31, 2009, which is guaranteed by the Company, is as follows (in thousands):

Secured Term Loan due 2012	$	50,000
Other, most of which is collateralized by machinery, equipment and real estate		16,541
	$	66,541

In addition, the Company has guaranteed approximately $34.1 million of our subsidiaries' credit terms with vendors (primarily relating to purchases of natural gas) and approximately $22.9 million of our subsidiaries' insurance bonds.

See Notes 13 and 15 of the notes to the Company's consolidated financial statements for discussion of the long-term debt and commitments and contingencies.

4. Preferred Stock and Stockholders' Equity - At December 31, 2009 and 2008, a subsidiary of the Company owns 2,451,527 shares of the Company's common stock, which shares have been considered as issued and outstanding in the accompanying Condensed Balance Sheets included in this Schedule I - Condensed Financial Information of Registrant. See Notes 3, 12, 17 and 18 of notes to the Company's consolidated financial statements for discussion of matters relating to the Company's preferred stock and other stockholders' equity matters.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Notes to Condensed Financial Statements (continued)

5. Litigation Judgment - See Note 21 of the notes to the Company's consolidated financial statements for the discussion of the income from a litigation judgment in 2008.

6. Precious Metals - The Company had owned a specified quantity of precious metals used in the production process at one of its subsidiaries. Precious metals are carried at cost, with cost being determined using a FIFO basis. During 2007, the Company sold metals the subsidiary had accumulated in excess of their production requirements. As a result, the Company recognized gains of $4,259,000 for 2007 (none in 2009 and 2008) from the sale of these precious metals. These gains included an intercompany profit of $2,248,000, which are eliminated in the accompanying condensed statement of income through equity in earnings of subsidiaries. The intercompany profit resulted from differences in the FIFO cost basis of these metals in relation to the consolidated FIFO cost basis.

7. Gains on Extinguishment of Debt - During 2009 and 2008, we acquired $11.1 million and $19.5 million, respectively, aggregate principal amount of the 2007 Debentures for approximately $8.9 million and $13.2 million, respectively, with each purchase being negotiated. As a result, we recognized a gain on extinguishment of debt of approximately $1.8 million and $5.5 million, respectively, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

8. Interest Income - During 2007, the Company earned interest of $685,000 relating to $6,950,000 of senior unsecured notes due 2007 (the "Notes") of one of its subsidiaries, ThermaClime, which amount was being held as an investment. During 2007, ThermaClime repaid the Notes. In 2006, the Company entered into a $6,400,000 term loan due 2009 with ThermaClime. During 2009, 2008, and 2007, the Company earned interest of $698,000, $699,000 and $698,000, respectively, relating to this term loan. During 2009, ThermaClime repaid this term loan. During 2007, the Company entered into two demand notes totaling $29,886,000 with ThermaClime of which $15,000,000 and $4,886,000 was repaid in 2009 and 2008, respectively. During 2009, 2008, and 2007, the Company earned interest of $1,394,000, $1,671,000 and $801,000, respectively, relating to these demand notes. In addition, the Company has invested a portion of its cash (including a portion of the net proceeds of the 2007 Debentures) in highly liquid investments. During 2009, 2008, and 2007, the Company earned interest of $11,000, $651,000 and $752,000, respectively, relating to these investments.

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2009, 2008, and 2007

(In Thousands)

Description	Balance at Beginning of Year	Additions- Charges to (Recoveries) Costs and Expenses	Deductions- Write-offs/ Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts (1):				
2009	$ 729	$ 90	$ 143	$ 676
2008	$ 1,308	$ 371	$ 950	$ 729
2007	$ 2,269	$ 858	$ 1,819	$ 1,308
Inventory-reserve for slow-moving items (1):				
2009	$ 514	$ 745	$ 61	$ 1,198
2008	$ 460	$ 210	$ 156	$ 514
2007	$ 829	$ 29	$ 398	$ 460
Notes receivable - allowance for doubtful accounts (1):				
2009	$ 970	$ -	$ -	$ 970
2008	$ 970	$ -	$ -	$ 970
2007	$ 970	$ -	$ -	$ 970
Deferred tax assets - valuation (1):				
2009	$ 268	$ 90	$ -	$ 358
2008	$ -	$ 268	$ -	$ 268
2007	$ 18,932	$ (18,932)	$ -	$ -

(1) Deducted in the consolidated balance sheet from the related assets to which the reserve applies.

Other valuation and qualifying accounts are detailed in our notes to consolidated financial statements.

Exhibit 3(ii)1

LSB INDUSTRIES, INC.
(a Delaware Corporation)
AMENDED AND RESTATED BYLAWS
(as amended February 18, 2010)

ARTICLE I

Offices

Section 1. The principal office of the Corporation shall be in Oklahoma City, County of Oklahoma, State of Oklahoma, and the Corporation may also have offices at such other places as the Board of Directors may from time to time appoint or at such other places as the business of the Corporation requires.

ARTICLE II
Seal

Section 1. The corporate seal shall be in such form as the Board of Directors may from time to time prescribe. Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

ARTICLE III
Stockholders; Business to be Conducted at Annual or Special Meeting of Stockholders; and Stockholder Access to Corporation's Proxy Statement

Section 1. Place. All meetings of the stockholders shall be held in Oklahoma City, Oklahoma, or at such other place as the directors may designate.

Section 2. Annual Meeting. Annual meetings of stockholders to elect directors and transact such other business as may properly be presented to the meeting shall be held on the last Tuesday in June of each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at 10:00 a.m., or if the annual meeting is not held on the above designated date, then the directors shall cause the annual meeting to be held as soon thereafter as is convenient.

Section 3. Quorum. The holders of record of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, but in the absence of a quorum the holders of record, present in person or represented by proxy at such meeting shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 4. Voting; Proxies. Except as otherwise provided by the laws of the State of Delaware or the Certificate of Incorporation of the Corporation or these Bylaws:

(a) At every meeting of the stockholders every shareholder having the right to vote shall be entitled to one vote for each share of capital stock having voting rights held by him.

(b) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(c) Each matter properly presented to any meeting shall be decided by a majority of the votes cast on the matter.

(d) Election of directors and the vote on any other matter presented to a meeting need not be by written ballots, but written ballots may be used if ordered by the chairman of the meeting or if so requested by any stockholder present or represented by proxy at the meeting entitled to vote in such election or on such matter, as the case may be.

Section 5. Notice of Meeting. For each meeting of stockholders written notice shall be given stating the place, date and hour, and, in the case of a special meeting, the purpose or purposes for which the meeting is called and, if the list of stockholders required by Section 6 is not to be at the place of said meeting at least 10 days prior to the meeting, the place where said list will be. Except as otherwise provided by Delaware law, the written notice of any meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 6. List of Stockholders Entitled to Vote. At least 10 days before every meeting of stockholders a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared and shall be open to the examination of any stockholder for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 7. Special Meetings. A special meeting of stockholders may be called at any time by the Chairman or by a majority of the directors then in office, and shall be called by the Chairman upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such meeting, proposed to be presented at the meeting and signed by holders of record of two-thirds of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting."

Section 8. Chairman and Secretary at Meeting. At each meeting of stockholders, the Chairman of the Board of Directors or, in the absence or inability to serve by the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors or, in the absence or inability to serve by both the Chairman of the Board of Directors and the Vice Chairman of the Board of Directors, the President or, in the absence or inability to serve by the Chairman of the Board of Directors, Vice Chairman of the Board of Directors and the President, the person designated in writing by the President or, if no person is so designated, then a person designated by the Board of Directors shall preside as Chairman of the meeting; if no person is so designated, then the Board of Directors shall choose a Chairman by plurality vote. The Secretary or in his absence a person designated by the Chairman of the meeting shall act as Secretary of the meeting.

Section 9. Adjourned Meetings. A meeting of stockholders may be adjourned to another time or place as provided in Sections 3 or 4(d) of this Article III. Unless the Board of Directors fixes a new record date, stockholders of record for an adjourned meeting shall be as originally determined for the meeting from which the adjournment was taken. If the adjournment is for more than 30 days, or if after the adjournment, a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote. At the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called.

Section 10. Consent of Stockholders in Lieu of Meeting.

10.1 Action by Written Consent. Any action which is required to be or may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, shall have been signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided however, that prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

10.2 Determination of Record Date of Action by Written Consent. In order to inform the Corporation's stockholders and the investing public in advance that a record date for action by consent will occur and to comply with the procedures contained in the New York Stock Exchange (or such other exchange on which the Corporation's securities are listed for trading) policies and rules, the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting is fixed by the Board of Directors of the Corporation pursuant to Section 213 of the Delaware General Corporation Law as follows: The

Board of Directors shall set as the record date the 10th day after (i) any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice to the Secretary which may be given by telex or telecopy, advise the Corporation of the corporate action proposed for which consents will be sought and request from the Board of Directors a record date unless a later date is specified by such stockholder, or (ii) the Board of Directors determines that the Corporation should seek corporate action by written consent, unless a later record date is specified in the resolution of the Board of Directors containing such determination. In the event that the record date set as provided falls on a Saturday, Sunday or legal holiday, the record date shall be the first day next following such date that is not a Saturday, Sunday or legal holiday. Any record date determined pursuant to this Subsection 10.2 shall be announced by a press release prior to the opening of trading on the New York Stock Exchange (or such other exchange on which the Corporation's securities are listed for trading) on the next trading day after a request for a record date pursuant to clause (i) above is received by the Secretary or a Board of Directors' determination pursuant to clause (ii) above.

10.3 Duration and Revocation of Consents. In order that the Corporation's stockholders shall have an opportunity to receive and consider the information germane to an informed judgment as to whether to give a written consent and in accordance with the procedures contained in the New York Stock Exchange (or such other exchange on which the Corporation's securities are listed for trading) policies and rules, the stockholders of the Corporation shall be given at least 20 days from the record date to give or revoke written consents. Consents to corporate action shall be valid for a maximum of 60 days after the record date. Consents may be revoked by written notice (i) to the Corporation, (ii) to the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the Corporation (the "Soliciting Stockholders"), or (iii) to a proxy solicitor or other agent designated by the Corporation of the Soliciting Stockholder(s).

10.4 Retention and Duties of Inspectors of Election. Within two business days after receipt of a request by a stockholder for the setting of a record date or a determination by the Board of Directors that the Corporation should seek corporate action by written consent, as the case may be, the Secretary of the Corporation shall engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The inspectors shall review all consents and revocations, determine whether the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents, and forthwith certify such determination for entry in the records of the Corporation kept for the purpose of recording the proceedings of meetings of stockholders. The cost of retaining inspectors of elections shall be borne by the party proposing the action by consent.

10.5 Procedures for Counting and Challenging Consents. Consents and revocations shall be delivered to the inspectors upon receipt by the Corporation, the Soliciting Stockholders or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. The inspectors shall keep such count confidential and shall not reveal the count to the Corporation, the Soliciting Stockholders or their representatives. As soon as practicable after the earlier of (i) 60 days after the record date for the consents or (ii) a request therefore by the Corporation or the Soliciting Stockholders (whichever is soliciting consents) made after expiration of the period for giving or revoking consents under Subsection 10.3 above, notice of which request shall be given to the party opposing the solicitation of consents, which request shall state that the Corporation or Soliciting Stockholder(s) (as the case may be) in good faith believe that it or they have received the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents, the inspectors shall issue a preliminary report to the Corporation and the Soliciting Stockholders stating:

(i) The number of valid consents;

(ii) The number of valid revocations;

(iii) The number of valid and unrevoked consents;

(iv) The number of invalid consents;

(v) The number of invalid revocations;

(vi) Whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the Corporation and the Soliciting Stockholder(s) shall agree to a shorter or longer period, the Corporation and the Soliciting Stockholder(s) shall have 48 hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within 48 hours after the inspector's issuance of the preliminary report, the inspectors shall issue to the Corporation and the Soliciting Stockholder(s) their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the Corporation or the Soliciting Stockholder(s) issue written notice of an intention to challenge the inspectors' preliminary report within 48 hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the Corporation and the Soliciting Stockholder(s) containing the information included in the preliminary report, plus all changes in the vote totals as a result of the challenges and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents.

10.6 Notice of Results. The Corporation shall give prompt notice to the stockholders of the results of any consent solicitation or the taking of the corporate action without a meeting and by less than unanimous written consent.

Section 11. Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 12. Business to be Conducted at the Annual or Special Meeting of the Stockholders; Notice of Proposals. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who: (a) was a stockholder of record (and, with respect to any beneficial owner, if different, on whose behalf such business as proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving notice provided for in this Section 12 and at the time of the meeting; and (b) complies with the notice procedures set forth in this Section 12.

Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (as so amended and inclusive of such rules as regulations, the “Exchange Act”) and included in the notice of the meeting given by or at the direction of the Board of Directors, the foregoing clause (ii) will be the exclusive means for a stockholder to propose business to be brought before the annual meeting of stockholders.

For business to be properly brought before the annual meeting by a stockholder, the Proposing Person (as defined below) must have given timely notice thereof in writing to the Secretary of the Corporation. The Proposing Person’s notice will be timely if delivered or mailed to and received at the principal executive offices at the Corporation not less than 120 nor more than 150 days before the date on which the Corporation first mailed its proxy materials for the prior year’s annual meeting of stockholders; provided however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such date, notice by the stockholder timely must be so delivered, or mailed and received not later than the 90th day prior to such annual meeting, or if later, the 10th day following the date on which the public disclosure of the date of such annual meeting was such made. Any adjournment of an annual meeting or the announcement hereof will not commence a new time period for giving the notice described above.

The Proposing Person's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, the following:

(i) the name and address, as they appear on the Corporation books, of the stockholder proposing such business;

(ii) the class or series and number of shares of the Corporation's securities that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by the Proposing Person, except the Proposing Person will be deemed to beneficially own any shares or class or series of the Corporation's securities which the Proposing Person has a right to acquire beneficially ownership at any time in the future (collectively, the "Stockholder Information");

(iii) as to each item of business that the stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration), and

(iv) a reasonably detailed description of all agreements, arrangements and understandings, oral or in writing (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other record or beneficial holder of the shares of any class or series of the Corporation (including their names) in connection with the proposal of such business by such stockholder or (z) between or among any Proposing Person and any other persons or entities (including their names) acting in concert with the Proposing Person.

For purposes of this Section 12, the term "Proposing Person" shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, and (iii) any affiliate or associate (each within the meaning of Rule 12b-2 under the Exchange Act for purposes of these Bylaws) of such stockholder or beneficial owner; and (iv) any material interest of such stockholder with respect to such business.

Notwithstanding anything in these Bylaws to the contrary, no business (other than nominations of directors, which must be made in compliance with, and shall be exclusively governed by, Article III, Section 13 of these Bylaws) shall be brought before or conducted at the annual meeting except in accordance with the provisions of this Section 12. The officer of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12 and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, as needed, so that the information provided or required to be provided in such notice pursuant to this Section 12 shall be true and correct as of the record date for the meeting and as of the date that is 10 business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary of the Corporation at the principal executive offices of the Corporation not later than five business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight business days prior to the date for the meeting (in the case of the update and supplement required to be made as of 10 business days prior to the meeting or any adjournment or postponement thereof).

This Section 12 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders; except this Section 12 shall not apply to any proposal made pursuant to Rule 14a-8 of the Exchange Act, or to the nomination of persons for election to the Corporation's Board of Directors at a meeting of stockholders at which directors are to be elected which shall be governed by Article III, Section 13 of these Bylaws. In addition to the requirements of this Section 12 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act with respect to any such business. Nothing in this Section 12 shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

For purposes of these Bylaws, "public disclosure" shall mean disclosure in a press release reported by a national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that business was not properly brought before the meeting in accordance with the procedures set forth in this Section 12, and, if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 13. Election to the Board of Directors.

13.1 Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible for election as directors of the Corporation. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only:

(i) By or at the direction of the Board of Directors; or

(ii) By any stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in Subsection 13.2 below.

The foregoing clause (ii) will be the exclusive means by which a stockholder may nominate a person for election to the Board of Directors.

13.2 Nominations of election as a director of the Corporation, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than 120 nor more than 150 days prior to the date of the meeting; provided, however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such date, notice by the stockholder to be timely must be so delivered, or mailed and received not later than the 90th day prior to such annual meeting, or if later, the 10th day following the date on which the public disclosure of the date of such annual meeting was so made. Any adjournment of an annual meeting or the announcement hereof will not commence a new time period for giving the timely notice described above. Such stockholder's notice shall set forth:

(i) As to each person whom such stockholder proposes to nominate for election or reelection as a director, (x) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (y) a representation that such a person shall also provide any other information reasonably requested by the Corporation within 10 business days after such request); and

(ii) As to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder, and (y) the class and number of shares of the Corporation's voting capital stock that are beneficially owned by such stockholder.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the provisions of this Section 13, and, if the stockholder desires or requests access to the Corporation's Proxy Statement with respect to the election of a director, Article III, Section 14 of these Bylaws.

The officer of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Section 14. Stockholder Access to Corporation's Proxy Statement.

(a) Whenever the Corporation solicits proxies with respect to an election of directors at an annual meeting (an "Election"), it shall include in its proxy statement and on its proxy card, in addition to individuals nominated by the Board of Directors, up to the Permitted Number of individuals nominated in compliance with these Bylaws by one or more Eligible Stockholders. Any Eligible Stockholder seeking to have its nominee included in the Corporation's proxy statement and on the Corporation's proxy card shall comply with all provisions of these Bylaws otherwise applicable to shareholder nominations and furnish to the Secretary of the Corporation, no later than the last day on which stockholder nominations for consideration in the Election may be made under Article III, Section 13.2 of these Bylaws (the "Advance Notice Date"),

(i) the information set forth in Sections 13.2 of these Bylaws,

(ii) the written undertakings described in subsections (d) and (e) below, and

(iii) any accompanying statement from the Eligible Stockholder to be included in the Corporation's proxy statement, which statement in order to be so included shall not exceed 500 words and must fully comply with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, including without limitation Rule 14a-9.

(b) For purposes of this Section:

(i) The "Permitted Number" means one seat on the Corporation's Board of Directors to be filled in the Election; *provided*, *however*, that the Permitted Number shall be reduced, but not below zero, by the sum of (i) number of such director candidates for which the Corporation shall have received from Eligible Stockholders by the Advance Notice Date one or more valid stockholder notices nominating director candidates, and (ii) the number of directors in office and serving in the class of directors to be considered at the Election for whom access to the Corporation's proxy materials was provided pursuant to this Section ("Access Director"), other than any who has served as a director continuously for at least six years. In no event will the number of nominees nominated by an Eligible Stockholder for which access to the Corporation's proxy materials may be provided in the Election plus the number of Access Directors serving on the Board at the time of the Election exceed 25% of the total number of directors that shall constitute the whole board.

(ii) An "Eligible Stockholder" means a stockholder of the Corporation that, together with its Affiliates, has continuously held Beneficial Ownership and Economic Interest of not less than the Required Interest for at least one year preceding the Advance Notice Date, and that complies with all applicable provisions of these Bylaws.

(iii) "Beneficial Ownership" means the power to vote or direct the voting of, or to dispose or direct the disposition of, the securities in question.

(iv) An "Economic Interest" in a security means having or sharing the opportunity, directly or indirectly, to profit or share in any profit (or loss) derived from a transaction in the security, including through options, swaps or other derivative securities or synthetic arrangements.

(v) "Independent" with respect to a nominee for director pursuant to this Section 14 shall mean (a) that the nominee would be considered an independent director in accordance with the listing standards of the principal U.S. securities market in which the common stock of the Corporation trades or, if no such listing standards are applicable at the time, in accordance with the standards used by the Board of Directors or a duly authorized committee thereof in determining and disclosing the independence of the Corporation's directors in accordance with the rules of the SEC and (b) the nominee is not an employee or officer of, or consultant to, the Eligible Stockholder or any of its Affiliates and has no other material association, by agreement, understanding or familial or other relationship, with the Eligible Stockholder or any of its Affiliates.

(vi) A "Disqualified Repeat Nominee" in respect of an election shall mean an individual as to whom access to the Corporation's proxy materials for the immediately preceding election was provided and who (i) withdrew from or became ineligible or unavailable for election at the meeting, or (ii) received at such meeting votes in favor of his or her election representing less than 50% of the total votes cast for or withheld from his or her election.

(vii) The "Required Interest" means 5% of the voting power of the outstanding voting securities of the Corporation entitled to vote in the Election, based upon the number of outstanding voting securities of the Corporation most recently disclosed prior to the Advance Notice Date by the Corporation in a filing with the Securities and Exchange Commission.

(viii) "Affiliate" of a specified person means a person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the specified person, and, with respect to any investment company (as defined in the Investment Company Act of 1940, whether or not exempt from registration thereunder), shall also include all other investment companies managed by the same investment adviser or any of its Affiliates.

(c) Subject to the following sentence and any undertaking previously provided by an Eligible Stockholder pursuant to Section 14(d) below, each Eligible Stockholder, together with its Affiliates, may nominate one, and not more than one, individual under this Section for inclusion in the Corporation's proxy statement and on its proxy card. If the Corporation shall receive more than the Permitted Number of proposed nominations from Eligible Stockholders in compliance with these Bylaws, then the nominee nominated by the Eligible Stockholder possessing the largest Beneficial Ownership of voting securities of the Corporation as of the Advance Notice Date shall be the only nominee for purposes of this Section 14.

(d) Any Eligible Stockholder nominating an individual for director in accordance with this Section shall execute and deliver to the Corporation no later than the Advance Notice Date an undertaking, in a form to be provided by the Secretary of the Corporation, that it will, and will cause its Affiliates to,

(i) not sell or otherwise dispose of its Beneficial Ownership and Economic Interest of voting securities of the Corporation so as to reduce the Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, below the Required Interest on or prior to the date of the Election (and representing that they have no present intention of reducing, within one year following the Election, their aggregate Beneficial Ownership and Economic Interest below the greater of (x) the Required Interest and (y) 75% of their aggregate Beneficial and Economic Interest as of the Advance Notice Date),

(ii) comply with the provisions of the Corporation's Certificate of Incorporation and Bylaws and all laws and regulations relating to the accompanying statement submitted by the Eligible Stockholder and any solicitation or communications with stockholders of the Corporation in connection with such nomination,

(iii) indemnify the Corporation and its agents and representatives in respect of any and all liabilities that may arise out of the accompanying statement submitted by the Eligible Stockholder or any solicitation or communications with stockholders of the Corporation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection with such nomination, including as a result of any violation of law or regulation by such Eligible Stockholder, its Affiliates or their respective agents or representatives in connection therewith,

(iv) not use any proxy card other than the Corporation's proxy card in soliciting stockholders in connection with the matters to be voted on at the meeting at which the Election is held,

(v) file all solicitation materials used by it or on its behalf with the Securities and Exchange Commission under cover of Schedule 14A promulgated under the Exchange Act, and

(vi) for a period of one year from the date of the Election, not (x) nominate any individual to be a director of the Corporation or conduct any solicitation with respect to an election for directors of the Corporation other than with respect to the Election and in accordance with this Section, or (y) acquire or propose to acquire Beneficial Ownership of or an Economic Interest in any voting securities of the Corporation such that such Eligible Stockholder, together with its Affiliates, would have aggregate Beneficial Ownership of, and/or an Economic Interest in, more than the greater of (I) 10% of the voting power of the outstanding voting securities of the Corporation or (II) an additional 5% of the voting power of the Corporation's outstanding voting securities in excess of the aggregate Beneficial Ownership and Economic Interest held by such Eligible Stockholder, together with its Affiliates, as of the Advance Notice Date (the "Aggregate Beneficial Ownership"); provided that the Aggregate Beneficial Ownership shall not equal or exceed the amount that would equal or exceed the beneficial ownership threshold necessary to trigger the Corporation preferred share rights plan as may be in effect during such time.

(e) Any Eligible Stockholder nominating an individual for director in accordance with this Section shall also deliver to the Corporation no later than the Advance Notice Date a signed undertaking of its nominee agreeing that he or she will tender his or her resignation from the Board of Directors if

(i) any of the information provided to the Corporation by the Eligible Stockholder or the nominee pursuant to this Bylaw is determined to be inaccurate in any material respect, or

(ii) the Eligible Stockholder or any of its Affiliates shall breach their obligations under the undertakings described in subsection (d) above in any material respect.

(f) The Nominating and Governance Committee shall consider a nomination pursuant to this Section 14, and shall determine if the Access Nominee is Independent and may, in its discretion, make a recommendation to the Board of Directors as to whether the Access Nominee should be nominated by the Board of Directors for election at the Annual Meeting of Stockholders.

If the Board of Directors nominates an Access Nominee as part of the Board's slate of nominees, the Notice of Access will be deemed withdrawn and the former Access Nominee shall be presented to the stockholders in the same manner as any other nominee of the Board of Directors. If the Board of Directors does not so nominate the Access Nominee, access to the Corporation's proxy materials shall be provided in accordance with the terms and subject to the conditions of this Section.

The Board of Directors or a committee thereof may adopt such rules or guidelines for applying the provisions of this Section as it determines are appropriate. These may include timing and other such adjustments as may be appropriate in the event an Access Nominee for whom Notice of Access has been provided becomes unavailable or unwilling to serve or becomes ineligible.

(g) This Section shall provide the exclusive method for stockholders to include nominees for director in the Corporation's proxy statement and on the Corporation's proxy card.

ARTICLE IV
Directors

Section 1. Number, Term, Qualifications and Vacancies. The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three nor more than fourteen members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be stockholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 2. Offices and Books. The directors may have one or more offices, and keep the books of the Corporation at the offices of the Corporation in Oklahoma City, Oklahoma, or at such other places as they may from time to time determine.

Section 3. Resignation. Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors, or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 4. Removal. Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors. For purposes of this Article IV, Section 4, cause for removal shall be deemed to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such director's duty to the Corporation and, in each case, such adjudication is no longer subject to direct appeal.

Section 5. Regular and Annual Meetings; Notice. Regular meetings of the Board of Directors shall be held at such time and at such place, within or without the State of Delaware, as the Board of Directors may from time to time prescribe. No notice need be given of any regular meeting and a notice, if given, need not specify the purposes thereof. A meeting of the Board of Directors may be held without notice immediately after an annual meeting of stockholders at the same place as that at which such annual meeting of stockholders was held.

Section 6. Special Meetings; Notice. A special meeting of the Board of Directors may be called at any time by the Chairman or a majority of the directors then in office. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting.

Section 7. Presiding Officer and Secretary at Meetings. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his absence by the President or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The Secretary, or in his absence an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

Section 8. Quorum. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business, but in the absence of a quorum, a majority of those present (or if only one be present, then that one) may adjourn the meeting, without notice other than announcement at the meeting, until such time as a quorum is present. Except as otherwise required by the Certificate of Incorporation or these Bylaws, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. Meeting by Telephone. Members of the Board of Directors or of any committee thereof may participate in meetings of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 10. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 11. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation’s property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present.

Section 12. Compensation. Each director shall be entitled to reimbursement of his reasonable expenses incurred in attending meetings or otherwise in connection with his attention to the affairs of the Corporation. Each director who is not a salaried officer of the Corporation or of a subsidiary of the Corporation shall, as such director and as a member of any committee, be entitled to receive such amounts as may be fixed from time to time by the Board of Directors, in the form either of fees for attendance at meetings of the Board and of committees thereof, or of payment at the rate of a fixed sum per month, or both.

Section 13. Additional Powers. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, as from time to time amended, or by these Bylaws, as from time to time amended, directed or required to be exercised or done by the stockholders.

ARTICLE V
Officers

Section 1. Designation. The Corporation shall have such officers with such titles and duties as set forth in these Bylaws or in any one or more resolutions of the Board of Directors adopted on or after the effective date of these Bylaws which are not inconsistent with these Bylaws and as may be necessary to enable the Corporation to sign instruments and stock certificates as required by law.

Section 2. Election; Qualification. The officers of the Corporation shall be a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may also elect a Chairman of the Board of Directors, a Vice Chairman of the Board of Directors, a Controller, one or more Assistant Secretaries, one or more Assistant Treasurers, one or more Assistant Controllers, and such other officers as it may from time to time determine. The Chairman of the Board of Directors and Vice Chairman of the Board, if any, shall be elected from among the directors. Two or more offices may be held by the same person.

Section 3. Term of Office. Each officer shall hold office from the time of his election and qualification to the time at which his successor is elected and qualified, unless sooner he shall die or resign or shall be removed pursuant to Article V, Section 5.

Section 4. Resignation. Any officer of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Removal. Any officer may be removed at any time, with or without cause, by the vote of a majority of the whole Board of Directors.

Section 6. Vacancies. Any vacancy however caused in any office of the Corporation may be filled by the Board of Directors.

Section 7. Compensation. The compensation of each officer shall be such as the Board of Directors may from time to time determine.

Section 8. Chairman of the Board of Directors and Vice Chairman of the Board of Directors. The Chairman of the Board of Directors and, in his absence or inability to serve, the Vice Chairman of the Board of Directors, if such offices be occupied, shall serve as Chairman of the meetings of the Board of Directors and shall further advise and consult with the Chief Executive Officer and the President concerning the business and affairs of the Corporation and shall also have such powers and duties as the Bylaws or the Board of Directors may from time to time prescribe.

Section 9. Chief Executive Officer. Chief Executive Officer of the Corporation shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the chief executive officer, subject, however, to the right of the Board of Directors to confer specified powers on the Chief Executive Officer of the Corporation.

Section 10. President. In the absence of the Chief Executive Officer or his inability to same, the President shall serve as the Chief Executive Officer of the Corporation and shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the Chief Executive Officer, subject however to the right of the Chief Executive Officer or the Board of Directors to confer specified duties and/or powers on the President of the Corporation from time to time.

Section 11. Vice President. Each Vice President shall have such powers and duties as generally pertain to the office of Vice President and as the Board of Directors or the President may from time to time prescribe. During the absence of the President or his inability to act, the Vice President, or if there shall be more than one Vice President, then that one designated by the Board of Directors, shall exercise the powers and shall perform the duties of the President, subject to the direction of the Board of Directors.

Section 12. Secretary. The Secretary shall keep the minutes of all meetings of stockholders and of the Board of Directors. He shall be custodian of the corporate seal and shall affix it or cause it to be affixed to such instruments as he deems necessary or appropriate and attest the same and shall exercise the powers and shall perform the duties incident to the office of Secretary, and those that may otherwise from time to time be assigned to him subject to the direction of the Board of Directors.

Section 13. Treasurer. The Treasurer shall be the chief accounting officer of the Corporation and shall have care of all funds and securities of the Corporation and shall exercise the powers and shall perform the duties incident to the office of Treasurer, subject to the direction of the Board of Directors.

Section 14. Other Officers. Each other officer of the Corporation shall exercise the powers and shall perform the duties incident to his office, subject to the direction of the Board of Directors.

ARTICLE VI
Capital Stock

Section 1. Stock Certificates. The interest of each holder of stock of the Corporation shall be (a) evidenced by a certificate or certificates in such form as the Board of Directors may from time to time prescribe or (b) represented by uncertificated shares as issued by the Corporation. The issuance of shares in uncertificated form shall not affect shares already represented by a certificate until the certificate is surrendered to the Corporation. In the case of certificated shares, each certificate shall be signed by or, in the name of the Corporation by the Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation. If such certificate is countersigned (a) by a transfer agent other than the Corporation or its employee, or (b) by a registrar other than the Corporation or its employee, any other signature on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Shares of stock shall be transferable on the books of the Corporation pursuant to applicable law and such rules and regulations as the Board of Directors shall from time to time prescribe on or after the effective date of these Bylaws.

Section 3. Holders of Record. Prior to due presentment for registration or transfer or receipt of proper transfer instructions, the Corporation may treat the holder of record of a share of its stock as the complete owner thereof exclusively entitled to vote, to receive notifications and otherwise entitled to all the rights and powers of a complete owner thereof, notwithstanding notice to the contrary.

Section 4. Lost, Stolen, Destroyed, or Mutilated Certificates. The Corporation may issue a new certificate of stock or uncertificated shares to replace a certificate alleged to have been lost, stolen, destroyed or mutilated upon terms and conditions as the Board of Directors may from time to time prescribe, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate or his legal representative, to give the Corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate.

Section 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more Transfer Agents and Registrars for the Common Stock and Preferred Stock of the Corporation. The Transfer Agent shall be in charge of the issue, transfer, and cancellation of shares of stock and shall maintain stock transfer books, which shall include a record of the stockholders, giving the names and addresses of all stockholders, and the number and class of shares held by each; prepare voting lists for meetings of stockholders; produce and keep open these lists at the meetings; and perform such other duties as may be delegated by the Board of Directors. Stockholders may give notice of changes of their addresses to the Transfer Agent. The Registrar shall be in charge of preventing the over-issue of shares, shall register all certificated or uncertificated shares of stock, and perform such other duties as may be delegated by the Board of Directors.

ARTICLE VII
Checks

Section 1. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE VIII
Fiscal Year

Section 1. The fiscal year shall begin the first day of January in each year.

ARTICLE IX
Dividends

Section 1. Declaration. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock of the Corporation.

Section 2. Reserve Fund. The Board of Directors may set aside out of any funds of the Corporation available for dividends a reserve or reserves for any proper purposes and in such sum or sums as the directors from time to time, in their absolute discretion, believe to be proper, and the Board of Directors may abolish any such reserve.

ARTICLE X
Notice

Section 1. Waiver of Notice. Whenever notice is required by the Certificate of Incorporation, the Bylaws, or as otherwise provided by law, a written waiver thereof, signed by the person entitled to notice, shall be deemed equivalent to notice, whether before or after the time required for such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

Section 2. Mailing of Notice. Whenever under the provisions of these Bylaws notice is required to be given to any director, officer or shareholder and such notice is not waived as provided in Section 1 of this Article X, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in post- paid sealed wrapper, addressed to such shareholder, officer or director at such address as appears on the books of the Corporation, or, in default of other address, to such director, officer or shareholder at the General Post Office in Oklahoma City, Oklahoma, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

ARTICLE XI
Amendment of Bylaws

Section 1. Amendment. These Bylaws may be made, amended, altered, added to, revised or repealed only by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors; provided, however, that Article IV, Section 1 of these Bylaws and this Article XI, Section 1, may be amended, altered, added to, revised or repealed only by a vote of two-thirds of the entire Board of Directors or by a vote of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors.

These Amended and Restated Bylaws of LSB Industries, Inc. amend, restate and set forth the entire Bylaws of the Corporation and have been approved by the Board of Directors of the Corporation as of the 20th day of August, 2009.

LSB INDUSTRIES, INC.

/s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board

/s/ David M. Shear
David M. Shear, Secretary

Exhibit 4.9

FIRST AMENDMENT

TO THE AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

FIRST AMENDMENT, dated as of November 24, 2009 (the "Amendment"), to the Amended and Restated Loan and Security Agreement dated as of November 5, 2007 (the "Loan Agreement"), by and among (i) LSB INDUSTRIES, INC., a Delaware corporation (the "Parent"), THERMACLIME, INC., an Oklahoma corporation formerly known as ClimaChem, Inc. ("ThermaClime"), and each of the Subsidiaries of ThermaClime identified on the signature pages thereof (such Subsidiaries, together with ThermaClime, each a "Borrower", and collectively, the "Borrowers"), (ii) the lenders identified on the signature pages thereof (each a "Lender" and collectively the "Lenders") and (iii) WELLS FARGO FOOTHILL, INC., a California corporation formerly known as Foothill Capital Corporation, as the arranger and administrative agent for the Lenders (the "Agent").

WHEREAS, the Borrowers desire to amend certain reporting requirements in the Loan Agreement.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Capitalized Terms. All capitalized terms used in this Amendment (including, without limitation, in the recitals hereto) and not otherwise defined shall have their respective meanings set forth in the Loan Agreement.

2. Definitions. Section 1.1 of the Loan Agreement is hereby amended by adding the following defined terms in proper alphabetical order:

""First Amendment" means that certain First Amendment to the Amended and Restated Loan and Security Agreement, dated as of November 24, 2009, among the Borrowers, the Lenders and the Agent."

""First Amendment Effective Date" means the date that all of the conditions set forth in Section 6 of the First Amendment shall be satisfied (or waived by the Agent in its sole discretion)."

3. Cash Management. Section 2.7(b) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"(b) On the Closing Date, each Cash Management Bank shall establish and maintain Cash Management Agreements with Agent and Borrowers in form and substance acceptable to Agent, provided that such Cash Management Agreements may not be implemented until 30 days after the Closing Date. Each such Cash Management Agreement shall provide, among other things, that (i) all items of payment deposited in such Cash Management Account and proceeds thereof are held by such Cash Management Bank as agent or bailee-in-possession for Agent, (ii) the Cash Management Bank has no rights of setoff or recoupment or any other claim against the applicable Cash Management Account, other than for payment of its service fees and other charges directly related to the administration of such Cash Management Account and for returned checks or other items of payment, and (iii) it immediately will forward by daily sweep all amounts in the applicable Cash Management Account to the Agent's Account; provided, that, from and after the First Amendment Effective Date, the requirement set forth in this clause (iii) shall not be required so long as (A) no Event of Default has occurred and is continuing after the First Amendment Effective Date and (B) Excess Availability is $30,000,000 or greater at all times after the First Amendment Effective Date, and if the conditions set forth in clauses (A) and (B) are satisfied, Agent shall direct the Cash Management Bank to forward all amounts in the Cash Management Account to Borrowers' Account in accordance with the wire instructions set forth on Schedule 2.7(b) hereto."

4. Reporting.

(a) The chart in Section 6.2 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"If Excess Availability falls below $30,000,000 at any time after the First Amendment Effective Date, Daily; otherwise such documents are not required	(a) a sales journal, collection journal, and credit register since the last such schedule and a calculation of the Borrowing Base of Borrowers on an individual and a combined basis, and (b) notice of all returns, disputes, or claims.
Monthly, provided, that, if Excess Availability falls below $30,000,000 at any time after the First Amendment Effective Date, Weekly	(c) Inventory reports specifying each Borrower's cost and the wholesale market value of its Inventory, with additional detail showing additions to and deletions from the Inventory.

Monthly (not later than the 15th day of each month)	(d) a detailed calculation of the Borrowing Base of Borrowers, on an individual and a combined basis, (including, in each case, detail regarding those Accounts that are not Eligible Accounts), (e) a detailed aging, by total, of the Accounts, together with a reconciliation to the detailed calculation of the Borrowing Base previously provided to Agent, (f) a summary aging, by vendor, of Borrowers' accounts payable and any book overdraft, and (g) a calculation of Dilution for the prior month.
Quarterly	(h) a detailed list of each Borrower's customers with outstanding account balances, and (i) a report regarding each Borrower's accrued, but unpaid, ad valorem taxes,
Upon request by Agent	(j) copies of invoices in connection with the Accounts, credit memos, remittance advices, deposit slips, shipping and delivery documents in connection with the Accounts and, for Inventory and Equipment acquired by Borrowers, purchase orders and invoices, and (k) such other reports as to the Collateral, or the financial condition of Borrowers as Agent may request."

5. Schedule 2.7(b). The Loan Agreement is hereby amended by adding Schedule 2.7(b), as set forth in Annex I hereto.

6. Conditions Precedent. The effectiveness of this Amendment is subject to the fulfillment, in a manner satisfactory to the Agent, of each of the following conditions precedent (the first date upon which all such conditions shall have been satisfied being herein called the "First Amendment Effective Date"):

(a) Representations and Warranties; No Event of Default. The representations and warranties contained herein, in Section 5 of the Loan Agreement and in each other Loan Document and certificate or other writing delivered to the Agent or any Lender pursuant hereto on or prior to the First Amendment Effective Date shall be correct in all material respects on and as of the First Amendment Effective Date as though made on and as of such date, except to the extent that such representations and warranties (or any schedules related thereto) expressly relate solely to an earlier date (in which case such representations and warranties shall be true and correct in all material respects on and as of such date); and no Default or Event of Default shall have occurred and be continuing on the First Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(b) Delivery of Documents. The Agent shall have received on or before the First Amendment Effective Date the following, each in form and substance satisfactory to the Agent and, unless indicated otherwise, dated the First Amendment Effective Date:

(i) counterparts of this Amendment duly executed by the Borrowers, the Agent and the Lenders; and

(ii) such other agreements, instruments, approvals, opinions and other documents as the Agent may reasonably request from the Borrowers.

7. Representations and Warranties. Each Borrower hereby represents and warrants to the Agent and the Lenders as follows:

(a) Representations and Warranties; No Event of Default. The representations and warranties herein, in Section 5 of the Loan Agreement and in each other Loan Document and certificate or other writing delivered to the Agent or any Lender pursuant hereto on or prior to the First Amendment Effective Date are correct in all material respects on and as of the First Amendment Effective Date as though made on and as of such date, except to the extent that such representations and warranties (or any schedules related thereto) expressly relate solely to an earlier date (in which case such representations and warranties are true and correct in all material respects on and as of such date); and no Default or Event of Default has occurred and is continuing on the First Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(b) Organization, Good Standing, Etc. Each Borrower (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of its organization, (ii) has all requisite power and authority to execute, deliver and perform this Amendment and the other Loan Documents to which it is a party being executed in connection with this Amendment, and to perform the Loan Agreement, as amended hereby, and (iii) is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary except where the failure to be so qualified reasonably could not be expected to have a Material Adverse Change.

(c) Authorization, Etc. The execution, delivery and performance by each Borrower of this Amendment, and the performance by each Borrower of the Loan Agreement, as amended hereby, (i) have been duly authorized by all necessary action on the part of such Borrower, (ii) do not and will not contravene such Borrower's charter or by-laws, any applicable law or any material contractual restriction binding on or otherwise affecting it or any of its properties, (iii) do not and will not result in or require the creation of any Lien (other than pursuant to any Loan Document) upon or with respect to any of its properties, and (iv) do not and will not result in any suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to its operations or any of its properties.

8. Miscellaneous.

(a) Continued Effectiveness of the Loan Agreement. Except as otherwise expressly provided herein, the Loan Agreement and the other Loan Documents are, and shall continue to be, in full force and effect and are hereby ratified and confirmed in all respects, except that on and after the First Amendment Effective Date (i) all references in the Loan Agreement to "this Agreement", "hereto", "hereof", "hereunder" or words of like import referring to the Loan Agreement shall mean the Loan Agreement as amended by this Amendment, and (ii) all references in the other Loan Documents to which any Borrower is a party to the "Loan Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Loan Agreement shall mean the Loan Agreement as amended by this Amendment. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as an amendment of any right, power or remedy of the Lender under the Loan Agreement or any other Loan Document, nor constitute an amendment of any provision of the Loan Agreement or any other Loan Document.

(b) Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

(c) Headings. Section headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

(d) Governing Law. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

(e) Costs and Expenses. The Borrowers jointly and severally agree to pay on demand all reasonable fees, costs and expenses of the Agent and each Lender in connection with the preparation, execution and delivery of this Amendment and the other related agreements, instruments and documents.

(f) Amendment as Loan Document. Each Borrower hereby acknowledges and agrees that this Amendment constitutes a "Loan Document" under the Loan Agreement. Accordingly, it shall be an Event of Default under the Loan Agreement (i) if any representation or warranty made by a Borrower under or in connection with this Amendment shall have been untrue, false or misleading in any material respect when made or (ii) if Borrowers fail to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Amendment.

(g) Waiver of Jury Trial. EACH BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AMENDMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS.

[THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

Parent:

LSB INDUSTRIES, INC.,
an Delaware corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

Borrowers:

THERMACLIME, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CHEROKEE NITROGEN COMPANY,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CLIMATE MASTER, INC.,
a Delaware corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CLIMATECRAFT, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony N. Shelby
Title: Vice President

CLIMACOOL, CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

INTERNATIONAL ENVIRONMENTAL CORPORATION,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

THERMACLIME TECHNOLOGIES, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

KOAX CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

LSB CHEMICAL CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

XPEDIAIR, INC.,
an Oklahoma corporation.

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

EL DORADO CHEMICAL COMPANY,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CHEMEX I CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

TRISON CONSTRUCTION, INC.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

CHEMEX II CORP.,
an Oklahoma corporation

By: /s/ Tony M. Shelby
Name: Tony M. Shelby
Title: Vice President

Agent and Lender:

WELLS FARGO FOOTHILL, INC., a
California corporation, as Agent and as a Lender

By: /s/
0;
Name:
Title:

Lender:

WACHOVIA BANK, NATIONAL ASSOCIATION
(as successor in interest to Congress Financial Corporation (Southwest))

By: /s/
0;
Name:
Title:

ANNEX I

Schedule 2.7(b)

The Bank of New York Mellon, New York, NY
ABA 021000018
Account: BNF GLA111569 WCF
Account Name: Wells Fargo Securities
FFC: 12797791, Thermaclime Inc

Exhibit 10.27

AN SUPPLY AGREEMENT*

BETWEEN

ORICA INTERNATIONAL PTE LTD.

AND

EL DORADO CHEMICAL COMPANY

JANUARY 1, 2010

*INFORMATION IN THIS DOCUMENT HAS BEEN OMITTED FROM THIS PUBLIC FILING PURSUANT TO A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECVURITIES AND EXCHANGE COMMISSION. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST

INDEX

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This AN Supply Agreement is made effective as of the 1st day of January, 2010

BETWEEN:

ORICA INTERNATIONAL PTE LTD.,
a corporation incorporated under the laws of Singapore
("Orica")

AND:

EL DORADO CHEMICAL COMPANY,
a corporation incorporated under the laws of Oklahoma
("EDC")

WHEREAS:

(a) Orica requires AN Prills, HDAN and AN Solution for its commercial explosives business; and

(b) EDC wishes to manufacture AN Prills, HDAN and AN Solution for delivery to Orica.

NOW THEREFORE, in consideration of the mutual covenants contained in this Agreement, Orica and EDC agree as follows:

1.0 REFERENCES AND DEFINITIONS

1.1 Capitalized words used in this Agreement and in the Schedules hereto, unless otherwise defined herein, have the definition given to those words in Schedule "A".

1.2 This Agreement has the following Schedules which are a part hereof:

Schedule "A"	Definitions
Schedule "B"	Product Specifications
Schedule "C"	*** Calculation and *** Calculation
Schedule "C-1"	Year 2010 Annual Budget
Schedule "D"	Measurement of Ammonia and Ammonium Nitrate Deliveries
Schedule "E"	Types of Unusual Incidents to be Reported to Orica
Schedule "F"	True Up Report
Schedule "G"	***

2.0 TERM

2.1 This Agreement shall become effective as of January 1, 2010 and, unless earlier terminated in accordance with the provisions hereof, shall continue for an initial term ("Initial Term") ending on December 31, 2014. Thereafter the term of this

Agreement shall be automatically extended (as so extended, the "Term") until either party delivers a written notice of termination to the other; provided that, except as provided in Section 16 hereof, the effective date of termination in said notice shall never be earlier than December 31, 2014 and such notice shall be given at least 2 years prior to the intended date of termination. For example only, if Orica or EDC gives the other notice of termination on July 15, 2013, the effective date of termination would be July 15, 2015.

2.2 Notwithstanding the termination of this Agreement, the unfulfilled rights and undischarged obligations of the parties that accrue during the Term shall continue following the termination hereof until the same are fulfilled or discharged.

3.0 SUPPLY OF AMMONIA BY ORICA

3.1 The current term of the Koch Ammonia Agreement expires on December 31, 2010. The Koch Ammonia Agreement contemplates that EDC will purchase approximately 45,000 Tons of Ammonia that will be used in the production of AN to be purchased by Orica under this Agreement. . The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (a) of this Agreement.

3.1.1 Orica is not and shall not be deemed to be a party to the Koch Ammonia Agreement.

3.1.2 Orica acknowledges and agrees that, prior to December 31, 2010, Orica shall not be permitted to supply its own Ammonia in substitution for the 45,000 Tons of Ammonia to be supplied under the Koch Ammonia Agreement nor require EDC to supply the 50,000 Tons of Ammonia Orica will supply from another supplier, in either case without the consent of KNC/KNI.

3.1.3 EDC will provide to Orica material information in EDC's possession regarding the operation of the Koch Ammonia Agreement and will provide copies to Orica of any material notices or other correspondence EDC receives from or issues to KNC/KNI in respect of the Koch Ammonia Agreement.

3.1.4 EDC shall consult with Orica prior to the exercise by EDC of any of the rights conferred upon it pursuant to Sections I.H, VI.D, VII.A, XI.B, XII and XIV of the Koch Ammonia Agreement.

3.1.5 EDC shall not, without obtaining Orica's prior written approval, exercise any of the rights conferred upon it pursuant to Sections I.P, II.B, III.B (unless the resale, transfer, exchange or assignment does not affect Ammonia to be supplied to Orica), V.B, or XV (unless any such amendment has no effect on Orica) of the Koch Ammonia Agreement relating to the 45,000 Tons of Ammonia to be supplied by EDC to Orica prior to December 31, 2010.

3.1.6 EDC shall be solely responsible for any costs or expenses claimed against EDC by KNC/KNI pursuant to Article XI Section A of the Koch Ammonia Agreement, except to the extent that any such costs or expenses are directly attributable to any failure by Orica to timely make payment to EDC in accordance with Section 3.6 of this Agreement.

3.1.7 Notwithstanding any other provision of this Agreement and unless otherwise agreed in writing, EDC shall not be obligated to supply Ammonia hereunder for the manufacture of AN for Orica (a) if EDC fails to provide Ammonia prior to December 31, 2010 but such failure is not caused by any default of EDC under the Koch Ammonia Agreement or (b) after December 31, 2010.

3.2 Prior to December 31, 2010, Orica will supply 50,000 Tons of Ammonia to EDC from a supplier other than KNI/KNC and EDC agrees to accept deliveries of such Ammonia in the same manner as in Section 3.4 of this Agreement. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (b) of this Agreement.

3.3 From and after January 1, 2011, to the extent Ammonia is available from EDC's supplier or suppliers at costs acceptable to Orica (which shall not exceed EDC's delivered to the EDC Site cost of Ammonia from EDC's supplier), EDC shall acquire up to 58,000 Tons of Ammonia for use to manufacture AN for Orica under this Agreement for such periods as shall be requested by Orica. For the 58,000 Tons of Ammonia EDC is supplying, Orica shall give EDC at least 45 days' advance notice of the quantities of Ammonia Orica requires EDC to acquire to be used by EDC for manufacturing AN for Orica. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (a) of this Agreement.

3.4 From and after January 1, 2011, and subject to the terms and conditions hereof, Orica shall supply to EDC, and EDC shall receive from Orica, up to 58,000 Tons of Ammonia from a supplier other than KNI/KNC at the times as required by EDC for conversion by EDC to meet Orica's demand for AN hereunder. EDC shall provide Orica with at least 30 days' advance notice of (a) the quantities of Ammonia it requires during the succeeding one-month period to meet Orica's demand for AN and (b) the required delivery dates of such Ammonia. The parties shall cooperate in arranging such Ammonia deliveries. Upon delivery Orica shall sell such Ammonia to EDC and EDC shall pay Orica for such Ammonia on or before the first day of the second Month succeeding the Month in which such Ammonia was delivered to EDC by Orica e.g. January Ammonia deliveries are paid for on March 1st. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (b) of this Agreement.

3.5 If when Orica is supplying Ammonia, Orica is unable to supply the required Ammonia, or if when EDC is supplying Ammonia, EDC is unable to acquire and supply sufficient Ammonia from its supplier, Orica may request EDC to utilize

EDC's Ammonia stored at the EDC Site and intended for the production of products for EDC, and upon such request and to the extent EDC has available Ammonia in its reasonable discretion. EDC shall supply such Ammonia for use under this Agreement.

3.6 If EDC is supplying Ammonia from its supplier, Orica shall reimburse EDC for its actual out of pocket delivered to the EDC Site cost of such Ammonia within the earlier of (a) eighteen (18) days from the Monday during the week KNC's /KNI's invoice is prepared under the Koch Ammonia Agreement and faxed to EDC, or (b) three (3) days before the date required by the payment terms in the Koch Ammonia Agreement. If the payment due date is not a Business Day, Orica shall make the payment on the next Business Day.

3.7 Based on the current Ammonia conversion efficiency of the EDC Plant and with the current onsite equipment, the parties agree that for each Ton of AN to be manufactured by EDC for Orica, EDC will require *** of a Ton of Ammonia which shall include the Ammonia utilized in the SCR abatement system.

3.8 When Orica is independently sourcing and delivering Ammonia to the EDC Site, and for the purpose of storing that Ammonia, Orica shall be entitled to use 35% of the available Ammonia storage capacity at EDC's Site during the Term. As of the date of this Agreement, such useable Ammonia storage capacity is 10,000 Tons and so Orica is entitled to use storage capacity of 3,500 Tons. EDC shall at all times during the Term when Orica is supplying its own ammonia to the EDC Site, maintain an aggregate Ammonia storage capacity available to Orica at the EDC Site of at least 3,500 Tons, less any temporary reduction in Ammonia storage capacity as required by safety, inspection and maintenance procedures. EDC shall use its commercially reasonable efforts to limit the duration of any such storage capacity reductions. If Orica requires additional ammonia storage capacity to be installed at the EDC Site, this requirement shall be subject to a future negotiation between the parties. When Orica is using EDC's Ammonia storage facilities for Orica's benefit, Orica will pay to EDC the pro-rata variable and *** associated with the operation of these facilities.

4.0 SUPPLY OF AN BY EDC

4.1 During the Term, EDC shall reserve for Orica under this Agreement at the EDC Site and the EDC Plant:

(a) 250,000 Tons per annum of AN manufacturing capacity ("Reserved Capacity");

(b) approximately 197,500 Tons per annum of nitric acid for use in manufacturing the Reserved Capacity; and

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(c) the full manufacturing capacity of the AN Prills Plant for the manufacture of AN Prills.

4.2 EDC shall use its commercially reasonable efforts to ensure that the EDC Site and EDC Plant are capable of manufacturing the Reserved Capacity at all times during the Term, and that sufficient nitric acid manufacturing capacity at the EDC Site is at all times made available during the Term to allow the manufacturing of the Reserved Capacity, provided that Orica supplies, directly or through EDC, the necessary Ammonia to the EDC Site. During the Term, EDC shall operate the EDC Site in substantial compliance with all applicable Laws and good industry practices, and with all agreements relating thereto or by or to which EDC is bound or a party. The parties acknowledge and agree that Orica shall not participate in, or have any control over, the AN manufacturing process.

4.3 Orica shall determine the rate at which the AN Prills Plant will operate provided that Orica will endeavor to avoid and minimize both the frequency and duration of any cessation of production. Cessation and resumption of production will be subject to the following:

(a) Orica will provide no less than:

(i) 2 days notice to EDC to have AN Prills production reduced or increased by up to 10%;

(ii) 5 days notice to EDC to have AN Prills production reduced by an amount over 10% down to the minimum production rate of approximately 400 Tons per day, or increased by an amount over 10% up to the maximum production rate of approximately 900 Tons per day, such production rates being subject to the impact of seasonal (ambient temperature and humidity) effects on the process and the availability of higher strength nitric acid to achieve a minimum AN Solution strength of 88 percent; and

(iii) 10 days notice to EDC to have AN Prills production shutdown. Upon receipt of such notice, and if EDC is supplying Ammonia to Orica, EDC will provide notice to its then-current Ammonia and Ammonia pipeline transportation supplier(s) of the reduction of Ammonia demand. Orica's notice to EDC will also specify the expected duration of the shutdown, if known, and Orica must give EDC 4 days notice prior to Orica's requested date for restart of the AN Prills Plant. During a cessation of production, EDC shall obtain Orica's approval prior to commencing any optional maintenance or optional repair work which cannot be completed within 4 days from receiving an Orica notice to restart the AN Prills Plant.

(b) In order to enable EDC to mitigate costs resulting from a production shutdown at the AN Prills Plant, Orica will use reasonable efforts to provide EDC with as much prior notice as possible if Orica expects to purchase less than 17,500 Tons of AN Prills during any Month.

(c) If the cessation or resumption of production causes EDC to directly incur *** costs in excess of amounts budgeted for the operation of the AN Prills Plant then those additional fixed or variable costs shall be billed to and paid by Orica as ***, net of any credits owing by EDC to Orica for ***.

(d) To resume production after a cessation of production, the Parties will cooperate to achieve an orderly start up and to arrange availability of transportation equipment.

4.4 Orica shall pay to EDC the *** calculated in accordance with Schedule “C” hereof for each Ton of Ammonium Nitrate delivered to Orica which conforms to the Specifications set forth in Schedule “B” hereto and otherwise in accordance with this Agreement. Orica shall also pay to EDC the *** as set forth in Schedule “C” hereto.

4.5 Provided that Orica timely supplies Ammonia in the quantities required and meeting the quality specifications set forth in Schedule “B” hereto, and Orica is otherwise in compliance with this Agreement, EDC shall deliver to Orica AN produced by EDC in the quantities and at the times required by Orica and provided for herein, except to the extent excused by the terms of this Agreement or any applicable Law prohibiting or preventing the manufacture of AN generally, but in no event at a rate in excess of the operating capacity of the EDC Plant and quantities that can be shipped from any storage.

4.6 No changes shall be made by EDC to the additives in, or the coatings on, the AN Prills without prior written notice to and the prior written consent of Orica.

4.7 The Ammonium Nitrate supplied to Orica shall be in the form of AN Solution, AN Prills and/or HDAN. Orica may elect to take the AN as AN Prills, HDAN or AN Solution, at its discretion and as designated by Orica at least 15 days in advance of the first day of a production Month, provided however that Orica shall have the right to take a maximum Yearly quantity of 12,000 Tons of HDAN and a maximum Monthly quantity of 1,000 Tons of HDAN as part of the Reserved Capacity and at the pricing for HDAN in Schedule “C” hereto. At Orica’s request and at EDC’s election, EDC may supply additional quantities of HDAN to Orica for use in the commercial explosives industry at the pricing for HDAN in Schedule “C” hereto which quantities above 12,000 Tons of HDAN per Year, if supplied, shall not be part of the Reserved Capacity. EDC and Orica acknowledge that the mix of AN designated by Orica may vary from Month to Month but in no event shall the AN Prills volume designated by Orica for a Month exceed the AN Prills Plant capacity for a Month. For purposes of the AN to be delivered under this

Agreement, one Ton of AN Solution, on a 100% basis, shall be deemed the equivalent replacement of one Ton of AN Prills.

4.8 Orica shall be the sole marketer to the commercial explosives industry of AN Solution and AN Prills manufactured at the EDC Site. Orica shall be the sole marketer to the commercial explosives industry of HDAN manufactured at the EDC Site and destined for use in the United States, Canada and Mexico ("North America"). EDC shall refer to Orica any inquiries EDC receives during the Term concerning the supply by EDC of AN from the EDC Site to commercial explosives customers for use in North America. Subject to Section 4.7 above, Orica shall have the right to purchase HDAN, at the HDAN price herein, for use in the commercial explosives industry outside North America. EDC will not sell any nitric acid manufactured at the EDC Site to anyone for use in North America if EDC knows that such party will use such nitric acid for the manufacture of AN Solution for conversion into emulsion explosives, provided that nothing herein is intended to prevent or limit the sale by EDC of nitric acid or nitric acid mixtures for use in the production of ordnance or for use in the production of nitrated explosives for the commercial explosives industry. However if regulatory changes occur in the United States after the date of this Agreement which changes have the effect of totally or substantially preventing the manufacture of HDAN at the EDC Site, or substantially negatively impact the commercial viability of the sale or distribution of HDAN from the EDC Site, with the result that EDC's requirement for nitric acid for use to manufacture HDAN is substantially lessened, then if EDC desires to sell such nitric acid for use in the production of commercial explosives, EDC will offer such available nitric acid to Orica and if Orica elects not to purchase such nitric acid, then EDC shall be free to sell such nitric acid without restriction.

4.9 All AN Prills supplied to Orica shall be manufactured using EDC's current technology, and shall meet the specifications set forth in the AN Prill Specifications set forth on Schedule "B" hereto Orica's rights and EDC's liabilities and obligations with respect to AN Prills which do not meet the AN Prill Specifications shall be governed by Section 8.1.

5.0 REPRESENTATIONS AND WARRANTIES

5.1 EDC represents and warrants to Orica that:

5.1.1 EDC is duly organized, validly existing, and in good standing under the laws of the State of Oklahoma, and has all requisite power and authority to own and lease the properties and assets it currently owns and leases, including at the EDC Site, and to conduct its activities as such activities are currently conducted.

5.1.2 EDC has all requisite corporate power, authority and capacity to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby by EDC have been duly and validly authorized by all necessary action on the part of EDC (including approval by the board of directors and shareholders of EDC), and this Agreement has been duly and validly executed and delivered by EDC, and is the valid and binding obligation of EDC, enforceable against EDC in accordance with its terms, subject to applicable laws of bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

5.1.3 The execution, delivery, and performance by EDC of this Agreement does not and will not (i) conflict with or violate any provision of the articles of incorporation or bylaws of EDC; (ii) violate any provision of any Laws; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other persons, or any combination thereof) or accelerate or permit the acceleration of the performance required by, any material contracts to which either EDC is a party or by which either EDC or the EDC Site are bound or affected; (iv) result in the creation or imposition of any lien against or upon the EDC Site or any portion thereof, or the Ammonia, or the AN; or (v) require any consent, approval, or authorization of, or filing of any certificate, notice, application, report, or other document with, any Government or other person.

5.1.4 EDC is currently in compliance with all Laws applicable to the ownership and operation of the EDC Site, except for such non-compliance as would not have a material adverse effect on EDC's ability to perform hereunder, and EDC is not subject to any Law, judgment, decree or sanction that would preclude the delivery, receipt and processing of the Ammonia, or any of the other activities contemplated to be performed by it under the Agreement.

5.2 Orica represents and warrants to EDC that:

5.2.1 Orica is duly organized, validly existing, and in good standing under the laws of Singapore, and has all requisite power and authority to own and lease the properties and assets it currently owns and leases and to conduct its activities as such activities are currently conducted.

5.2.2 Orica has all requisite corporate power, authority and capacity to execute, deliver, and perform this Agreement and to consummate the transactions contemplated hereby. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby by Orica have been duly and validly authorized by all necessary action on the part of Orica (including approval by the board of directors and shareholders of Orica), and this Agreement has been duly and validly executed and delivered by Orica, and is the valid and binding obligation of Orica, enforceable against Orica in accordance with its terms, subject to applicable laws of bankruptcy, insolvency and similar laws affecting creditors' rights and remedies generally.

5.2.3 The execution, delivery, and performance by Orica of this Agreement does not and will not (i) conflict with or violate any provision of the articles of incorporation or bylaws of Orica; (ii) violate any provision of any Laws; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other persons, or any combination thereof) or accelerate or permit the acceleration of the performance required by, any material contracts to which either Orica is a party or by which Orica is bound or affected; (iv) result in the creation or imposition of any lien against or upon the Ammonia or AN; or (v) require any consent, approval, or authorization of, or filing of any certificate, notice, application, report, or other document with, any Government or other person.

5.2.4 Orica is currently in compliance with all Laws applicable to the ownership and operation of Orica's business, except for such non-compliance as would not have a material adverse effect on Orica's ability to perform hereunder and Orica is not subject to any Law, judgment, decree or sanction that would preclude the delivery of the Ammonia and receipt of the AN, or any of the other activities contemplated to be performed by it under the Agreement.

5.2.5 Orica shall also deliver to EDC during the Term within 15 days after the release of Orica Limited's results to the Australian stock exchange, annual (as of September 30) and semi-annual (as of March 31), consolidated balance sheets, income statements and statements of cash flow for Orica and for any subsidiary of Orica in which it then owns at least 51% of the equity interest ("Financial Statements"). The Financial Statements shall be audited and prepared in accordance with Australian generally accepted accounting principles, and signed by an authorized financial officer of Orica. Orica shall also deliver to EDC during the Term within 15 days after the preparation thereof, quarterly (as of December 31 and June 30) Financial Statements. Without limiting the generality of the other confidentiality provisions of this Agreement, EDC acknowledges and agrees that the December 31 and June 30 Financial Statements contain highly confidential non-public information, and covenants that it shall not, and it shall cause its officers, directors, employees, agents and representatives not to, disclose the Financial Statements or information contained therein to any person or entity other than EDC's officers for the purposes of conducting periodic credit reviews, on a need to know basis, nor use such Financial Statements to the detriment of Orica nor for any other purpose.

6.0 AMMONIA PURITY AND WARRANTY

6.1 Orica warrants that the Ammonia delivered by Orica to EDC from time to time hereunder will be delivered by pipeline and will conform to the Ammonia Specifications set forth in Schedule "B" hereto. EDC agrees to use the same efforts it expends on its own behalf to ensure that the Ammonia acquired and supplied by EDC to Orica will conform to the Ammonia Specifications set forth in Schedule "B" hereto. EDC shall reject any ammonia from its supplier which does not conform to such specifications, and shall be responsible for arranging with its supplier adequate supplies of conforming replacement Ammonia. Such Ammonia will be shipped by pipeline provided such pipeline is available for shipments.

6.2 Orica shall use commercially reasonable efforts, at its own expense, to cause its Ammonia supplier to provide a certificate of analysis. Further, at its own expense, Orica shall periodically cause such Ammonia to be analyzed prior to delivery into EDC's storage tank as may be reasonably required by EDC and the report of such analysis shall be provided to EDC upon request. Additional sampling and subsequent analysis of the Ammonia may be conducted by EDC in its discretion in accordance with standard methods of the American Society of Testing Materials, or by such other methods as may be agreed by Orica and EDC. EDC and Orica will retain any samples that such party takes for at least 60 days from the date of delivery to be analyzed if a dispute arises as to the quality of the Ammonia.

6.3 If, based on the supplier's certificate of analysis or the analysis of the samples by EDC, any ammonia delivered by Orica to EDC does not meet the Ammonia Specifications, EDC shall, as soon as practicable following such determination, notify Orica in writing that such ammonia does not meet such Specifications. Orica shall be solely responsible for any demurrage, freight or transportation costs, removal costs, tank cleaning costs and other costs which are a direct result of Orica's delivery of nonconforming Ammonia. If EDC does not notify Orica that such ammonia does not meet the Ammonia Specifications within 30 days after delivery to the EDC Site, the Ammonia shall be deemed to meet the Ammonia Specifications. In the event that Orica disagrees with EDC's analysis, Orica will give EDC notice within 30 days of receipt of EDC's notice, in which event the sample retained by EDC will be, and any sample retained by Orica may be, submitted for independent analysis to a mutually acceptable commercial laboratory. The laboratory's analysis of such sample or samples shall be final and binding on the parties. The cost of the laboratory's independent analysis will be borne by Orica if the ammonia is off-specification and by EDC if the Ammonia meets the Specifications.

6.4 Orica warrants that it has good title to, and the right to supply, all Ammonia delivered or supplied by Orica to EDC from time to time hereunder free and clear of all Claims, liens, security interests, encumbrances and charges.

6.5 **EXCEPT AS SPECIFICALLY PROVIDED IN SUBSECTIONS 5.2, 6.1 and 6.4 HEREOF, ORICA MAKES NO, AND HEREBY DISCLAIMS ANY, REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, RELATING TO THE AMMONIA DELIVERED BY ORICA OR SUPPLIED TO EDC BY ORICA HEREUNDER INCLUDING, WITHOUT LIMITATION, WARRANTIES AS TO CONDITION, QUANTITY OR QUALITY, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, OR OTHERWISE.**

7.0 AN PURITY AND WARRANTY

7.1 Provided that Orica supplies to EDC, or EDC is able to obtain from its supplier, sufficient Ammonia to meet the Monthly forecast AN requirements and the Ammonia Specifications, EDC warrants that all AN delivered to Orica from time to time hereunder shall conform to the Specifications set forth in Schedule "B" hereto, as applicable.

7.2 EDC shall take samples of AN delivered by EDC to Orica from each truck or rail car upon loading at the EDC Plant. Orica may take samples of AN upon arrival at Orica's destination. Analysis of the samples shall be conducted by the sampling party in accordance with the standard methods of the American Society of Testing Materials, or by such other methods as may be agreed by Orica and EDC. Each party shall retain any such samples for at least 60 days from the date of sampling to be analyzed if a dispute arises as to the quality of the AN.

7.3 If, based on analysis of the samples by EDC, any AN delivered or to be delivered by EDC to Orica does not meet the applicable AN Specifications, EDC shall so notify Orica in writing and shall not ship such AN without Orica's written approval. Subject to the terms of sale agreed in writing between Orica and EDC regarding such shipments, which terms may vary from those set forth in this Agreement, any nonconforming AN shipped with Orica's approval shall be deemed to be in compliance with this Agreement, provided that any such acceptance shall not be deemed a waiver for any other nonconforming AN. If Orica does not notify EDC that AN does not meet the applicable Specifications within (45) days of the date of receipt thereof, the AN shall be deemed to meet the relevant Specifications. In the event that either party disagrees with the other party's analysis of the samples, the disagreeing party shall give the other party notice within 15 days of receipt of the results of the analysis, in which event the retained sample or samples shall be submitted for independent analysis to a mutually acceptable commercial laboratory. The laboratory's independent analysis shall be final and binding on the parties. The cost of the independent laboratory's analysis will be borne by EDC if the AN is off-Specification and by Orica if the AN meets the Specifications.

7.4 EDC agrees to apply the same loading inspection standards and procedures to all trucks, tank trucks and rail cars used to transport AN, irrespective of the carrier. EDC agrees to promptly provide to Orica a copy of such standards and procedures in effect as of the Effective Date, together with copies of any revised standards and procedures subsequently adopted by EDC.

7.5 EDC warrants that it has good title to, and the right to supply, all AN supplied and delivered to Orica from time to time hereunder free and clear of all Claims, liens, security interests, encumbrances and charges, and that EDC has the manufacturing and conversion capability and capacity, and the right, to supply such AN to Orica at the rates, times and quantities contemplated by this

Agreement. EDC has all necessary authorizations, approvals and permits to receive the Ammonia at EDC's Site, to process the same to produce AN, and to undertake all of the other activities contemplated to be performed by it in accordance with this Agreement.

7.6 **EXCEPT AS SPECIFICALLY PROVIDED IN SUBSECTIONS 5.1, 7.1 and 7.5 HEREOF, EDC MAKES NO, AND HEREBY DISCLAIMS ANY, REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, RELATING TO THE AN DELIVERED BY EDC OR SUPPLIED TO ORICA BY EDC HEREUNDER INCLUDING, WITHOUT LIMITATION, WARRANTIES AS TO CONDITION, QUANTITY OR QUALITY, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, OR OTHERWISE.**

8.0 REMEDIES FOR NONCOMPLIANCE

8.1 Orica's exclusive remedies for any non-conforming AN supplied hereunder, other than any nonconformance to the extent caused by non-conforming Ammonia, shall be, at Orica's option, to (a) reject such non-conforming AN without penalty, or (b) accept such AN but at a price per Ton reduced by agreement of the parties. In the event that Orica rejects any nonconforming AN, EDC will cause such nonconforming AN to be promptly removed from its current location at EDC's cost, and EDC will take all necessary measures to promptly provide Orica with replacement AN meeting the applicable Specifications at that location at no additional cost to Orica. EDC will be responsible for any additional demurrage, freight or transportation costs or other actual out-of-pocket costs incurred by Orica which are a direct result of EDC's delivery of non-conforming AN. In the further event that Orica rejects the nonconforming AN, but EDC is unable to deliver replacement AN to Orica within the time period necessary to meet the needs of Orica's customers, Orica shall have the right, commencing on the business day following delivery of written notice to EDC, to purchase a like quantity of AN from an alternative supplier and EDC shall reimburse Orica for Orica's cost to purchase and deliver replacement AN from the alternative supplier to the location of the nonconforming AN. In the event of production or delivery by EDC of non-conforming AN, the parties shall cooperate in good faith in identifying means by which to mitigate loss or damage attributable to such nonconformance; provided that Orica shall be solely responsible for any nonconformance of AN supplied hereunder to the extent caused by non-conforming Ammonia. EDC may dispose of any such non-conforming AN returned to it by sale to agricultural customers.

8.2 EDC shall have no liability to Orica for loss of or shortage in quantity of AN supplied or to be supplied hereunder solely as a result of EDC's loading of, or the short-filling of, rail cars or trucks unless Orica notifies EDC in writing within 45 days from the date of receipt of the AN. Provided that Orica has timely given such notice, its exclusive remedy for any loss of or shortage in quantity of AN resulting from EDC's loading of rail cars or trucks shall be the refund of the *** for such AN that was invoiced but not delivered plus the cost of freight to the point at which the loss or shortage was detected. EDC shall not be liable to the extent a railroad or trucking company is liable for such loss or shortage.

8.3 Except with respect to Orica's rights set out in Sections 8.1 and 8.2, Orica hereby releases and forever discharges EDC, its agents, employees, successors and assigns, from all Claims relating to non-conformance with Specifications, or loss or shortage in quantity, of AN supplied by EDC pursuant to this Agreement. In no event whatsoever shall either party be liable to the other for loss of profits or special, indirect or consequential damages, save and except for Orica's obligation to pay the *** as set out in Section 14.2.1 (e) hereof and EDC's obligation, if applicable, to refund the *** (included in the ***) as set out in Section 8.2 hereof and to refund, if already paid, the *** when Orica is relieved from its obligation to pay to EDC the *** as set out in Schedule "C" hereto.

8.4 Subject to Section 8.1, following the delivery of AN to Orica hereunder and removal of such AN from the EDC Site, Orica assumes all risks and responsibility in connection with the further handling or use of such AN, whether used singly or in combination with other products. Orica agrees to indemnify, defend and hold harmless EDC and its Affiliates from and against any and all Claims incurred or suffered by, or threatened against EDC or its Affiliates in connection with such further handling or use of such AN.

9.0 QUANTITY MEASUREMENT

9.1 Actual measurement of quantities of Ammonia and AN delivered and the supplied party's rights to dispute such measurements will be as set out in Schedule "D".

10.0 AMMONIA DELIVERY, RISK AND TITLE

10.1 All Ammonia which is supplied by Orica shall be supplied by pipeline. All Ammonia acquired and supplied by EDC hereunder shall be supplied by pipeline, and EDC shall be responsible for making the necessary shipment arrangements to the extent Ammonia is available to EDC.

10.2 Ammonia supplied by pipeline shall be delivered to EDC's Ammonia storage tanks and metered by the NuStar metering device at the EDC Site. Absent demonstrable error, EDC and Orica agree that the amount of Ammonia delivered by pipeline shall be conclusively determined by the NuStar metering device and the amount of Ammonia so metered shall be used for billing to Orica hereunder.

11.0 AN DELIVERY, RISK AND TITLE

11.1 Unless otherwise agreed, EDC shall deliver all AN supplied hereunder into trucks, tank trucks or rail cars supplied by Orica.

11.2 Unless otherwise agreed, EDC shall load (a) AN Solution into Orica's rail tank cars and release such cars within 7 days from the arrival of such cars at EDC's Site provided that EDC shall not be required to load more than 2 rail tank cars per 24 hour period, (b) AN Prills and HDAN into Orica's rail hopper cars and release such cars within 7 days from the arrival of such cars at EDC's Site provided that EDC shall not be required to load more than 10 rail hopper cars per 24 hour period, and (c) AN into Orica's trucks and release such trucks within the free loading period allowed by the carrier provided that EDC shall not be required to load more than 24 trucks per 24 hour period. All of the foregoing time frames shall be extended by any intervening weekend, holiday, or Force Majeure event; and provided further that in no event shall EDC be required to load in one day any more than one day's actual production rate of AN Solution and one day's actual production of AN Prills. Should EDC fail to comply with the foregoing, EDC shall reimburse Orica, within 30 days of receipt of an invoice from Orica, for all demurrage and other out-of-pocket expenses incurred by Orica resulting from such delay. Orica shall use commercially reasonable efforts to schedule rail cars or trucks for the EDC Plant at a rate that will permit EDC to load such cars and trucks within the time frames set forth in clauses (a) through (c) above, taking into account reasonably anticipated AN production rates.***

11.3 Title to all AN manufactured hereunder shall be in Orica, and delivery to Orica shall occur and all risks of loss and otherwise in relation thereto shall pass to Orica upon and after the delivery of the AN into Orica's owned or contracted-for trucks or railcars at the EDC Plant. EDC shall physically segregate all AN Prills manufactured for Orica from all other AN at the EDC Site.

11.4 EDC shall weigh, by means of certified scales and otherwise in accordance with Schedule "D", all trucks and rail cars before and after they have been loaded, to determine the net weight of AN delivered to Orica.

11.5 EDC shall promptly confirm to Orica any shipment made, specifying the carrier, the date of departure, the weight of AN in each rail car or truck and its destination. EDC shall also promptly forward to Orica one copy of each bill of lading issued with respect to such shipments. Absent demonstrable error, the carrier's weight measurements shall be deemed correct and shall be controlling. The carrier which shall receive delivery of AN at EDC's Plant shall be deemed authorized by Orica to execute the bill of lading for the shipment; provided, however, that authorization shall not affect Orica's rights pursuant to Sections 7 and 8 hereof.

11.6 Orica may from time to time request EDC to assist Orica in obtaining repair of Orica’s rail cars at EDC’s facilities located at the EDC Site. EDC shall use its commercially reasonable efforts to obtain such services on Orica’s behalf, and at Orica’s expense.

11.7 EDC shall use its commercially reasonable efforts to minimize loss and shrinkage of AN during storage and handling, but such loss and shrinkage shall be to Orica’s account.

12.0 INTENTIONALLY LEFT BLANK

13.0 CONTRACT ADMINISTRATION

13.1 No later than August 31 of each Year during the Term, Orica shall deliver to EDC a forecast of its requirements for AN for the succeeding Year. Orica shall also deliver to EDC Monthly a forecast of its requirements for AN for the succeeding 120 days. The Monthly forecast is an estimate for planning purposes and is not a commitment to take AN at the Monthly rates estimated.

13.2 Orica and EDC will conduct quarterly contract review meetings during the Term of this Agreement which meetings shall include a review of cost performance Year to date versus the Annual Budget for that Year.

13.3 Orica shall have the right to verify (“Verification Right”) that the *** calculated by EDC for any Year properly applies the methodology set forth in Schedule “C” by giving written notice to EDC within the 30-day period following receipt of EDC’s calculation of the *** for the applicable Year. If Orica exercises its Verification Right, the verification shall be completed within the 30-day period after notice of Orica's exercise of its Verification Right, at Orica’s expense and at the EDC Site, and EDC shall provide Orica with all information reasonably requested by Orica relating to the calculation of the *** to enable Orica to carry out such verification. In the event that Orica wishes to exercise its Verification Right, Orica shall pay all undisputed amounts owing to EDC within 30 days after receiving EDC’s calculation of the *** which payment shall not waive Orica’s right to dispute the remainder. If, as determined by the verification, the actual *** is more than the ***, including adjustments, paid by Orica for the applicable Year, Orica shall pay the amount of such underpayment to EDC within 30 days of such determination. If, on the other hand, the actual *** is less than the ***, including adjustments, paid by Orica for the applicable Year, EDC shall pay the amount of such overpayment to Orica within 30 days of such determination.

14.0 PAYMENTS

14.1 In consideration of EDC making available the Reserved Capacity for Orica, Orica shall pay to EDC the *** calculated on the basis set out in Schedule "C" to this Agreement.

14.2.1 EDC shall invoice Orica and Orica shall pay to EDC the amounts owing by Orica to EDC under this Agreement for:

(a) Ammonia, if supplied by EDC to manufacture AN for Orica, weekly and at EDC's delivered cost from its Ammonia supplier;

and be paid by Orica as required by Section 3.6 of this Agreement;

(b) Ammonia, if supplied by Orica and purchased by EDC from Orica to manufacture AN for Orica pursuant to Section 3.4 of this Agreement;

and be paid by Orica on or before the first day of the second Month succeeding the Month in which such Ammonia was supplied by Orica;

and monthly for:

***

***

***

and be paid by Orica on or before the first day of the second Month succeeding the Month in which the AN was delivered to Orica e.g. January deliveries are *** paid for on March 1st.

The individual price components set out in (c), (d) and (e) above will be determined in accordance with Schedule "C" hereto.

Orica shall also pay to EDC any other amounts owing in accordance with Schedule "C" hereto when they become due in accordance with such Schedule.

If Orica has disputed any invoice in good faith prior to the expiration of the applicable payment period, Orica shall timely pay any undisputed amount, and shall have 30 days from receipt of a corrected invoice within which to remit payment for any agreed-upon amount related to disputed items. If EDC identifies an error in an invoice previously issued to Orica or EDC determines that it has not invoiced Orica for AN delivered hereunder then EDC may issue to Orica, during the Year in which the AN is supplied and until January 31 of following Year, a corrected invoice or initial invoice for payment.

14.2.2 The *** billed pursuant to 14.2.1 (b) will be adjusted to actual costs by the 15th day of the following Month and any adjustments will be applied to the original billing and paid on the due date of the original billing. The "True Up Report" attached as Schedule "F" hereto shall be used to complete the adjustments. The actual *** so determined will then be used as the estimated *** for the next following Month. By way of example, the estimated *** for January will be adjusted to actual *** by February 15th. The actual January *** will then be used as the estimated March ***. If the true up to actual costs cannot be completed by the 15th day of the Month following the Month of supply then the true up will be completed as soon as possible thereafter.

14.2.3 One twelfth (1/12) of the total annual budgeted *** will be charged to Orica each Month. The budgeted *** will then be adjusted to actual *** by the 15th day of the following Month and any adjustments will be applied to the original billing and paid on the due date of the original billing. The "True Up Report" attached as Schedule "F" hereto shall be used to complete the adjustments. The *** component of the Annual Budget shall be used for interim billing purposes save and except that, for quarters commencing on and after April 1st each Year, if the actual *** for the preceding quarter exceed the interim billed *** for that quarter by 5% or more then the interim billed *** shall be adjusted for the subsequent quarter to the actual *** for the preceding quarter.

14.2.4 The *** will be paid by Orica on 20,000 Tons per Month provided that, if Orica takes more than 20,000 tons in a Month then Orica shall pay to EDC the *** on the additional Tons above 20,000 Tons per Month with such additional payments to be credited against the *** payable by Orica in the next following Month. Orica shall always pay the *** at a rate of 20,000 tons per Month with any *** owing due to an annual offtake by Orica of more than 240,000 Tons to be paid by Orica to EDC in January of the next following Year. The "True Up Report" attached as Schedule "F" hereto shall be used to complete the adjustments. Under any and all circumstances Orica is obliged to pay to EDC a minimum Yearly *** for 240,000 Tons and a Monthly *** for 20,000 Tons.

14.3 Orica shall, in addition to all other amounts payable hereunder, be responsible for or shall reimburse EDC (subject to receipt of reasonable documentation reflecting payment by EDC), as the case may be, for all sales, value added or transfer taxes or Governmental fees levied or imposed, or charges or costs payable to a Government and attributable to compliance with Governmental orders or Laws issued or adopted after the date hereof, in connection with the supply of AN hereunder; provided that in no event shall such amount include amounts relating to fines and penalties or fees and expenses arising therefrom or income taxes payable by EDC. EDC may, where required by Laws, collect from Orica any such tax, fee, charge or other cost and remit it to the appropriate Government. Any such tax, fee, charge or other cost shall be paid by Orica in addition to the *** to be paid hereunder. If any such tax or fee paid by Orica is adjusted as a result of any reassessment by any Government, then any increase or decrease in any such tax or fee and any interest and penalties (except to the extent attributable to the negligence of EDC) resulting from the reassessment is for Orica's account.

15.0 FORCE MAJEURE

15.1 Notwithstanding anything herein contained, each party will be excused from performance of its obligations hereunder, other than (a) an obligation to pay money (including Orica's obligation to make the payments provided for in Section 14.2.1 except in the circumstances where Orica is relieved from its obligations to pay to EDC the *** as set out in Schedule "C" hereto) or (b) to indemnify, in the event and to the extent such failure is caused by an event of Force Majeure. If an event of Force Majeure occurs, the party whose performance is excused shall immediately provide written notice to the other party of the event of Force Majeure, the nature of the event, the extent to which the event of Force Majeure affects or delays the affected party's performance hereunder, the particular obligations so affected, the steps taken and proposed to be taken to lessen and cure the Force Majeure, and the estimated duration of the event of Force Majeure. If there is any material change, addition or alteration to the circumstances giving rise to, or in the information provided pursuant to, the written notice, the affected party shall provide the other party with written notice of the same. At all times during an event of Force Majeure, both parties shall use reasonable means to avoid or minimize the consequences of any event of Force Majeure; provided that nothing contained in this Agreement shall be construed as requiring either party hereto to accede to the demands of labor or labor unions it considers unreasonable. The performance of this Agreement shall be resumed as soon as practicable after such disability has been removed.

15.2 If an event of Force Majeure impairs EDC's ability to produce nitric acid or deliver AN Solution or HDAN under this Agreement, EDC shall allocate its available production of nitric acid, AN Solution and HDAN manufactured at EDC's Site and available for supply among all of EDC's customers then supplied or which are customarily supplied from EDC's Site, including Orica and EDC. This prorating shall be based on EDC's existing contracts for sale of nitric acid, AN Solution and HDAN and the previously forecasted requirements of such customers for the period of the event of Force Majeure.

15.3 An event of Force Majeure shall not extend the term of this Agreement.

16.0 TERMINATION

16.1 Either party may terminate this Agreement upon written notice to the other party in the event the other party shall commence, or there shall be commenced against the other party, any case, proceeding or other action (which shall not have been dismissed within 60 days of commencement) seeking to have an order for relief entered with respect to such party or to adjudicate such party as a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, liquidation, dissolution or composition under any Law relating to bankruptcy, insolvency, reorganization or relief of debtors or seeking appointment of a receiver, trustee, custodian or other similar fiduciary with respect to any part of such party's business or property or the other party makes a general assignment for the benefit of its creditors.

16.2 If an event of Force Majeure claimed by EDC or Orica persists for a continuous period of at least 180 days or if the duration of an event of Force Majeure claimed by EDC or Orica is estimated by the party claiming Force Majeure to be 180 days or longer, then the party not claiming the Force Majeure shall have the right, but not the obligation, to terminate this Agreement and the obligations of the parties hereto, except for claims in dispute and payments and other obligations then due and owing, by giving written notice of termination to the other party. For purposes of this Section 16.2, if the period between the end of one event of Force Majeure and the commencement of another event of Force Majeure is less than 30 days, the Force Majeure shall be deemed to be continuous, but the time between the Force Majeure periods shall not be counted in determining the 180 day period required before termination hereunder is allowed.

16.3 EDC may terminate this Agreement on 14 days prior written notice to Orica if Orica delivers ammonia to EDC which does not meet Ammonia Specifications and if, after EDC has given notice to Orica pursuant to Section 6.3, Orica has not within 45 days of receipt of such notice, commenced deliveries of Ammonia meeting the Ammonia Specifications.

16.4 Orica may terminate this Agreement on 14 days prior written notice to EDC if EDC delivers AN to Orica which does not meet the applicable AN Specifications, and if, after Orica has given notice to EDC pursuant to Section 7.3, EDC has not within 45 days of receipt of such notice, commenced delivery of at least 95% of the prior volumes of AN which meets the relevant Specifications.

16.5 Either party may terminate this Agreement if the other party defaults in the due and punctual payment of any amounts owing to the non-defaulting party or fails to perform any material obligation and such default or failure continues for 30 days after the non-defaulting party gives written notice to the defaulting party advising of the default or failure and the intention to terminate this Agreement in the absence of payment or performance.

16.6 Either party may terminate this Agreement pursuant to a notice given in accordance with Section 27.5 hereof.

16.7 Orica may terminate this Agreement upon five days prior notice to EDC in the event (a) of major damage to, destruction of, or a loss of production capacity at, EDC's Plant, and (b)(i) within 180 days of such damage, destruction or loss of production capacity, EDC's Plant is not or cannot be restored to a level of production sufficient to supply the Reserved Capacity, as determined by Orica acting in good faith and after consultation with EDC, or (ii) the cost to repair such damage, rebuild EDC's Plant or restore the production capacity (after taking into account any insurance recovery by EDC) will result in an increase in the ***. Nothing in this Section 16.7 shall be deemed to prevent EDC from repairing such damage, rebuilding the EDC Plant or restoring its production capacity at its sole cost within a 180-day period, in which event such costs shall not be included in the *** and Orica shall have no right to terminate under this Section 16.7.

16.8 The termination of this Agreement for any cause whatsoever shall not release a party from any liability which at the time of termination has already accrued to the other party or which may thereafter accrue in respect of any act or omission prior to termination.

16.9 The rights and remedies of the parties under this Agreement are cumulative and, subject to the limitations expressed in this Agreement, the exercise of a remedy by a party shall not preclude the right of such party to exercise any other remedy available to such party in accordance with the terms of this Agreement or otherwise.

17.0 HARDSHIP

17.1 If, at any time during the Term of this Agreement, there occurs a substantial change in the business, technical or commercial conditions which adversely affects the business or financial condition of either party to this Agreement, or a substantial change in Laws applicable to this Agreement or its performance by either party, as a result of which a party incurs or would be likely to incur substantial hardship in complying with the provisions of this Agreement, the party experiencing hardship may notify the other in writing that it wishes to discuss the terms and performance of this Agreement in light of such changed conditions.

17.2 Within 30 days after any notice under Section 17.1 above, the parties shall meet in Oklahoma City at a mutually acceptable time to discuss in good faith appropriate means, if any, to relieve such hardship in a manner equitable to both parties and at such meeting the party alleging hardship shall make available such data and information as it deems necessary to justify its request for relief. For the avoidance of doubt, nothing in this Section 17 shall alter the rights and obligations of the parties to supply and purchase AN or supply Ammonia under this Agreement in any way except to the extent that the parties agree to do so in writing at or following any such meeting.

18.0 INSURANCE

18.1 EDC shall procure and maintain, at EDC's sole expense (but subject to Schedule "C"), at all times during the Term of this Agreement:

18.1.1 Commercial General Liability Insurance

Commercial General Liability Insurance with limits of not less than $1,000,000 each occurrence. Railroad Protective Liability is to be included if that exposure exists with limits of not less than $5,000,000 each occurrence.

18.1.2 Automobile Liability Insurance

Business Auto Liability Insurance with a limit of liability in an amount not less than $1,000,000 each occurrence.

18.1.3 Workers' Compensation Insurance

Workers' Compensation Insurance in accordance with the laws of the State of Arkansas, and any other applicable jurisdiction, covering all employees who are engaged by EDC in performing its obligations under this Agreement. Employer's Liability coverage is required with limits of not less than the following:

Bodily Injury by Accident	$1,000,000 Each Accident
Bodily Injury by Disease	$1,000,000 Each Employee
Bodilyn Injury by Disease	$1,000,000 Policy Limit

18.1.4 Excess Liability Insurance

Umbrella Liability insurance with a limit of liability not less than $10,000,000 each occurrence.

18.1.5 Business Interruption Insurance

Business interruption insurance including, without limitation, coverage for the recovery of the *** which would have been paid by Orica had such AN been manufactured and delivered to Orica.

18.1.6 Property Insurance

Property insurance covering all risks of loss and damage to the EDC Plant and EDC Site, including but not limited to plant, equipment, real property, personal property, tools, machinery and electronic data processing equipment. Coverage shall also be provided for any property which is in EDC's care, custody or control, and for which EDC is legally responsible. Insurance valuation shall be for reinstatement or replacement cost.

18.1.7 Environmental Impairment Liability (EIL) Insurance

EIL insurance coverage with an aggregate limit of liability of $20,000,000, subject to certain deductibles and/or self-insured retentions. At the request and expense of Orica, EDC's EIL policy shall be specifically endorsed to include Orica as an Additional Named Insured with regard to exposures in which Orica has a financial interest or for which Orica has or may have any liability. EDC's policy shall be specifically endorsed to waive any rights of subrogation against Orica, its directors, officers and employees.

18.1.8 General Terms

All insurance companies providing the aforesaid coverages to EDC must be authorized to do business in the State of Arkansas. All insurance companies must be rated A- or better with a financial rating of VIII or better in the most recent A.M. Best's Rating Guide. Certificates of insurance for all required coverages shall be provided to Orica prior to commencement of the Agreement and renewal certificates upon policy renewals.

18.2 Orica shall procure and maintain, at Orica's sole expense, at all times during the Term of this Agreement:

18.2.1 Commercial General Liability Insurance

Commercial General Liability Insurance with limits of not less than $1,000,000 each occurrence. Railroad Protective Liability is to be included if that exposure exists with a limit of liability not less than $5,000,000 each occurrence.

18.2.2 Automobile Liability Insurance

Business Auto Liability Insurance with a limit of liability in an amount no less than $1,000,000 each occurrence.

18.2.3 Workers' Compensation Insurance

Workers' Compensation Insurance in accordance with the laws of the State of Arkansas, and any other applicable jurisdiction, covering all employees who are engaged by Orica in performing its obligations under this Agreement. Employer's Liability coverage is required with limits of not less than the following:

Bodily Injury by Accident	$1,000,000	Each Accident
Bodily Injury by Disease	$1,000,000	Each Employee
BodilyInjury by Disease	$1,000,000	Policy Limit

18.2.4 Excess Liability Insurance

Umbrella Liability insurance with a limit of liability not less than $10,000,000 each occurrence.

18.2.5 Business Interruption Insurance

Business interruption insurance relating to its explosives business covering Claims against or incurred by Orica arising as a result of a business interruption event at the EDC Plant or the EDC Site which impacts the ability of EDC to manufacture and deliver AN hereunder to Orica.

18.2.6 Property Insurance

Property insurance covering all risks of loss and damage to its property, including but not limited to plant, equipment, real property, personal property, tools, machinery and electronic data processing equipment. Coverage shall also be provided for any property which is in Orica's care, custody or control, and for which Orica is legally responsible. Insurance valuation shall be for reinstatement and replacement cost.

18.2.7 General

All insurance companies providing the aforesaid coverages to Orica must be authorized to do business in the State of Arkansas. All insurance companies must be rated A- or better with a financial rating of VIII or better in the most recent A.M. Best's Rating Guide.

19.0 DISPUTE RESOLUTION

19.1 Except as otherwise provided herein, the parties shall attempt in good faith to promptly resolve any controversy or claim arising out of or relating to this Agreement, or the interpretation, performance or breach hereof (any of the foregoing, a “Dispute”), by negotiations between the Chief Executive Officers of each party. The disputing party shall give the other party written notice of the Dispute. Within 15 days after receipt of such notice, the receiving party shall submit a written response to the other party. The notice and response shall include a statement of each party’s position on the Dispute and a summary of the evidence and the arguments supporting its position. The Chief Executive Officer (or his designee) of each party shall meet at a mutually acceptable time and place within 20 days after the date of the disputing party’s notice and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute. All negotiations and discussions pursuant to this Section 19.1 shall be confidential and shall be treated as compromise and settlement negotiations for purposes of the Federal Rules of Evidence and the Colorado Rules of Evidence.

19.2 If the Dispute remains unresolved for a period of 60 days following delivery by the disputing party of the notice referred to in Section 19.1, it shall be thereafter be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules. The arbitration shall take place in Denver, Colorado. The parties shall, prior to referring any Dispute to arbitration, agree in writing upon the issue or issues to be arbitrated. The arbitrator(s) shall be instructed to reach a decision based only on the facts and information supplied by the parties during the proceeding. The parties agree that such referral and the arbitration award shall be binding on both parties. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Notwithstanding any of the provisions or limitations of Sections 19.1 or 19.2, any demand for arbitration must be filed in writing with the other party and with the American Arbitration Association prior to the date when institution of legal or equitable proceedings based upon the Dispute would be barred by the applicable statute of repose or limitations.

20.0 CONFIDENTIAL INFORMATION AND ANNOUNCEMENTS

20.1 Each of the parties acknowledges that all non-public business, technical, proprietary or other similar information, including production cost and pricing information and data delivered to it by the other party in the course of entering into, performing or enforcing its rights under this Agreement, as well as the fact and terms of this Agreement, are confidential and shall be treated as confidential and agrees to, and to require its Affiliates, employees, legal, financial and other advisors to, hold such information in strict confidence and to refrain from disclosing or using such information to the detriment of the other party, until the fifth anniversary of the expiration or termination of this Agreement; provided however that a party may disclose confidential information:

(a) if and when required to do so by Laws, provided that the disclosing party shall cooperate with any reasonable requests of the non-disclosing party in connection with a disclosure under this clause (a), including a request to review any securities filings pertaining to the entering into of this Agreement prior to their filing;

(b) to third parties in connection with a proposed sale by such party of its business related to the subject matter of this Agreement, or an interest therein, provided that such third parties agree in writing to keep such information confidential;

(c) which was previously known to it at the time of disclosure as evidenced by pre-existing written materials;

(d) which is received from a third party not under an obligation of confidentiality to the disclosing party with respect to such information as evidenced by pre-existing written materials; or

(e) which has been independently generated by the receiving party without reference to or reliance on any information provided hereunder.

20.2 Each party agrees that if it breaches or threatens to breach Section 20.1 or any other confidentiality provision of this Agreement, the other party may be irreparably harmed and the remedy at law may be inadequate, and therefore, without limiting any other remedy available at law or in equity, an injunction, specific performance, or other forms of equitable relief to prevent further use and/or disclosure of confidential information, or money damages, shall be available to the other party. All rights, powers and remedies provided for herein are cumulative, and the other party shall, in addition to the rights, powers and remedies herein conferred, be entitled to avail itself of all such other rights, powers and remedies as may now or hereafter exist.

20.3 Neither party shall make any announcement in any way concerning this Agreement nor any other transaction related hereto without the prior written consent of the other party hereto, except as may be required by Law or applicable stock exchange rule.

21.0 SECURITY INTEREST

21.1 Orica and EDC hereby acknowledge that title to the AN manufactured for Orica hereunder shall at all times be in Orica. Nevertheless, in order to protect Orica's interest in such AN manufactured for Orica hereunder from the claims of creditors of EDC, EDC hereby assigns, pledges and grants to Orica a security interest in such AN manufactured for Orica hereunder.

21.2 Upon Orica's request, EDC shall execute and file any financing and continuation statements prior to and from time to time after the manufacture of AN for Orica hereunder, as necessary to perfect such security interest, and EDC shall cooperate with Orica in connection with the execution and delivery of any notifications to any holders of conflicting security interests in such AN manufactured for Orica hereunder to the extent such AN manufactured for Orica hereunder is considered or could be considered or is determined or could be determined to be the inventory of EDC in order to ensure the priority of Orica's security interest. Upon Orica's request, EDC shall notify its creditors of Orica's ownership and security interest in such AN manufactured for Orica hereunder, and shall request any such creditors to subordinate any liens or other security interests they may have in EDC's assets to the security interest of Orica in such AN manufactured for Orica hereunder.

21.3 Orica agrees not to enforce its security interest unless a creditor of EDC asserts an interest in such AN manufactured for Orica hereunder or claims that all or part of such AN constitute the inventory of EDC.

22.0 SAFETY, HEALTH AND ENVIRONMENT

22.1 Prior to entering into this Agreement, Orica has provided EDC with information regarding the safe transportation, handling, storage and use of Ammonia and AN (the "SHE Standards"). EDC hereby acknowledges that it has received, read and understood the SHE Standards and agrees to take all such measures as are necessary or desirable in order to safely manufacture, transport, handle, store and/or use the Ammonia and AN in accordance with the SHE Standards. For the avoidance of doubt, for the purposes of this clause, the term "the safe manufacture, transportation, handling, storage and use" of products relates not only to the safety of those persons who may be affected by the acts or omissions of EDC but also to protection of the Environment generally.

22.2 EDC shall comply with all safety and health Laws and Environmental Laws, regulations and codes of conduct applicable to the performance of its duties hereunder, and shall be solely responsible for any Claims howsoever arising in connection with any failure so to do. EDC shall at all times remain responsible for the health and safety of those people affected by its operations and for protection of the Environment.

22.3 Unusual incidents (as identified in Schedule "E" hereto) at EDC's Plant shall be reported to the Director, Sustainability of Orica USA Inc. Such reports shall be made initially by telephone, to be followed by a written report within 24 hours. If EDC inadvertently fails to promptly provide such notification or reports, such failure to notify or report shall not create any liability of EDC to Orica provided however that EDC shall rectify such failure as soon as it comes to EDC's attention.

22.4 EDC shall indemnify, defend and save and hold harmless Orica and its Affiliates, and each of their respective officers, directors, employees, and agents (each, an "Orica Indemnified Party"), from and against any and all Claims sustained or incurred by any Orica Indemnified Party relating to or resulting or arising, directly or indirectly, from or in connection with, any of the following (provided that EDC shall have no liability under this Section 22.4 for any Claims in respect of which Orica has agreed to indemnify EDC in accordance with Section 8.4 hereof, or to the extent such Claims relate to or result or arise from the negligent actions or inactions of an Orica Indemnified Party):

22.4.1 any breach of a representation or warranty made herein by EDC or non-compliance with or breach by EDC of any of the covenants or agreements contained in this Agreement to be performed by EDC;

22.4.2 the physical or environmental conditions at, on, under or in the EDC Site, and, to the extent such conditions are caused, created or contributed to by EDC, the physical or environmental conditions in the vicinity of the EDC Site;

22.4.3 the construction, equipping, maintenance, operation or use of the EDC Site, or the manufacturing or storage of Ammonia or AN, in each case in violation of any applicable Environmental Law or Environmental Permit;

22.4.4 the presence of any Hazardous Material or a Release or Disposal or the threat of a Release or Disposal of any Hazardous Material or waste on, at or from the EDC Site, or the Arrangement for Disposal or treatment of any Hazardous Material owned or possessed by EDC at any facility other than the EDC Site;

22.4.5 the failure to promptly undertake and diligently pursue to completion all necessary, appropriate and legally authorized investigative, containment, removal, clean up and other remedial actions with respect to a Release or the threat of a Release of any Hazardous Material on, at or from the EDC Site, required by any Environmental Law or Environmental Permit;

22.4.6 human exposure to any Hazardous Material, noises, vibrations or nuisances of whatever kind or death, personal injury or damage to property to the extent the same arise from the condition of the EDC Site or the construction, equipping, ownership, use, sale, maintenance, conveyance or operation thereof in violation of any Environmental Law; or

22.4.7 a violation or asserted violation of any applicable Environmental Law or Environmental Permit at or related to the EDC Site.

22.5 In addition to Orica's indemnification obligations under Section 8.4 hereof, Orica shall indemnify, defend and save and hold harmless EDC and its Affiliates, and each of their respective officers, directors, employees, and agents (each, an "EDC Indemnified Party"), from and against any and all Claims sustained or incurred by any EDC Indemnified Party relating to or resulting or arising, directly or indirectly, from or in connection with, any of the following (provided that Orica shall have no liability under this Section 22.5 for any Claims to the extent such Claims relate to or result or arise from the negligent actions or inactions of an EDC Indemnified Party):

22.5.1 any breach of a representation or warranty made herein by Orica or non-compliance with or breach by Orica of any of the covenants or agreements contained in this Agreement to be performed by Orica;

22.5.2 the physical or environmental conditions at, on, or in the EDC Site to the extent such conditions are caused, created or contributed to by Orica;

22.5.3 human exposure to any Hazardous Material, noises, vibrations or nuisances of whatever kind, or death, personal injury or damage to property to the extent the same arise from the transportation and delivery of Ammonia supplied by Orica to the EDC Site and the shipment of AN by Orica or for Orica from the EDC Site or the rail cars or trucks supplied to the EDC Site by Orica; or

22.5.4 a violation or asserted violation by Orica of any applicable Environmental Law or other Law, or Environmental Permit or other permit, related to the transportation of Ammonia to and AN from the EDC Site or the rail cars or trucks supplied to the EDC Site by Orica.

23.0 COMMUNICATIONS

23.1 All notices, requests, waivers, consents, approvals, agreements and other communications under this Agreement must be in writing to be effective and shall be delivered in person or by certified mail with postage prepaid and return receipt requested, courier or delivery service with charges prepaid or facsimile transmission,

if to Orica, addressed as follows:

Orica International Pte Ltd.
Level 6, Tower 2, 78 Shenton Way, Singapore 079120
Attention: Managing Director

Fax No. +65 6258 3425

with a copy to:

Orica USA Inc.
33101 E. Quincy Ave.
Watkins, CO 80137
Attention: General Counsel

Fax No. (303) 268-5252

and if to EDC, addressed as follows:

El Dorado Chemical Company
Attention: President

16 S. Pennsylvania Avenue
Oklahoma City, Oklahoma 73107

Fax No. (405) 235-5067

with a copy to:

Attention: General Counsel

Fax No. (405) 236-1209

at the same address.

Either party shall have the right to change its address by notice to the other party at the addresses in force hereunder.

23.2 Any communications shall be deemed to have been received as follows:

23.2.1 if delivered in person, when delivered;

23.2.2 if forwarded by facsimile, on the date of transmission thereof as reflected on the confirmation of the transmitting machine;

23.2.3 if forwarded by certified mail, on the fifth Business Day following the date of mailing as shown on the certified mail receipt; and

23.2.4 if forwarded by courier or delivery service, on the third Business Day following the date of mailing as shown on the air bill.

24.0 HEADINGS

24.1 The headings are inserted for convenience only and are to be ignored in construing this Agreement.

24.2 References to articles, sections or paragraphs are to articles, sections or paragraphs of this Agreement. The words “hereto”, “herein”, “hereof”, “hereunder”, “this Agreement” and similar expressions mean and refer to this Agreement.

25.0 RULES OF INTERPRETATION

25.1 The singular includes the plural and vice versa, “person” includes any individual, firm, company, partnership, corporation, Government, instrumentality and unincorporated body of persons, or association; and “in writing” or “written” includes printing, typewriting, or any electronic means of communication capable of being visibly reproduced at the point of reception.

25.2 In the event that there shall be any discrepancies or conflict between the provisions of any Schedule attached to this Agreement and any of the provisions of the Agreement itself, then in every such event the provisions of this Agreement shall prevail and govern.

26.0 GOVERNING LAW

26.1 This Agreement shall be governed by and interpreted in accordance with the laws of the State of Colorado.

27.0 ASSIGNMENT AND SALE

27.1 Neither party shall transfer, assign, convey or otherwise dispose of all or any portion of its interest in, or its rights, benefits or obligations under, this Agreement to a third party without first having obtained the prior written consent of the other party, such consent not to be unreasonably withheld, delayed or denied; provided, however, either party with prior notice to the other party shall be permitted to assign its rights and obligations under this Agreement to the successor of the assigning party as a result of a statutory merger or consolidation or to the purchaser of all or substantially all of such party's assets, or to an Affiliate which has the capability (as determined by the non-assigning party in the exercise of its reasonable discretion) to perform the assigning party's obligations hereunder (collectively a "Permitted Successor and Assign").

27.2 The parties acknowledge that Orica may, from time to time upon written notice to EDC, nominate itself or any of its Affiliates as purchaser under this Agreement or have its obligations under this Agreement performed, in whole or in part, by any one or more of its Affiliates, provided that, in any such circumstance, Orica shall remain responsible to EDC for full performance of all obligations under this Agreement (whether or not such obligations are to be performed by an Affiliate). As of the Effective Date Orica hereby nominates Orica USA Inc. as purchaser under this Agreement (which nomination shall continue until EDC is otherwise notified in writing as provided in this Agreement) and will cause Orica USA Inc. to perform all of Orica's obligations under this Agreement (but Orica shall not be released from and shall remain responsible to EDC for full performance of all obligations under this Agreement as hereinabove provided).

27.3 An assignee must covenant in writing to fully assume and perform all of the assignor's obligations under this Agreement. No transfer or assignment shall discharge or relieve the assignor from any of its covenants or obligations as are contained or provided within this Agreement which arise, are incurred, or are to be performed, prior to the date of the transfer or assignment unless specifically agreed to in writing by the other party. From and after the effective date of any assignment of this Agreement, and the rights and obligations hereunder, which has been consented to in writing by the non-assigning party, the assigning party shall be deemed released from all obligations and liabilities hereunder which are based on acts, omissions, facts, events or circumstances first arising, occurring or existing after the effective date of the assignment. The rights and obligations of the parties herein set forth shall inure to and be binding upon Permitted Successors and Assigns.

27.4 Notwithstanding the foregoing, in the event either party intends to sell or otherwise transfer all or substantially all of its assets to which this Agreement relates to a third party purchaser or other transferee, or transfer this Agreement to an Affiliate, the selling or transferring party shall, unless prohibited by confidentiality undertaking, notify the other party at least 60 days before the closing of such transaction. The selling party shall also require its purchaser or transferee to assume the selling party's rights and obligations under this Agreement upon the closing of such transaction.

27.5 Any purported transfer or assignment in contravention of the foregoing shall be null and void, shall be considered a material breach of the Agreement and shall permit the other party, in addition to any other rights which it may have, to terminate this Agreement upon giving 30 days written notice thereof.

28.0 TIME OF ESSENCE

28.1 Time shall be of the essence of this Agreement.

29.0 EFFECT OF THIS AGREEMENT

29.1 The provisions of this Agreement shall be binding upon the parties hereto and their respective successors and permitted assigns.

29.2 Nothing herein is intended to create a partnership for the purposes of subchapter K and Section 761 (a) of the Internal Revenue Code.

30.0 WAIVER

30.1 No waiver by either party of any breach hereof or of any claim, right or remedy provided for hereunder shall be deemed a waiver unless such waiver is in writing and signed by the party to be bound. The failure of a party to assert or exercise any claim, right or remedy shall not be deemed a waiver of such claim, right or remedy in the future.

31.0 AMENDMENT AND SEVERABILITY

31.1 This Agreement may only be altered, modified, amended or changed by written agreement executed by both parties.

31.2 If any court or arbitrator declares the invalidity of any provision of this Agreement, such provision shall be either amended to make it valid or enforceable, respecting the intention of the parties expressed in that provision to the greatest extent possible, or, if this is not possible, deleted with the remainder of the Agreement remaining in full force, validity and effect.

32.0 ENTIRE AGREEMENT

32.1 The parties hereto agree that the terms and provisions of this Agreement together with the Schedules hereto constitute the entire agreement between the parties hereto concerning the subject matter hereof and supersede any and all prior negotiations, understandings and agreements, whether written oral, between the parties with respect thereto. There is no warranty, representation, collateral agreement or condition affecting this Agreement other than those herein set forth.

IN WITNESS WHEREOF the parties hereto have executed this Agreement in the presence of their respective officers duly authorized in this regard on the day and Year first above written.

The Common Seal of
ORICA INTERNATIONAL PTE LTD. `
was affixed in accordance with its
Articles of Association

By: /s/ John R. Beevers
Name: John R. Beevers
Title: CEO Orica Mining Services

EL DORADO CHEMICAL COMPANY

By: /s/ Jack E. Golsen
Name: Jack E. Golsen
Title: Chairman

SCHEDULE "A"

DEFINITIONS

In the Agreement to which this Schedule "A" is attached and in all Schedules thereto, the following words have the meanings given to such words below:

"*"** shall have the meaning set forth in Schedule "C" to this Agreement;

"Affiliate" means any person which, directly or indirectly, Controls, is Controlled by or is under common Control with a party to this Agreement;

"Approved Investment" shall have the meaning set forth in Schedule "C" to this Agreement;

"Approved Investment Project" shall have the meaning set forth in Schedule "C" to this Agreement;

"Agreement" means this Agreement, including the Schedules hereto, and any future amendments or supplements;

"Ammonia" means fertilizer grade anhydrous ammonia (82-0-0) which meets or exceeds the applicable specifications set out in Schedule "B" hereto;

"Ammonium Nitrate" or "AN" means, individually and collectively, AN Prills, HDAN and/or AN Solution;

"Annual Budget" shall have the meaning set out in Schedule "C" hereto;

"AN Prills" means industrial grade ammonium nitrate prills manufactured by EDC at the AN Prills Plant which meet or exceed the applicable Specifications in Schedule "B" hereto;

"AN Prills Plant" means the AN Prill tower and related equipment used to manufacture AN Prills located on the EDC Site, sometimes referred to as the "KT Plant";

"AN Solution" means ammonium nitrate solution which meets or exceeds the applicable AN Solution Specifications in Schedule "B" hereto, except that "Tons of AN Solution" shall be measured on a one hundred percent (100%) basis;

"Arrangement for Disposal" has the same meaning as given to that term in the case law interpreting Section 107(a)(3) of CERCLA;

"*"** shall having the meaning given in Schedule "C" hereto;

"Business Day" means a day on which banking institutions in Denver, Colorado are open for business;

“CERCLA” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9601(22), and the regulations and agency guidance promulgated thereunder;

“Claim” means any claim, demand, suit, action, cause of action, assessment, loss, cost, expense, liability (whether contingent, fixed or unfixed, liquidated or unliquidated, or otherwise), obligation, fine, penalty, interest, payment, damage, requirement to do work or requirement to perform an activity (whether as a result of civil action, criminal action, Government order or on any other basis whatsoever), including costs or expenses of any and all investigations or proceedings and reasonable fees and expenses of attorneys, accountants and other experts, but excluding special, consequential, incidental or punitive damages claimed by a party to this Agreement;

“Controls”, “is Controlled by” and “is under common Control with” means, with respect to either party to this Agreement, the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a party, whether through ownership of voting securities, by contract or otherwise;

“Disposal” has the same meaning as given to that term in CERCLA;

“Dispute” shall having the meaning given in Section 19.1 hereto;

“Dollar” or **“$”** shall mean dollars in United States currency;

“EDC’s Plant” or “EDC Plant” means the portion of the EDC Site useable by Orica for the storage of Ammonia pursuant to Section 3.8 of the Agreement, the portion of the nitric acid production facilities at the EDC Site utilized to supply nitric acid for the production of AN for Orica, the portion of the AN Solution production and storage facilities at the EDC Site utilized to supply AN Solution for shipments and for the production of AN for Orica, the portion of the EDC Site dedicated to the manufacture of AN Prills, including the AN Prills Plant, the portion of the supporting facilities at the EDC Site used to manufacture steam, to unload Ammonia, to load and ship AN manufactured for Orica and for ingress to and egress from the AN Prills Plant and any assets that Orica requests EDC to add to the EDC Site as a result of this Agreement;

“EDC’s Site” or “EDC Site” means the facilities existing and land utilized as at the Effective Date by EDC at El Dorado, Arkansas for the storage of Ammonia and the manufacture of 420,000 Tons of nitric acid, sulfuric acid, 450,000 Tons of AN Solution, 250,000 Tons of AN Prills and 200,000 Tons of HDAN;

“EDC Indemnified Party” shall have the meaning set forth in Section 22.5 of this Agreement;

“Effective Date” means January 1, 2010;

“Environment” means any water or water vapor, any land, including land surface or subsurface, air, fish, wildlife, flora, fauna, biota and all other natural resources;

“Environmental Law” means any and all federal, state or local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances, codes, and regulations, whether currently in effect or enacted or amended after the Effective Date of this Agreement, relating to the protection, preservation or remediation of the Environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production, Disposal, or Arrangement for Disposal of Hazardous Materials and the rules, regulations, written and published notices, guidelines, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto;

“Environmental Permit” means all permits, licenses, approvals, authorizations, consents or registrations required by any applicable Environmental Law in connection with the ownership, development, construction, equipping, use and/or operation of the EDC Site or the EDC Plant, as applicable, for the storage, treatment, generation, transportation, processing, handling, production or Disposal of Hazardous Materials;

“Financial Statements” shall have the meaning set forth in Section 5.2.5 of this Agreement;

“Force Majeure” means any cause or causes beyond the reasonable control of the party claiming such Force Majeure which prevents the performance by such party of any obligation under the Agreement, other than (a) an obligation to pay money (including Orica’s obligation to make the payments provided for in Section 14.2.1 except in the circumstances where Orica is relieved from its obligations to pay to EDC the *** (including Depreciation) and *** components of the *** as set out in Schedule “C” hereto) or (b) to indemnify, including, without limiting the generality of the foregoing, acts of God, compliance with Laws, including Environmental Laws, or any order or directive of any Government which, in the reasonable judgment of the party affected, makes it necessary to cease or reduce production or delivery, storm, lightning, riot, sabotage, rebellion, insurrection, war, threat of war, embargo, flood, fire, lightning, accident, explosion, inability to obtain sufficient fuel, transportation equipment, power or raw materials, including specifically Ammonia, to maintain production of AN at EDC’s Plant or to deliver AN to Orica, breakdown of machinery or equipment and shutdown or partial shutdown of EDC’s Plant, provided that lack of funds shall not be a cause beyond the reasonable control of a party. Labor Difficulties shall be events of Force Majeure if they occur within the regular operations of a party and significantly affect such party’s ability to perform its obligations hereunder. Labor Difficulties affecting transportation facilities with respect to the delivery and supply of goods, raw material supplies and services to EDC’s Plant shall constitute events of Force Majeure to the extent that such Labor Difficulties affect EDC’s ability to perform its obligations hereunder;

“Government” means federal, state and municipal governments and authorities, whether executive, administrative, municipal or quasi-judicial, and departments, organizations and agencies of such governments and authorities, in the United States;

"Hazardous Material" means, without limitation, any element, compound, mixture, solution, substance, product, waste or byproduct designated as "hazardous" or "toxic" or as a pollutant or contaminant pursuant to any Environmental Law or Environmental Permit, and Ammonium Nitrate, and any element, compound, mixture, solution, substance, product, waste or byproduct produced therefrom or created thereby;

"HDAN" means agricultural grade ammonium nitrate which meets or exceeds the applicable Specifications in Schedule "B" hereto manufactured by EDC at the EDC Site, and sometimes known as "E2";

"Initial Term" shall have the meaning set forth in Section 2.1 of this Agreement;

"Koch Ammonia Agreement" means the Anhydrous Ammonia Sales Agreement between Koch Nitrogen Company (**"KNC"**), Koch Nitrogen International SARL (**"KNI"**) and EDC dated March 9, 2005, which was subsequently amended by (a) that certain First Amendment to Anhydrous Ammonia Sales Agreement, effective August 29, 2005; (b) that certain Second Amendment to Anhydrous Ammonia Sales Agreement dated November 3, 2006 and effective July 1, 2006; and (c) that certain Third Amendment to Anhydrous Ammonia Sales Agreement dated December 3, 2008 and effective January 1, 2009;

"Labor Difficulties" means strikes and lockouts, both legal and illegal, and other forms of organized actions, howsoever called, by labor or other personnel to stop or significantly reduce or slow-down work or production or to withdraw or withhold labor or services;

"Laws" means common law, statute law, other laws, rules, regulations, by-laws, ordinances, orders, codes, licensing requirements, and other lawful enactments promulgated by any Government and published guidelines or standards set by any Government;

"*"** shall have the meaning set forth in Schedule "C" hereto;

"Month" means a calendar month;

"Orica Indemnified Party" shall have the meaning set forth in Section 22.4 of this Agreement;

"Permitted Successor and Assign" shall have the meaning set forth in Section 27.1 of this Agreement;

"Release" has the same meaning as given to that term in CERCLA;

"Reserved Capacity" shall have the meaning set forth in Section 4.1 of this Agreement;

"SHE Standards" shall have the meaning set forth in Section 22.1 of this Agreement;

"Specifications" shall mean the specifications in Schedule "B" hereto;

"Term" shall have the meaning set forth in Section 2.1 of this Agreement;

"Ton" means 2000 pounds;

"True Up Report" shall mean the report attached as Schedule "F" hereto used to complete the adjustments referred to in Sections 14.2.2, 14.2.3 and 14.2.4 of the Agreement;

"Verification Right" shall have the meaning set forth in Section 13.3 of this Agreement ; and

"Year" means a 12 month period beginning each January 1st and ending on December 31st.

SCHEDULE "B"

PRODUCT SPECIFICATIONS

AMMONIA

Fertilizer Grade Anhydrous Ammonia

(82-0-0)

Parameter	Specification
Purity (wt%)	99.5% NH_3 Minimum
Nitrogen (wt%)	81.8% Minimum
Moisture (wt%)	0.2% Minimum to 0.5% Maximum
Oil	6 parts per million Maximum
Iron	1 part per million Maximum

AN PRILLS

(34-0-0)

UN NUMBER 1942

Parameter	Specification	Typical Value
Total Nitrogen (wt%)	34.0% Minimum	34.67%
Moisture (wt%)	0.15% Maximum	0.06%
Bulk Density	45.0 lbs/ft^3 Minimum	47.7
Oil Absorption (wt%)	8.0 – 13.0%	10.4%
Internal Surfactant*	450 – 700 ppm (Winter) 650 – 1000 ppm (Summer)	550 ppm (Winter) 800 ppm (Summer)
External Surfactant*	600 - 1200 ppm (Winter) 800 – 1200 ppm (Summer)	807 ppm (Winter) 1000 ppm (Summer)
Talc (External Coating) (wt%)	0.4 – 0.75%	0.50%
Screen Analysis (U.S. Standard)		
+6 Mesh (wt%)	0.0% Maximum	0.0%
+14 Mesh (wt%)	90.0% Minimum	98.1%
+20 Mesh (wt%)	10% Maximum	1.8%
-20 Mesh (wt%)	0.5% Maximum	0.1%

* Winter means October through April; Summer means May through September

HDAN

Parameter	Specification	Typical Value
Total Nitrogen (wt%)	34.0% Min	34.5%
Water Insoluble	0.1% Max	0.01%
Moisture (wt%)	0.5% Max	0.3%
Bulk Density (Loose)	60 lbs/ft^3 Min	61 lbs/ft^3 Min
pH (10% w/w Solution)	5.5 to 6.5	6.0
E-2 Additive (%Mg)	0.18% - 0.40%	0.25%
Screen Analysis (U.S. Standard)		
+6 Mesh (wt%)	2.0%	1.0%
+10 Mesh (wt%)	40.0% Min	45.0%
+14 Mesh (wt%)	75% Max	47.0%
+20 Mesh (wt%)	10% Max	7.0%
-20 Mesh (wt%)	1.0% Max	0.7%

AN SOLUTION

Parameter	Specification
AN Concentration (wt%)	85%-90%
pH Range	4.5 – 6
Loading Temperature	110 – 120 degrees C

Note: These specifications are based on EDC's analytical methods.

SCHEDULE "C"

***** CALCULATION AND *** CALCULATION**

***** CALCULATION**

Annual Budget

EDC shall propose, on or before November 1st in each Year in respect of the following Year, an *** budget ("Annual Budget") for the *** (to be calculated as set out below) ***. Such Annual Budget shall be subject to Orica's approval, such approval not to be unreasonably withheld. The agreed Annual Budget for Year 2010 is attached as Schedule "C-1" hereto. The Annual Budget for Years subsequent to Year 2010 shall be prepared utilizing the same methodology and format as used for Year 2010 recognizing that the actual figures for Years subsequent to Year 2010 will vary. In the event that Orica does not agree to any portion of the Annual Budget proposed by EDC, Orica shall, on or before December 1st , identify in writing to EDC, with particularity, all items of such Budget to which Orica does not agree. All other items in such proposed Annual Budget shall be deemed agreed. For any disputed item(s) regarding a proposed Annual Budget, the amount specified in the previous Year's Annual Budget for such disputed item(s) shall continue to apply until the dispute is resolved. In the event that the dispute is not resolved until after the commencement of a Year, the resolution of the dispute will be applied retroactively to January 1st of that Year and any amount owing as a result of such retroactivity will be paid within 15 days of such amount being determined.

Prior to finalization of the Annual Budget, the parties shall meet to discuss their respective needs in the next Year for AN and other products manufactured at the EDC Site.

Calculation of ***

Orica shall pay to EDC a "***" which shall be the sum of the following ***:

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Cost Reduction

If, for any reason, Orica determines that it will not take delivery on a Monthly basis of its previously forecasted AN offtake, Orica shall promptly so advise EDC. The parties shall then consult as to the best method to operate the assets at the EDC Plant to deliver AN in accordance with Orica's new forecast and at reduced costs. During any production curtailment or shut down period, including as a result of Orica declaring Force Majeure, EDC will use best efforts, without expenditure of funds, to mitigate costs, *** to implement agreed cost reduction initiatives and any costs so avoided ("***") shall be to Orica's benefit and shall reduce the ***. These cost reductions will initially be achieved by, to the extent feasible, re-deploying the people, assets and products manufactured at the EDC Plant for other purposes. *** include those which relate to the voluntary use by EDC in another one of its operations at the EDC Site, or the sale by EDC of, inputs the costs of which would otherwise be charged to Orica pursuant to Schedule "C" to this Agreement. If a cost reduction opportunity necessitates an expenditure of funds in order to achieve the savings and both parties agree to make the expenditure, those funds will be expended by Orica and EDC in proportion to the benefit each will receive.

If Orica identifies a cost-savings opportunity which, based on Orica's evaluation, it believes can be implemented at the EDC Plant and, taking into account the operation of the remainder of the EDC Site, will, if implemented, reduce the *** payable by Orica hereunder, Orica may present a proposal to EDC to effect such cost-savings opportunity. The parties thereafter shall use their best efforts, without expenditure of funds, to agree upon Orica's proposal or a variation thereof. If the parties do agree and such cost-savings opportunity necessitates an expenditure of funds in order to achieve the savings, and the parties agree to such expenditure of funds, those funds will be expended by Orica and EDC in proportion to the benefit each will receive and the resulting cost savings will be reflected in the ***.

*Relief of Orica's Obligation to Pay ****

After the occurrence of the following circumstances, and to the extent caused thereby, Orica shall be relieved from its obligations herein to pay to EDC the ***:

(a) If EDC is unable to supply Ammonia to the EDC Site during such periods as EDC is supplying Ammonia pursuant to Sections 3.1 and 3.3 of the Agreement and if such failure is due to an act or omission of EDC or the breach by EDC of the supply contract with its Ammonia supplier; or

(b) If EDC is unable to supply AN Prills to Orica from the AN Prills Plant, that Orica has ordered in compliance with the terms of this Agreement, for a period of 15 or more consecutive days, irrespective of the cause of such failure, including where such failure is due to an act or omission of EDC or a result of EDC declaring Force Majeure, except if such failure is due to the acts or omissions of Orica,and the relief conferred by EDC upon Orica pursuant to this paragraph (b) above shall be Orica's sole remedy for EDC's inability to supply AN Prills to Orica from the AN Prills Plant as a result of EDC declaring Force Majeure but such shall not limit Orica's remedies where such failure is due to an act or omission of EDC.

Relief of Orica's obligations shall cease upon the cessation of the applicable circumstance above.

***** CALCULATION**

In addition to the ***, Orica shall pay to EDC the ***, as provided below:

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which EDC wishes to recover from Orica, Orica must first agree upon such investment (“Approved Investment Project”). In the event the parties so agree on an investment, EDC shall manage the Approved Investment Project, provided that Orica shall be consulted by EDC respecting all major project decisions. Approved Investment Projects shall at all times be owned by EDC. All efficiencies resulting from such improvements shall be recognized as savings when calculating the ***.

EDC’s investment plus the cost of funds (including, without limitation, interest) (collectively, the “Approved Investment”) associated with an Approved Investment Project shall be repaid by Orica to EDC in equal Monthly amounts over the agreed lifetime of the asset, in addition to Orica’s payment of the ***. Orica shall have no further obligations respecting Approved Investments upon the termination of this Agreement nor shall Orica have any further obligations in respect of an Approved Investment Project after the agreed lifetime of the asset which lifetime was used to calculate Orica’s financial obligations relating to the investment.

In the event an Approved Investment Project will enhance the operations at the EDC Site in addition to the EDC Plant, then Orica shall pay only the proportion of the investment relating to the EDC Plant as Orica and EDC may agree. If Orica disagrees with an investment EDC proposes to make, EDC shall be entitled to make such investment, however the *** hereunder shall not increase as a result thereof and Orica shall have no obligation to repay any portion of such investment.

***

All *** incurred by EDC in connection with the:

- Ammonia storage facilities when operated for Orica’s benefit;
- unusual shipping or handling services; and
- cessation or resumption of production under Section 4.3 of the Agreement which causes EDC to directly incur additional fixed or variable costs not otherwise included in the *** and in excess of amounts budgeted for the operation of the AN Prills Plant

required by Orica and which are not otherwise charged to Orica under the *** shall be separately charged to Orica, and paid by Orica to EDC, at EDC’s actual cost to provide such services ("***"). EDC shall invoice Orica for *** Monthly. Orica shall pay such invoices within 15 days of invoice.

Insurance Premiums

EDC shall invoice Orica for the additional environmental impairment liability insurance premium if Orica has exercised its right to be an Additional Named Insured in accordance with Section 18.1.7 of the Agreement. Orica shall pay such invoices within 15 days of invoice.

SCHEDULE "C-1"

***

El Dorado Chemical Company
Summary Invoice
Proposed 2010 Budget

***

Page 1 of 1

El Dorado Chemical Company
Proposed 2010 Budget – Material Flow

***

Page 1 of 1

*** Billing
El Dorado Chemical Company
Proposed 2010 Budget

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Page 1 of 1

AN Pills and AN Solution *** Billing (includes both ***)
El Dorado Chemical Company
Proposed 2010 Budget

***

Page 1 of 1

HDAN *** Billing (includes both ***)
El Dorado Chemical Company
Proposed 2010 Budget

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Page 1 of 1

Treated Water Allocation
El Dorado Chemical Company
Proposed 2010 Budget

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SCHEDULE "D"

MEASUREMENT OF AMMONIA DELIVERIES

EDC shall maintain appropriate metering facilities designed to measure the quantities of Ammonia delivered by pipeline pursuant to the Agreement. The metering facilities shall include a device which records the quantities of product delivered, with automatic temperature compensation near the meter intake, a gas eliminator, and other appropriate devices, all of said equipment to be of standard manufacture and reasonably acceptable to Orica. All metering equipment shall be tested by EDC in a manner consistent with manufacturer's recommendations, but no less frequently than once a Year, and EDC will give Orica reasonable notice of the date and approximate hour of each test. The testing method and facilities will be those agreed between the parties. Orica may have representatives present to witness all metering equipment tests and shall have the right to inspect metering equipment in the presence of EDC's representatives. Orica may request special tests of the metering equipment in addition to the regular Monthly tests. The expense of special tests will be borne by Orica unless such tests show that the metering equipment is in error by an amount in excess of the rated accuracy of the metering system, in which case the expense of the special test shall be borne by EDC.

If any test shows that the metering equipment is in error by an amount exceeding the rated accuracy of the system, the equipment shall be adjusted to record accurately, and the previous readings of such equipment shall be corrected to zero error for any period of error that is known definitely or agreed upon. If the period of error is not known definitely or agreed upon, the correction shall be for a period comprising the last half of the time elapsed since the date of the last test.

If the metering equipment becomes inoperative, or outside the rated accuracy of the metering system, the quantities of Ammonia so delivered hereunder for each day during which the metering equipment is inoperative or outside the rated accuracy of the meter system shall be estimated and agreed upon on the basis of the best data available, using the first of the following methods which is feasible:

1. By using the registration of EDC's check meters if accurately registering:

2. By correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculations; or

3. Other mutually agreeable means.

On a daily basis, EDC shall determine the quantities delivered to EDC. Monthly statements for Ammonia shall show deliveries on a daily basis.

If Orica does not protest within 30 days after receipt of EDC's notice of the quantities delivered, then the quantities of Ammonia as computed by EDC shall be final and conclusive. In the event of any dispute, the parties shall endeavour to resolve such dispute and mutually agree on the appropriate measurement to be used for invoicing purposes. If the parties hereto cannot agree on such quantities, then they shall select a disinterested technically appropriate third party which shall re-compute the quantities in dispute. The quantities re-computed by such disinterested third party shall be accepted by the parties hereto as final and conclusive. The charges made by such disinterested third party shall be borne equally by the parties hereto. EDC shall retain quantity measurement records hereunder for a period of at least one Year from the date on which such measurements were made.

MEASUREMENT OF AMMONIUM NITRATE DELIVERIES

EDC shall maintain appropriate scale facilities designed to measure the quantities of AN delivered by rail car and truck pursuant to the Agreement. Orica shall have the right to independently meter or weigh AN delivered hereunder.

EDC agrees to provide copies of available testing records respecting its measurement facilities to Orica upon Orica's written request.

Monthly invoices for AN shall show deliveries on a daily basis.

If Orica does not protest within the time specified in Section 8.2 of the Agreement in respect of quantities of AN delivered, then the quantities as computed by EDC shall be final and conclusive. In the event of any dispute, the parties shall endeavour to resolve such dispute and mutually agree on the appropriate measurement to be used for invoicing purposes. If the parties hereto cannot agree on such quantities, then they shall select a disinterested technically appropriate third party which shall re-compute quantities in dispute. The quantities computed by such disinterested third party shall be accepted by the parties hereto as final and conclusive. The charges made by such disinterested party shall be borne equally by the parties hereto. EDC shall retain quantity measurement records hereunder for a period of at least one Year from the date on which such measurements were made.

SCHEDULE "E"

TYPES OF UNUSUAL INCIDENTS TO BE REPORTED TO ORICA

The following major unusual incidents at the EDC Plant shall be reported to Orica within 8 hours:

Any incident which does or is likely to:

- result in death of an employee or the hospitalization of 3 or more employees
- result in serious damage to property or to the environment
- lead to a report in, or attract the attention of, the media
- cause notification to, or filing a report with, a regulatory agency

The following unusual incidents at the EDC Plant shall be reported to Orica within 48 hours:

1. Any OSHA recordable injury or illness.
2. Any explosion or fire which results in the interruption of normal work.
3. Any uncontrolled release of materials likely to threaten the external environment, including incidents that occurred during the transport of hazardous substances.
4. The explosion or collapse of any pressure vessel.
5. Any material unexplained or abnormal occurrence, including any loss of product or material through theft, neglect or paperwork discrepancy.
6. Any incident whereby AN could be affected by contamination, non-compatibility or incorrect manufacturing procedures or processes.
7. Transportation/distribution incidents related to shipments to or from the EDC Plant.

SCHEDULE “F”

TRUE UP REPORT

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Schedule F True Up Report
El Dorado Chemical Company
***
Amounts Based Upon Proforma Assumptions
***
Page 1 of 1

Schedule F True Up Report
El Dorado Chemical Company
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Amounts Based Upon Proforma Assumptions
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Page 1 of 1

Schedule F True Up Report
El Dorado Chemical Company
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Amounts Based Upon Proforma Assumptions
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Page 1 of 1

El Dorado Chemical Company
Orica Contract - *** Billing
AN Prills Detail True-Up Report

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El Dorado Chemical Company
Orica Contract - *** Billing
AN Prills and AN Solution Detail True-up Report

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El Dorado Chemical Company
Orica Contract - *** Billing
HDAN Detail True-up Report

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SCHEDULE "G"

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Exhibit 10.28

FIRST AMENDMENT TO AN SUPPLY AGREEMENT

This First Amendment to AN Supply Agreement ("First Amendment") is entered into by and between Orica International Pte Ltd. ("Orica") and El Dorado Chemical Company ("EDC"), with an effective date of March 1, 2010 ("Effective Date") in reference to the following:

A. Orica and EDC entered into that certain AN Supply Agreement made effective as of January 1, 2010 (the "Agreement")". Capitalized terms that are not otherwise defined herein shall have the meaning given such terms in the Agreement.

B. The parties desire to modify certain provisions of the Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Preamble. The preamble is hereby incorporated herein by reference; provided that, in case of any inconsistency between any part of the preamble and any part of the body of the Agreement, then the body of the Agreement shall prevail.

2. Ammonia. Sections 3.1, 3.2, 3.3 and 3.4 of the Agreement shall be deleted in their entirety and the following shall be substituted therefor:

"3.1 The current term of the Koch Ammonia Agreement expires on December 31, 2012. The Koch Ammonia Agreement contemplates that EDC will purchase approximately 60,000 Tons of Ammonia that will be used in the production of AN to be purchased by Orica under this Agreement. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (a) of this Agreement.

3.1.1 Orica is not and shall not be deemed to be a party to the Koch Ammonia Agreement.

3.1.2 Orica acknowledges and agrees that, prior to December 31, 2012, Orica shall not be permitted to supply its own Ammonia in substitution for the 60,000 Tons of Ammonia to be supplied under the Koch Ammonia Agreement nor require EDC to supply the 58,000 Tons of Ammonia Orica will supply from another supplier, in either case without the consent of KNI.

3.1.3 EDC will provide to Orica material information in EDC's possession regarding the operation of the Koch Ammonia Agreement and will provide copies to Orica of any material notices or other correspondence EDC receives from or issues to KNI in respect of the Koch Ammonia Agreement.

3.1.4 EDC shall consult with Orica prior to the exercise by EDC of any of the rights conferred upon it pursuant to Sections I.H, VI.D, VII.A, XI.B, XII and XIV of the Koch Ammonia Agreement.

3.1.5 EDC shall not, without obtaining Orica's prior written approval, exercise any of the rights conferred upon it pursuant to Sections I.P, II.B, III.B (unless the resale, transfer, exchange or assignment does not affect Ammonia to be supplied to Orica), V.B, or XV (unless any such amendment has no effect on Orica) of the Koch Ammonia Agreement relating to the 60,000 Tons of Ammonia to be supplied by EDC to Orica prior to December 31, 2012.

3.1.6 EDC shall be solely responsible for any costs or expenses claimed against EDC by KNI pursuant to Article XI Section A of the Koch Ammonia Agreement, except to the extent that any such costs or expenses are directly attributable to any failure by Orica to timely make payment to EDC in accordance with Section 3.6 of this Agreement.

3.1.7 Notwithstanding any other provision of this Agreement and unless otherwise agreed in writing, EDC shall not be obligated to supply Ammonia hereunder for the manufacture of AN for Orica (a) if EDC fails to provide Ammonia prior to December 31, 2012 but such failure is not caused by any default of EDC under the Koch Ammonia Agreement or (b) after December 31, 2012.

3.2 Prior to December 31, 2012, Orica will supply 58,000 Tons of Ammonia to EDC from a supplier other than KNI and EDC agrees to accept deliveries of such Ammonia in the same manner as in Section 3.4 of this Agreement. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (b) of this Agreement.

3.3 From and after January 1, 2013, to the extent Ammonia is available from EDC's supplier or suppliers at costs acceptable to Orica (which shall not exceed EDC's delivered to the EDC Site cost of Ammonia from EDC's supplier), EDC shall acquire up to 60,000 Tons of Ammonia for use to manufacture AN for Orica under this Agreement for such periods as shall be requested by Orica. For the 60,000 Tons of Ammonia EDC is supplying, Orica shall give EDC at least 45 days' advance notice of the quantities of Ammonia Orica requires EDC to acquire to be used by EDC for manufacturing AN for Orica. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (a) of this Agreement.

3.4 From and after January 1, 2013, and subject to the terms and conditions hereof, Orica shall supply to EDC, and EDC shall receive from Orica, up to 58,000 Tons of Ammonia from a supplier other than KNI at the times as required by EDC for conversion by EDC to meet Orica's demand for AN hereunder. EDC shall provide Orica with at least 30 days' advance notice of (a) the quantities of Ammonia it requires during the succeeding one-Month period to meet Orica's demand for AN and (b) the required delivery dates of such Ammonia. The parties shall cooperate in arranging such Ammonia deliveries. Upon delivery Orica shall sell such Ammonia to EDC and EDC shall pay Orica for such Ammonia on or before the first day of the second Month succeeding the Month in which such Ammonia was delivered to EDC by Orica e.g. January Ammonia deliveries are paid for on March 1st. The cost to EDC of such Ammonia shall be included in the amounts owed by Orica to EDC under Section 14.2.1 (b) of this Agreement."

3. Ammonia. Section 3.6 of the Agreement shall be deleted in its entirety and the following shall be substituted therefor:

"3.6 If EDC is supplying Ammonia from its supplier, Orica shall reimburse EDC for its actual out of pocket delivered to the EDC Site cost of such Ammonia within the earlier of (a) eighteen (18) days from the Monday during the week KNI's invoice is prepared under the Koch Ammonia Agreement and faxed to EDC, or (b) three (3) days before the date required by the payment terms in the Koch Ammonia Agreement. If the payment due date is not a Business Day, Orica shall make the payment on the next Business Day."

4. United Nations Convention. A new Section 33.0 shall be added to the Agreement as follows:

"33.0 UNITED NATIONS CONVENTION

33.1 The parties agree that the United Nations Convention on Contracts for the International Sale of Goods does not apply to this Agreement and is expressly excluded."

5. Koch Ammonia Agreement. In Schedule "A" to the Agreement, the definition of Koch Ammonia Agreement shall be deleted and the following shall be substituted therefore:

""Koch Ammonia Agreement" means the Anhydrous Ammonia Sales Agreement between Koch Nitrogen International SARL (**"KNI"**) and EDC dated entered into on December 3, 2008 and made effective January 1, 2009, which was subsequently amended by (a) that certain First Amendment to Anhydrous Ammonia Sales Agreement, dated June 25, 2009 and (b) that certain Second Amendment to Anhydrous Ammonia Sales Agreement dated February __, 2010;"

6. No Other Changes. Except as provided in this First Amendment, all other terms of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this First Amendment effective as of the date first written above.

The Common Seal of
ORICA INTERNATIONAL PTE LTD.
was affixed in accordance with its
Articles of Association

By: ____
Name: ______________________________________
Title: _______________________________________
Date of Signature: ____________________________

EL DORADO CHEMICAL COMPANY

By: ____
Name: ______________________________________
Title: _______________________________________
Date of Signature: ____________________________

Exhibit 10.35

SECOND AMENDMENT TO
ANHYDROUS AMMONIA SALES AGREEMENT*

THIS SECOND AMENDMENT TO ANHYDROUS AMMONIA SALES AGREEMENT (this "Second Amendment") is dated February 23, 2010, by and between Koch Nitrogen International Sàrl ("Seller"), and El Dorado Chemical Company ("Buyer").

WHEREAS, Seller and Buyer are parties to that certain Anhydrous Ammonia Sales Agreement dated December 3, 2008 with an effective date of January 1, 2009, as amended by the First Amendment to Anhydrous Ammonia Sales Agreement dated June 25, 2009 (collectively, the "Agreement"), and Buyer and Seller mutually desire to further amend the Agreement as hereinafter provided.

NOW, THEREFORE, in consideration of the mutual covenants and premises herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **DEFINITIONS**. Any capitalized term not defined herein shall have the meaning given to such term in the Agreement.

2. **PRODUCT REQUIREMENTS.** Effective March 1, 2010, the definition of Product Requirements in Section P of Article I shall be deleted in its entirety and replaced with the following:

"P. Product Requirements shall mean the total Product purchased by Buyer for Buyer's account for further processing at Buyer's Facility, as adjusted to accommodate Buyer's Railcar or Truck Product Requirements (as defined below). Currently, the Product Requirements during a calendar year at Buyer's Facility are approximately 165,000 to 175,000 short tons, which includes approximately 60,000 short tons used by Buyer to manufacture finished product on behalf of Orica International Pte Ltd. or its affiliates, but is exclusive of any tolling arrangements by Buyer with third parties. Product Requirements shall not include approximately 60,000 additional short tons of anhydrous ammonia annually, for production of finished products for Orica International Pte Ltd. or its affiliates. The 60,000 additional short tons referenced above shall be excluded from the Product Requirements during the Term of this Agreement, unless Buyer requests and Seller elects, at Seller's sole option, to include such quantity in the Product Requirements. Provided that Buyer has given Seller at least sixty (60) days prior written notice, Product Requirements shall not include Product supplied to Buyer's Facility which shall be produced by Buyer or an Affiliate of Buyer and physically delivered to Buyer's Facility."

3. **TERM**. Effective March 1, 2010, Section A of Article II TERM shall be deleted in its entirety and replaced with the following:

"A. Term. The term of this Agreement (the "Term") shall commence at 12:01 a.m. central time on January 1, 2009 and shall terminate at 11:59 p.m. on December 31, 2012 ("Original

*INFORMATION IN THIS DOCUMENT HAS BEEN OMITTED FROM THIS PUBLIC FILING PURSUANT TO A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST

Termination Date") unless otherwise terminated earlier in accordance with this Agreement or extended pursuant to Section B below."

4. **QUANTITY.** Effective March 1, 2010, Section A of Article III QUANTITY shall be deleted in its entirety and replaced with the following:

"A. Quantity. During the Term, Buyer shall purchase from Seller one hundred percent (100%) of its Product Requirements for Buyer's Facility. However, in the event Buyer installs railcar or truck unloading capabilities at Buyer's Facility, then Buyer shall have the option to purchase up to twelve percent (12%) of Buyer's Product Requirements during a calendar year from a third party ("Railcar or Truck Product Requirements"); provided such Railcar or Truck Product Requirements must be delivered to Buyer's Facility by railcar or truck. Railcar or Truck Product Requirements shall not exceed 4,000 short tons in any given calendar month."

5. **QUANTITY.** Effective March 1, 2010, Section C of Article III QUANTITY, shall be deleted in its entirety and replaced with the following:

"C. Measurement. The quantity of Product delivered hereunder to Buyer by the Ammonia Pipeline shall be governed by the weights and measures taken by meters owned by the Ammonia Pipeline at the Delivery Point pursuant to the Ammonia Pipeline Tariff. For truck or rail deliveries, the quantity of Product delivered to Buyer shall be governed by the weights and measures taken as the trucks or railcars are loaded at the KNC Facility, KNC Terminal, alternative Seller supply sources, or at an alternative third party supply source and as stated on the bill of lading. The foregoing measurements of said quantities shall be final and conclusive, unless proven to be in error. For purposes of clarity, Buyer further agrees that (i) measurements taken from Ammonia Pipeline's meter shall govern over measurements taken from Buyer's pipeline or other meter; and (ii) differences between the Ammonia Pipeline's meter and Buyer's meter are expected and Buyer shall not claim the Ammonia Pipeline's meter is inaccurate solely because the measurement taken from such meter is different from Buyer's meter. In no event shall Seller be responsible for any difference in the metered quantity of Product between the Ammonia Pipeline's meter and Buyer's pipeline meter."

6. **ADDER.** Effective March 1, 2010, Section B of Article VI PRICE shall be deleted in its entirety and replaced with the following:

"B. Adder. Adder shall equal *** per short ton. However, if the Ammonia Pipeline Transportation Charge is modified as set forth in Article VI Section C. of the Agreement, the Parties agree to modify the Adder as set forth in Article VI Section C."

7. **NOTICES.** Effective March 1, 2010, Section A of Article VIII DELIVERY shall be deleted in its entirety and replaced with the following:

"A. Notices. Buyer shall provide Seller a delivery schedule ten (10) days prior to the Month of delivery ("Current Monthly Forecast"). Subject to the remainder of this paragraph, Seller shall deliver Product to Buyer in daily quantities during the Month based on the Current Monthly Forecast. Buyer will use commercially reasonable efforts to make the Current Monthly Forecast firm and to not change the Current Monthly Forecast. Seller acknowledges, however, that Buyer's Current Monthly Forecasts are based on the forecast accuracy of Buyer's customers and that Buyer is unable to predict changes that may occur relative to certain customers' demand. Buyer may make corresponding changes to the delivery volumes and schedule shown in the Current Monthly Forecast. Seller shall use commercially reasonable efforts to meet any such changes to Buyer's delivery schedule. Buyer shall also provide Seller with weekly delivery schedule updates. In addition, if after Buyer has provided a Current Monthly Forecast for a Month, and after the first day of such Month Buyer decides to purchase Railcar or Truck Product Requirements for such Month, the volume of such Railcar or Truck Product Requirements cannot change the applicable Current Monthly Forecast unless Buyer has provided Seller with at least 15 days prior written notice."

8. CONFIDENTIALITY. Effective March 1, 2010, Article XVI. shall be deleted in its entirety and replaced with the following:

"Except (i) as may be agreed to in writing on a case by case basis, (ii) for communication between Buyer and Orica International Pte Ltd., (iii) as may be necessary to perform its obligations herein, or (iv) as required by law, both Parties shall maintain in confidence all information concerning costs and prices to be disclosed in connection with each other's performance under this Agreement. Such information shall be disclosed to no one other than affiliates, officers and other employees who need to know the same in connection with performance under this Agreement, and such affiliates, officers and other employees shall be advised of the confidential nature of such information, or when disclosure is required by law. The Parties shall take all proper precautions to prevent such information from being acquired by any unauthorized person or entity."

9. RATIFICATION OF AGREEMENT. Except as expressly amended herein, the terms, covenants and conditions of the Agreement shall remain in full force and effect without modification or amendment, and the parties hereto ratify and reaffirm the same in its entirety.

10. MISCELLANEOUS. This Second Amendment shall be governed by and construed in accordance with the governing law set forth in the Agreement, without regard to the conflicts of laws principles. In the event that the terms of the Agreement conflict or are inconsistent with those of this Second Amendment, the terms of this Second Amendment shall govern. The provisions of this Second Amendment shall be binding upon, and shall inure to the benefit of, the parties hereto and each of their respective representatives, successors, and assigns. This Second Amendment may be executed in counterparts, each of which shall be deemed an original and both of which together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have caused this Second Amendment to be effective on the day and year first written above.

Koch Nitrogen International Sàrl	**El Dorado Chemical Company**
By: /s/ C. Walker Hess	**By: /s/Tony M. Shelby**
Name: C. Walker Hess	**Name: Tony M. Shelby**
Title: Managing Director	**Title: Vice President**

Exhibit 12.1

LSB Industries, Inc.
Unaudited Computation of Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends
(Dollars in thousands)

	Year ended December 31,				
	2005	2006	2007	2008	2009
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	$ 5,007	$ 15,848	$ 48,197	$ 54,399	$ 35,877
Add:					
Fixed charges	15,431	15,971	15,674	12,042	8,001
Share of distributed income of 50% owned affiliate	488	875	765	735	785
Adjusted Earnings	$ 20,926	$ 32,694	$ 64,636	$ 67,176	$ 44,663
Fixed Charges:					
Interest expense (1)	$ 11,245	$ 12,028	$ 11,723	$ 8,510	$ 6,016
Estimate of interest in rental expense	4,186	3,943	3,951	3,532	1,985
Fixed Charges	15,431	15,971	15,674	12,042	8,001
Preferred stock dividends	2,337	2,783	5,912	463	519
Combined fixed charges and preferred stock dividends	$ 17,768	$ 18,754	$ 21,586	$ 12,505	$ 8,520
Ratio of earnings to fixed charges	1.4	2.0	4.1	5.6	5.6
Ratio of earnings to combined fixed charges and preferred stock dividends	1.2	1.7	3.0	5.4	5.2

(1) Interest expense includes amortization of deferred debt issuance costs and excludes realized and unrealized gains or losses on interest rate financial instruments that are reported as interest expense.

Exhibit 14.1

CODE OF ETHICS FOR CEO AND SENIOR FINANCIAL OFFICERS
OF
SUBSIDIARIES OF LSB INDUSTRIES, INC.

LSB Industries, Inc. (the "Company") and all of its subsidiary companies (the "Corporation") have in existence a Statement of Policy Concerning Business Conduct applicable to their employees. In addition to such Statement of Policy Concerning Business Conduct, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of each of the Company’s subsidiary companies, the principal accounting officer or controller of each of the Company’s subsidiary companies, and persons performing similar functions (collectively referred to as "Senior Financial Officers") are subject to the following additional specific standards (the “Code of Ethics”):

1. The CEO and the Senior Financial Officers of each subsidiary are responsible for full, fair, accurate, timely and understandable disclosure respecting the subsidiary or subsidiaries of the Company for which they work and/or are responsible for in the Company's reports and documents filed with or submitted to the Securities and Exchange Commission ("SEC") by the Company. Accordingly, it is the responsibility of the CEO and each of the Senior Financial Officers of each subsidiary to promptly to bring to the attention of the Disclosure Committee of the Company, any material information of which he or she may become aware that affects the disclosures made by the Company in its public filings or other public communications or otherwise assists the Disclosure Committee and the Audit Committee in fulfilling their responsibilities.

2. The CEO and each of the Senior Financial Officers of each subsidiary shall promptly bring to the attention of the Chairman of the Audit Committee of the Company any information he or she may have concerning (a) significant deficiencies in the design or operation of internal controls with respect to their subsidiary or subsidiaries of the Company for which they work and/or are responsible for which could adversely affect such subsidiary’s or subsidiaries' ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in financial reporting, disclosures or internal controls.

3. The CEO and each of the Senior Financial Officers of each subsidiary will exhibit and promote honest and ethical conduct in connection with the performance of his or her duties for and on behalf of the subsidiary or subsidiaries for which he or she works or may be responsible for, including the ethical handling of actual or apparent conflicts of interest between his or her personal and professional relationship involving such subsidiary or subsidiaries, by:

    - not entering into a transaction that would result in a conflict of interest with what is in the best interest of the subsidiary or subsidiaries and that is reasonably likely to result in material personal gain to any of them or their affiliates;

    - encouraging employees of the Corporation to inform the General Counsel of the Company, Senior management or Internal Audit of deviations in practice from policies and procedures governing honest and ethical conduct by others in matters involving the Corporation;

    - not having a personal financial interest in any of the Corporation’s suppliers, customers or competitors that could cause divided loyalty as a result of having the ability to influence the Company’s or subsidiary's decisions with that particular supplier or customer or actions to be taken by the Company or subsidiary that could materially benefit a competitor; and

    - the CEO and each of the Senior Financial Officers of each of the Company's subsidiaries shall promptly bring to the attention of the General Counsel of the Company, the CEO of the Company, or the Company’s Manager of Internal Audit, any information he or she may have concerning a violation of the Statement of Policy Concerning Business Conduct or the additional standards imposed by this Code of Ethics.

4. The CEO and each Senior Financial Officer of each of the Company's subsidiaries shall promptly bring to the attention of the General Counsel or the Chairman of the Audit Committee, any information he or she may have concerning evidence of a material violation of the securities laws or the laws, rules or regulations applicable the Company or of a violation of the Statement of Policy Concerning Business Conduct or of these additional standards.

5. The Board of Directors of the Company shall determine, or designate members or a Committee of the Board to determine, appropriate actions to be taken in the event of violations of the Statement of Policy Concerning Business Conduct or of this Code of Ethics. Such actions shall be reasonably designated to deter wrongdoing and to promote accountability for adherence to the Statement of Policy Concerning Business Conduct and this Code of Ethics, and shall include (as determined by the Board or such designee) one or more of the following actions: written notices to the individual involved that the Board or such designee has determined that there has been a violation, censure by the Board or such designee, demotion or re-assignment of the individual involved, reimbursement or restitution for any costs or losses incurred by the Corporation, suspension with or without pay or benefits, and termination of the individual's employment. In determining what action is appropriate in a particular case, the Board or such designee shall take into account all relevant information, including the nature and severity of the violation, whether the violation was a single occurrence or repeated occurrences, whether the violation appears to have been intentional or inadvertent, whether the individual in question had been advised prior to the violation as to the proper course of action, and whether or not the individual in question had committed other violations in the past.

Exhibit 21.1

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
Revised December 31, 2009

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

Prime Financial Corporation
Prime Holdings Corporation (f/k/a Tower IV Corporation, f/k/a LSB Leasing Corp.)
Northwest Capital Corporation
ThermaClime, Inc. (5% stock ownership)

LSB Holdings, Inc.
LSB-Europa Limited
Summit Machine Tool Inc. Corp.
Cherokee Nitrogen Holdings, Inc. (f/k/a Cherokee Nitrogen Company)

ClimateCraft Technologies, Inc.

INDUSTRIAL PRODUCTS BUSINESS

Summit Machine Tool Manufacturing Corp.
Summit Machinery Company
Pryor Chemical Company (f/k/a Pryor Plant Chemical Company, f/k/a LSB Financial Corp.)

Hercules Energy Mfg. Corporation

CLIMATE CONTROL/CHEMICAL BUSINESS

ThermaClime, Inc. (f/k/a ClimaChem, Inc.) (95% stock ownership)
- Northwest Financial Corporation
- LSB Chemical Corp.
  - El Dorado Chemical Company
    - Chemex I Corp. (f/k/a Slurry Explosive Corporation)
  - DSN Corporation
  - Chemex II Corp. (f/k/a Universal Tech Corporation)
  - El Dorado Nitric Company (f/k/a El Dorado Nitrogen Company, f/k/a LSB Nitrogen Corporation, f/k/a LSB Import Corp.)
    - El Dorado Acid, L.L.C. (General Partner of El Dorado Nitrogen, L.P.)
      - El Dorado Nitrogen, L.P. (1% ownership)
    - El Dorado Acid II, L.L.C. (Limited Partner of El Dorado Nitrogen, L.P.)
      - El Dorado Nitrogen, L.P. (99% ownership)
- XpediAir, Inc. (f/k/a The Environmental Group, Inc.)
- International Environmental Corporation
- Climate Master, Inc.
- The Climate Control Group, Inc. (f/k/a APR Corporation)
- ClimateCraft, Inc. (f/k/a Summit Machine Tool Systems, Inc.)
- ThermaClime Technologies, Inc. (f/k/a ACP International Limited, f/k/a ACP Manufacturing Corp.)
- CEPOLK Holdings, Inc. (f/k/a ThermalClime, Inc.; f/k/a LSB South America Corporation)
- ClimaCool Corp. (f/k/a MultiClima Holdings, Inc., f/k/a LSB International Corp.)
- TRISON Construction, Inc.
- Koax Corp.
- Cherokee Nitrogen Company

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan,
2. Registration Statements (Forms S-8 No. 333-62831, No. 333-62835, No. 333-62839, No. 333-62843, and No. 333-62841) pertaining to the registration of an aggregate of 225,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for various employees,
3. Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan,
4. Registration Statement (Form S-8 No. 333-110268) pertaining to the registration of an aggregate of 804,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for various employees,
5. Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees,
6. Registration Statement (Form S-8 No. 333-153103) pertaining to the 2008 Incentive Stock Plan,
7. Registration Statement (Form S-3 No. 33-69800) pertaining to the registration of an aggregate of 645,000 shares of common stock issued or issuable under certain warrants and non-qualified stock options, and
8. Registration Statement (Form S-3 No 333-161935), of LSB Industries, Inc. and in the related Prospectuses for the registration of common stock, preferred stock, debt securities, warrants, units or any combination of the foregoing

of our reports dated March 8, 2010, with respect to the consolidated financial statements and schedules of LSB Industries, Inc. and the effectiveness of internal control over financial reporting of LSB Industries, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2009.

/s/ ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 8, 2010

Exhibit 31.1

CERTIFICATION

I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of LSB Industries, Inc. (the "registrant");

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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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 annual report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   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 this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) 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 function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: March 8, 2010 /s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of LSB Industries, Inc. (the "registrant");

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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) 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 annual report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   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 this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant's other certifying officer(s) 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 function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

Date: March 8, 2010 /s/ Tony M. Shelby 0;
Tony M. Shelby
Executive Vice President of Finance
and Chief Financial Officer

Exhibit 32.1

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 Annual Report of LSB Industries, Inc. (“LSB”) on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(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 respects, the financial condition and results of operations of LSB.

/s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer

March 8, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

Exhibit 32.2

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 Annual Report of LSB Industries, Inc. (“LSB”), on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, to §906 of the Sarbanes-Oxley Act of 2002, that:

(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 respects, the financial condition and results of operations of the Company.

/s/ Tony M. Shelby
Tony M. Shelby
Executive Vice President of Finance
and Chief Financial Officer

March 8, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein and not for any other purpose.