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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission file number 1-7677

LSB Industries, Inc.

Exact name of Registrant as specified in its charter

Delaware	**73-1015226**
State or other jurisdiction of incorporation or organization	I.R.S. Employer Identification No.
16 South Pennsylvania Avenue, Oklahoma City, Oklahoma	**73107**
Address of principal executive offices	Zip Code

(405) 235-4546
Registrant's telephone number, including area code

None
Former name, former address and former fiscal year, if changed since last report.

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

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 o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the Registrant's voting common stock, as of October 31, 2011 was 22,289,813 shares, excluding 4,320,462 shares held as treasury stock.

FORM 10-Q OF LSB INDUSTRIES, INC.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at September 30, 2011 is unaudited)

	September 30, 2011	December 31, 2010
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 107,983	$ 66,946
Restricted cash	512	31
Short-term investments	—	10,003
Accounts receivable, net	85,866	74,259
Inventories:		
Finished goods	38,553	32,072
Work in process	4,367	2,981
Raw materials	31,277	25,053
Total inventories	74,197	60,106
Supplies, prepaid items and other:		
Prepaid income taxes	3,467	—
Prepaid insurance	745	4,449
Precious metals	17,595	12,048
Supplies	7,866	6,802
Fair value of derivatives and other	7	1,454
Other	1,915	1,174
Total supplies, prepaid items and other	31,595	25,927
Deferred income taxes	6,064	5,396
Total current assets	306,217	242,668
Property, plant and equipment, net	154,621	135,755
Other assets:		
Debt issuance costs, net	1,151	1,023
Investment in affiliate	3,168	4,016
Goodwill	1,724	1,724
Other, net	3,479	2,795
Total other assets	9,522	9,558
	$ 470,360	$ 387,981

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(Information at September 30, 2011 is unaudited)

	September 30, 2011	December 31, 2010
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 57,512	$ 51,025
Short-term financing	386	3,821
Accrued and other liabilities	32,977	31,507
Current portion of long-term debt	6,059	2,328
Total current liabilities	96,934	88,681
Long-term debt	77,245	93,064
Noncurrent accrued and other liabilities	14,882	12,605
Deferred income taxes	17,145	14,261
Commitments and contingencies (Note 10)		
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, 26,584,650 shares issued (25,476,534 at December 31, 2010)	2,658	2,548
Capital in excess of par value	160,970	131,845
Retained earnings	125,900	70,351
	292,528	207,744
Less treasury stock at cost:		
Common stock, 4,320,462 shares	28,374	28,374
Total stockholders' equity	264,154	179,370
	$ 470,360	$ 387,981

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
Nine and Three Months Ended September 30, 2011 and 2010

	Nine Months		Three Months	
	2011	2010	2011	2010
	(In Thousands, Except Per Share Amounts)			
Net sales	$ 589,892	$ 437,750	$ 176,780	$ 138,948
Cost of sales	429,695	344,897	142,523	109,509
Gross profit	160,197	92,853	34,257	29,439
Selling, general and administrative expense	64,737	70,775	21,635	23,948
Provision for (recoveries of) losses on accounts receivable	160	(14)	39	21
Other expense	2,532	575	149	273
Other income	(2,035)	(4,179)	(58)	(3,273)
Operating income	94,803	25,696	12,492	8,470
Interest expense	5,481	5,943	1,901	1,864
Losses on extinguishment of debt	136	52	—	—
Non-operating other expense (income), net	(3)	(48)	2	(10)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	89,189	19,749	10,589	6,616
Provisions for income taxes	33,582	8,821	4,433	2,930
Equity in earnings of affiliate	(375)	(719)	(168)	(191)
Income from continuing operations	55,982	11,647	6,324	3,877
Net loss from discontinued operations	128	122	18	79
Net income	55,854	11,525	6,306	3,798
Dividends on preferred stocks	305	305	—	—
Net income applicable to common stock	$ 55,549	$ 11,220	$ 6,306	$ 3,798
Weighted-average common shares:				
Basic	21,851	21,182	22,241	21,094
Diluted	23,499	22,281	23,526	22,193
Income (loss) per common share:				
Basic:				
Income from continuing operations	$ 2.55	$ .54	$ .28	$ .18
Net loss from discontinued operations	(.01)	(.01)	—	—
Net income	$ 2.54	$ .53	$ .28	$ .18
Diluted:				
Income from continuing operations	$ 2.40	$ .53	$ .27	$ .17
Net loss from discontinued operations	(.01)	(.01)	—	—
Net income	$ 2.39	$ .52	$ .27	$ .17

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

Nine Months Ended September 30, 2011

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock-Common	Total
				(In Thousands)			
Balance at December 31, 2010	25,477	$ 3,000	$ 2,548	$ 131,845	$ 70,351	$ (28,374)	$ 179,370
Net income					55,854		55,854
Dividends paid on preferred stocks					(305)		(305)
Stock-based compensation				761			761
Conversion of convertible debt to common stock	965		96	26,304			26,400
Exercise of stock options	143		14	960			974
Excess income tax benefit associated with stock-based compensation				1,100			1,100
Balance at September 30, 2011	26,585	$ 3,000	$ 2,658	$ 160,970	$ 125,900	$ (28,374)	$ 264,154

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Nine Months Ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Cash flows from continuing operating activities:		
Net income	$ 55,854	$ 11,525
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Net loss from discontinued operations	128	122
Deferred income taxes	2,216	2,325
Losses on extinguishment of debt	136	52
Expense associated with modification of secured term loan	387	—
Expense associated with induced conversion of 5.5% convertible debentures	558	—
Net gain on carbon credits	(92)	—
Losses on sales and disposals of property and equipment	996	508
Gain on property insurance recoveries associated with property, plant and equipment	—	(3,964)
Depreciation of property, plant and equipment	13,861	12,880
Amortization	354	466
Stock-based compensation	761	752
Provision for (recovery of) losses on accounts receivable	160	(14)
Provision for (realization of) losses on inventory	1,351	(86)
Realization of losses on firm sales commitments	—	(337)
Equity in earnings of affiliate	(375)	(719)
Distributions received from affiliate	1,223	425
Changes in fair value of commodities contracts	482	(141)
Changes in fair value of interest rate contracts	635	344
Other	—	(10)
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):		
Accounts receivable	(11,777)	(14,373)
Inventories	(15,392)	(1,967)
Other supplies, prepaid items and other	(2,838)	1,449
Accounts payable	3,744	6,635
Accrued payroll and benefits	(2,020)	1,794
Accrued and prepaid income taxes	(7,538)	319
Customer deposits	5,395	2,306
Other current and noncurrent liabilities	4,322	2,394
Net cash provided by continuing operating activities	52,531	22,685
Cash flows from continuing investing activities:		
Capital expenditures	(31,145)	(26,129)
Proceeds from property insurance recoveries associated with property, plant and equipment	—	5,293
Proceeds from sales of property and equipment	190	44
Proceeds from short-term investments	10,012	20,053
Purchases of short-term investments	(9)	(20,006)
Deposits of restricted cash	(481)	(167)
Proceeds from sales of carbon credits	1,665	—
Payments on contractual obligations — carbon credits	(1,573)	—
Other assets	(635)	(427)
Net cash used by continuing investing activities	(21,976)	(21,339)

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)
Nine Months Ended September 30, 2011 and 2010

	2011	2010
	(In Thousands)	
Cash flows from continuing financing activities:		
Proceeds from revolving debt facility	$ 498,858	$ 394,221
Payments on revolving debt facility	(498,858)	(394,221)
Proceeds from modification of secured term loan, net of fees	10,347	—
Proceeds from secured term loan, net of fees	14,766	—
Proceeds from other long-term debt, net of fees	—	47
Payments associated with induced conversion of 5.5% convertible debentures	(558)	—
Acquisition of 5.5% convertible debentures	—	(2,494)
Payments on other long-term debt	(12,001)	(3,370)
Payments on loans secured by cash value of life insurance policies	(84)	(380)
Payments of debt issuance costs	(112)	—
Payments on short-term financing	(3,435)	(3,017)
Proceeds from exercise of stock options	974	347
Purchase of treasury stock	—	(2,421)
Excess income tax benefit associated with stock-based compensation	1,100	212
Dividends paid on preferred stocks	(305)	(305)
Net cash provided (used) by continuing financing activities	10,692	(11,381)
Cash flows of discontinued operations:		
Operating cash flows	(210)	(267)
Net increase (decrease) in cash and cash equivalents	41,037	(10,302)
Cash and cash equivalents at beginning of period	66,946	61,739
Cash and cash equivalents at end of period	$ 107,983	$ 51,437
Supplemental cash flow information:		
Cash payments for income taxes, net of refunds	$ 37,757	$ 5,993
Noncash investing and financing activities:		
Receivable associated with a property insurance claim	$ —	$ 171
Accounts payable and long-term debt associated with property, plant and equipment	$ 4,332	$ 7,272
Debt issuance costs incurred associated with secured term loan	$ 839	$ —
Debt issuance costs written off associated with 5.5% debentures	$ 350	$ 58
Accrued liabilities extinguished associated with 5.5% debentures	$ 342	$ —
5.5% debentures converted to common stock	$ 26,400	$ —

See accompanying notes.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

For a complete discussion of our significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K"), filed with the Securities and Exchange Commission ("SEC") on March 3, 2011.

Basis of Consolidation and Presentation — LSB Industries, Inc. ("LSB") and its subsidiaries (the "Company", "We", "Us", or "Our") are consolidated in the accompanying condensed consolidated financial statements. We are involved in manufacturing, marketing and engineering operations. We are primarily 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"). LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its 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.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of September 30, 2011 and for the nine and three-month periods ended September 30, 2011 and 2010 include all adjustments and accruals, consisting of normal, recurring accrual adjustments which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in connection with our audited consolidated financial statements and notes thereto included in our 2010 Form 10-K.

Use of Estimates — The preparation of condensed 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.

Income per Common Share — Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends and dividend requirements, if applicable. 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 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.

Short-Term Investments — Investments, which consisted 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 ("U.S.") and none of these investments were in excess of the federally insured limits.

Accounts Receivable — Our accounts receivable are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on accounts receivable balances. Our estimate is based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due (based upon the terms of the sale). Our periodic assessment of our accounts receivable is based on our best estimate of amounts that are not recoverable.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 1: Summary of Significant Accounting Policies (continued)

Inventories — Inventories are stated at the lower of cost (determined using the first-in, first-out ("FIFO") basis) or market (net realizable value). Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. Additionally, we review inventories and record inventory reserves for slow-moving inventory items.

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.

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

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations at the time of sale using a percentage of sales and cost per unit of equipment, based upon our historical and estimated future 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 reasonably possible that our estimated accrued warranty costs could change in the near term.

Contingencies — Certain conditions may exist which may result in a loss, but which will only be resolved when future events occur. We and our legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, we would accrue for such contingent losses when such losses can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. 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. In addition, we recognize contingent gains when such gains are realized or realizable and earned.

Derivatives, Hedges, Financial Instruments and Carbon Credits — 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.

Climate reserve tonnes ("carbon credits") are recognized in the balance sheet and are measured at fair value. Changes in fair value of carbon credits are recorded in results of operations. Contractual obligations associated with carbon credits are recognized in the balance sheet and are measured at fair value unless we enter into a firm sales commitment to sell the associated carbon credits. When we enter into a firm sales commitment, the sales price, pursuant to the terms of the firm sales commitment, establishes the amount of the associated contractual obligation. Changes in fair value of contractual obligations associated with carbon credits are recorded in results of operations.

Income Taxes — 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.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 1: Summary of Significant Accounting Policies (continued)

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

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, if any, are included in accounts receivable.

Recently Issued Accounting Pronouncements — In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") requiring additional disclosures about an entity's derivative and hedging activities for the purpose of improving the transparency of financial reporting. A portion of the new disclosure requirements became effective for us on January 1, 2010 and the remaining new disclosure requirements became effective for us on January 1, 2011. These disclosure requirements were applied prospectively. See Note 11 — Derivatives, Hedges, Financial Instruments and Carbon Credits.

In May 2011, the FASB issued an ASU clarifying how to measure and disclose fair value. The requirements under this ASU become effective for us on January 1, 2012 and are to be applied prospectively. We currently do not expect a significant impact from adopting this ASU.

In June 2011, the FASB issued an ASU amending current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, we must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. The requirements under this ASU become effective for us on January 1, 2012 and are to be applied retrospectively; however, the FASB is considering issuing an exposure draft to propose a deferral of certain requirements under this ASU. We currently expect the impact from adopting this ASU to change the format of our presentation.

In September 2011, the FASB issued an ASU amending current guidance for testing goodwill for impairment. This ASU added an option to first assess qualitative factors to determine if the current two-step impairment test is required. The assessment of qualitative factors is performed to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Pursuant to the provisions of this ASU, we early adopted this ASU effective July 1, 2011, which provisions were applied prospectively. Our financial statements were not impacted from the adoption of this ASU.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 2: Income Per Common Share

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

(Dollars In Thousands, Except Per Share Amounts)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net income	$ 55,854	$ 11,525	$ 6,306	$ 3,798
Dividends on Series B Preferred	(240)	(240)	—	—
Dividends on Series D Preferred	(60)	(60)	—	—
Dividends on Noncumulative Preferred	(5)	(5)	—	—
Total dividends on preferred stocks	(305)	(305)	—	—
Numerator for basic net income per common share — net income applicable to common stock	55,549	11,220	6,306	3,798
Dividends on preferred stocks assumed to be converted, if dilutive	305	305	—	—
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	298	—	8	—
Numerator for diluted net income per common share	$ 56,152	$ 11,525	$ 6,314	$ 3,798
Denominator:				
Denominator for basic net income per common share — weighted-average shares	21,851,184	21,182,180	22,240,536	21,093,732
Effect of dilutive securities:				
Convertible preferred stocks	935,540	937,080	935,366	936,536
Convertible notes payable	366,894	4,000	32,391	4,000
Stock options	345,245	157,682	317,420	158,886
Dilutive potential common shares	1,647,679	1,098,762	1,285,177	1,099,422
Denominator for diluted net income per common share — adjusted weighted-average shares and assumed conversions	23,498,863	22,280,942	23,525,713	22,193,154
Basic net income per common share	$ 2.54	$ .53	$ .28	$ .18
Diluted net income per common share	$ 2.39	$ .52	$ .27	$ .17

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:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
Convertible notes payable	—	979,160	—	979,160
Stock options	—	365,659	5,000	350,000
	—	1,344,819	5,000	1,329,160

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 3: Accounts Receivable, net Our accounts receivables, net, consists of the following:

	September 30, 2011	December 31, 2010
	(In Thousands)	
Trade receivables	$ 85,691	$ 73,367
Other	946	1,528
	86,637	74,895
Allowance for doubtful accounts	(771)	(636)
	$ 85,866	$ 74,259

Note 4: Inventories At September 30, 2011 and December 31, 2010, inventory reserves for certain slow-moving inventory items (Climate Control products) were $1,984,000 and $1,616,000, respectively. In addition, because cost exceeded the net realizable value, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were $1,075,000 and $177,000 at September 30, 2011 and December 31, 2010, respectively.

Changes in our inventory reserves are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Balance at beginning of period	$ 1,793	$ 1,676	$ 1,988	$ 1,302
Provisions for (realization of) losses	1,351	(87)	1,072	237
Write-offs and disposals	(85)	(54)	(1)	(4)
Balance at end of period	$ 3,059	$ 1,535	$ 3,059	$ 1,535

The provisions for (realization of) losses are included in cost of sales in the accompanying condensed consolidated statements of income.

Note 5: Precious Metals Precious metals are included in supplies, prepaid items and other in the accompanying condensed consolidated balance sheets. In addition, precious metals expense (recoveries), net, is included in cost of sales in the accompanying condensed consolidated statements of income.

Precious metals expense (recoveries), net, consists of the following:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Precious metals expense	$ 6,101	$ 4,508	$ 1,591	$ 1,047
Recoveries of precious metals	(4,654)	(751)	(2,012)	(751)
Gains on sales of precious metals	(33)	(112)	(33)	—
Precious metals expense (recoveries), net	$ 1,414	$ 3,645	$ (454)	$ 296

Note 6: Investment in Affiliate Cepolk Holdings, Inc. (“CHI”), a subsidiary within the Climate Control Business, 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. The income recognized from the Partnership is reported as equity in earnings of affiliate. During 2010, CHI filed a lawsuit against the general partner of the Partnership and subsequently, the general partner filed a lawsuit against CHI. During June 2011, these lawsuits involving the Partnership were settled through mediation. As the result of this settlement, our equity in earnings of affiliate decreased by approximately $480,000 for the nine months ended September 30, 2011. In addition, CHI will receive an increase of $74,000 in the quarterly distribution from the Partnership, which began during the third quarter of 2011.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 7: Current and Noncurrent Accrued and Other Liabilities Our current and noncurrent accrued and other liabilities consist of the following:

	September 30, 2011	December 31, 2010
	(In Thousands)	
Customer deposits	$ 7,981	$ 2,586
Deferred revenue on extended warranty contracts	6,250	5,675
Accrued warranty costs	4,993	3,996
Accrued payroll and benefits	4,722	6,742
Accrued death benefits	4,028	4,058
Accrued group health and workers' compensation insurance claims	3,062	2,459
Fair value of derivatives and other	3,019	2,539
Accrued contractual manufacturing obligations	2,480	1,968
Deferred revenue on product sales	1,309	453
Accrued executive benefits	1,296	1,187
Accrued precious metals costs	1,206	449
Accrued general liability insurance claims	1,145	1,230
Accrued commissions	1,121	1,279
Accrued income taxes	764	4,835
Accrued interest	589	1,343
Other	3,894	3,313
	47,859	44,112
Less noncurrent portion	14,882	12,605
Current portion of accrued and other liabilities	$ 32,977	$ 31,507

Note 8: Accrued Warranty Costs Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, which extends over several years. As such, we provide warranties after equipment shipment/start up covering defects in materials and workmanship. Generally for commercial/institutional products, 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. For residential products, the base warranty coverage for manufactured equipment in the Climate Control Business is limited to ten years from the date of shipment for material and to five years from the date of shipment for labor associated with the repair. 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.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Balance at beginning of period	$ 3,996	$ 3,138	$ 4,598	$ 3,129
Charged to costs and expenses	4,870	2,669	1,636	1,026
Costs and expenses incurred	(3,873)	(2,673)	(1,241)	(1,021)
Balance at end of period	$ 4,993	$ 3,134	$ 4,993	$ 3,134

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9: Long-Term Debt Our long-term debt consists of the following:

	September 30, 2011	December 31, 2010
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	$ —	$ —
5.5% Convertible Senior Subordinated Notes due 2012 (B)	500	26,900
Secured Term Loan (C)	73,125	48,773
Other, with a current weighted-average interest rate of 6.56%, most of which is secured by machinery, equipment and real estate	9,679	19,719
	83,304	95,392
Less current portion of long-term debt	6,059	2,328
Long-term debt due after one year	$ 77,245	$ 93,064

(A) Our wholly-owned subsidiary, ThermaClime, LLC ("ThermaClime") and its subsidiaries (collectively, 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 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 September 30, 2011 was 3.75%. Interest is paid monthly, if applicable.

The Working Capital Revolver Loan provides for up to $8.5 million of letters of credit. All letters of credit outstanding reduce availability under the Working Capital Revolver Loan. As of September 30, 2011, amounts available for borrowing under the Working Capital Revolver Loan were approximately $48.6 million. Under the Working Capital Revolver Loan, 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 Working Capital Revolver Loan not drawn and various other audit, appraisal and valuation charges.

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, certain production equipment and facilities utilized by the Climate Control Business, and certain distribution-related assets of El Dorado Chemical Company ("EDC"). In addition, EDN is neither a borrower under, nor guarantor of, the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately $256 million at September 30, 2011.

The Working Capital Revolver Loan 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 for the twelve-month period ended September 30, 2011. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers' (which does not include LSB) 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.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9: Long-Term Debt (continued)

(B) In June 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 debentures (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.

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.

In previous periods, we acquired a certain portion of the 2007 Debentures, with each purchase being negotiated, including $2.5 million during the nine months ended September 30, 2010. In March 2011, one of the holders converted $24.4 million principal amount of the 2007 Debentures into 888,160 shares of LSB common stock. For financial reporting purposes, the March 2011 transaction is considered an induced conversion.

In July 2011, 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") converted $2.0 million principal amount of the 2007 Debentures into 72,800 shares of LSB common stock in accordance with the terms of the 2007 Debentures as discussed in Note 16-Related Party Transactions. As a result of these acquisitions and conversions, only $0.5 million of the 2007 Debentures remain outstanding at September 30, 2011, all of which were converted into 18,200 shares of LSB common stock in October 2011.

(C) On March 29, 2011, ThermaClime and certain of its subsidiaries entered into an amended and restated term loan agreement (the "Amended Agreement"), which amended ThermaClime's existing term loan agreement (the "Original Agreement"), dated November 2, 2007, as previously amended. Pursuant to the terms of the Amended Agreement, the maximum principal amount of ThermaClime's term loan facility (the "Secured Term Loan") was increased from $50 million to $60 million. On May 26, 2011, the principal amount of the Secured Term Loan was increased an additional $15 million to $75 million pursuant to the terms of the Amended Agreement. The Amended Agreement also extended the maturity of the Secured Term Loan from November 2, 2012, to March 29, 2016. The Secured Term Loan continues to be guaranteed by LSB. For financial reporting purposes, this transaction is considered a non-substantial modification of the Original Agreement.

The Secured Term Loan requires quarterly principal payments of approximately $0.9 million, plus interest and a final balloon payment of $56.3 million due on March 29, 2016. At September 30, 2011, the stated interest rate on the Secured Term Loan includes a variable interest rate of approximately 3.36% on the principal amount of $48.7 million (the variable interest rate is based on three-month LIBOR plus 300 basis points, which rate is adjusted quarterly) and a fixed interest rate of 5.15% on the principal amount of $24.4 million. At September 30, 2011, the resulting weighted-average interest rate was approximately 3.96%.

The Secured Term Loan is secured by the real property and equipment located at our chemical production facilities located in El Dorado, Arkansas (the "El Dorado Facility") and Cherokee, Alabama (the "Cherokee Facility"). The carrying value of the pledged assets is approximately $68 million at September 30, 2011.

The Secured Term Loan borrowers are subject to numerous covenants under the Amended 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 LSB, all with certain exceptions. At September 30, 2011, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $84 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 September 30, 2011.

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.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 9: Long-Term Debt (continued)

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.

A prepayment premium equal to 2.5% of the principal amount prepaid is due to the lenders should the borrowers elect to prepay on or prior to March 29, 2012. This premium is reduced to 1.0% during the following 24-month period and is eliminated thereafter.

Note 10: Commitments and Contingencies

Purchase Commitments — We entered into the following significant purchase commitments during the nine months ended September 30, 2011:

During the first nine months of 2011, certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs at the Cherokee Facility and the chemical production facility located in Pryor, Oklahoma (the "Pryor Facility"). Since these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At September 30, 2011, our purchase commitments under these contracts were for approximately 1.2 million MMBtu of natural gas through December 2011 at the weighted-average cost of $4.14 per MMBtu ($5.1 million).

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 we will not incur material costs or liabilities 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 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 are also contractually obligated to pay a portion of the operating costs of a municipally owned wastewater pipeline currently being constructed, which will serve the El Dorado Facility through at least December 2053. Additionally, we 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. Currently, there is insufficient information to estimate the fair value for most of our asset retirement obligations. In addition, we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable. As a result, no asset retirement obligations have been recognized except for $75,000 to retire an injection well at the Pryor Facility. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 10: Commitments and Contingencies (continued)

1. Discharge Water Matters

The El Dorado Facility owned by EDC generates process wastewater, which includes cooling tower and boiler blowdowns, contact storm water (rain water inside the facility area which picks up contaminants) 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") discharge water permit issued by the Arkansas Department of Environmental Quality ("ADEQ"), which permit is generally required to be renewed every five years. The El Dorado Facility is currently operating under a NPDES discharge water permit, which became effective in 2004 ("2004 NPDES permit"). In November 2010, a preliminary draft of a discharge water permit renewal, which contains more restrictive ammonia limits, was issued by the ADEQ for EDC's review. EDC submitted comments to the ADEQ on the draft permit in December 2010.

The El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit limits, and believes that if it is required to meet the more restrictive dissolved minerals permit levels, it should be able to do so. However, as part of our long-term compliance plan, EDC is pursuing a rulemaking and permit modification with the ADEQ. The ADEQ approved a rule change, but on August 31, 2011, the United States Environmental Protection Agency ("EPA") formally disapproved the rule change. EDC has filed an appeal of the EPA's decision in Federal District Court in El Dorado, Arkansas. EDC has intermittently failed the more restrictive dissolved minerals permit limits while the rulemaking has been pursued. However, we do not believe that the occasional noncompliance will have a material adverse impact on EDC. While we are hopeful that EDC will prevail in the appeal, it is unknown how the Court will rule. We do not believe this matter regarding the dissolved minerals will be an issue once the pipeline is operational as discussed below.

During January 2010, EDC received an Administrative Order from the EPA noting certain violations of the 2004 NPDES 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 a majority of the alleged violations were resolved through a consent administrative order with the ADEQ. In June 2011, EDC received an Administrative Complaint from the EPA acknowledging EDC had achieved compliance with the 2004 NPDES permit but has assessed a penalty of $124,000 for past violations of the permit. EDC has met, and continues to meet, with the EPA to explain its objections against the proposed penalty. However, a liability of $124,000 has been established at September 30, 2011 as a result of the Administrative Complaint.

The city of El Dorado, Arkansas received approval to construct a pipeline for disposal of wastewater generated by the city and by certain companies in the El Dorado area. The companies intending to use the pipeline will contribute to the cost of construction and operation of the pipeline. Although EDC believes it can comply with the more restrictive permit limits without the pipeline, EDC will participate in the construction of the pipeline that will be owned by the city in order to ensure that EDC will be able to comply with future permit limits. During April 2011, certain companies, including EDC, and the City entered into a funding agreement and operating agreement, pursuant to which each party to the agreements has agreed to contribute to the cost of construction and the annual operating costs of the pipeline. EDC anticipates its capital cost in connection with the construction of the pipeline including EDC's right to use the pipeline to dispose of its wastewater will be approximately $4.0 million, of which $0.4 million has been capitalized as of September 30, 2011. The City plans to complete the construction of the pipeline in 2013. Once the pipeline is completed, EDC's estimated share of the annual operating costs is to be $100,000 to $150,000. The initial term of the operating agreement is through December 2053.

In addition, the El Dorado Facility is currently operating under a consent administrative order ("2006 CAO") that recognizes the presence of nitrate contamination in the shallow groundwater. The 2006 CAO required EDC 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 relating to the El Dorado Facility. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to a new consent administrative order 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, which costs (or range of costs) cannot currently be reasonably estimated. Therefore, no liability has been established at September 30, 2011, in connection with this matter.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 10: Commitments and Contingencies (continued)

2. Air Matters

The EPA has sent information requests to most, if not all, of the operators of nitric acid plants in the United States, including our El Dorado and Cherokee Facilities and the Baytown, Texas nitric acid plant operated by EDN (the "Baytown Facility") under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years. These information requests will 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 facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment 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 type of emission control equipment that might be required is unknown and, as a result, 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 chemical facilities has 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 be required to retrofit each facility with the "best available control technology." We are currently unable to determine the amount (or range of amounts) of any penalties that may be assessed by the EPA. Therefore no liability has been established at September 30, 2011, in connection with this matter.

3. Other Environmental Matters

In 2002, two 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. Based on the assessment discussed above, we account for transactions associated with the Hallowell Facility as discontinued operations.

The successor ("Chevron") of a prior owner of the Hallowell Facility has agreed in writing, within certain limitations, to pay and has been paying one-half of the costs of the interim measures relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

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. Currently, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing. We have accrued for our allocable portion of costs for the additional testing, monitoring and risk assessments that could be reasonably estimated.

In addition, the Kansas Department of Health and Environment ("KDHE") notified our subsidiary and Chevron that the Hallowell Facility has been referred to the KDHE's Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in their evaluation.

Currently, it is unknown what damages, if any, the KDHE would claim, if any. The ultimate required remediation, if any, is unknown. The nature and extent of a portion of the requirements are not currently defined and the associated costs (or range of costs) are not reasonably estimable.

At September 30, 2011, our estimated allocable portion of the total estimated liability (which is included in current accrued and other liabilities) related to the Hallowell Facility is $165,000. The estimated amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability could occur in the near term.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 10: Commitments and Contingencies (continued)

B. Other Pending, Threatened or Settled Litigation

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 they 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 was able to tender or exchange under the terms of the agreement.

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.

The Jayhawk Group has filed suit against us and Golsen 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 up to $12 million 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 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. We intend to contest the lawsuit vigorously, and have asserted that Jayhawk is bound by an agreement to settle the claims for $100,000. On April 28, 2011, the court granted Golsen's summary judgment motion, and dismissed all claims against Golsen. During September 2011, this case was tried before the court in the United States District Court for the District of Kansas. We are awaiting the court's decision in this matter. Our insurer, Chartis, a subsidiary of AIG, 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, and our insurer is paying defense costs in excess of our deductible in this matter. Although our insurer is defending this matter under a reservation of rights, we are not currently aware of any material issue in this case that would result in our insurer denying coverage. Therefore, no liability has been established at September 30, 2011 as a result of this matter.

Pryor Chemical Company

A subsidiary within our Chemical Business, Pryor Chemical Company ("PCC") has filed lawsuits against certain vendors of PCC related to work performed during the start-up of the Pryor Facility. The claims allege certain damages resulting from improperly performed work by the vendors and for lost profits and other costs due to delays in restarting the Pryor Facility. The total amount for damages and lost profits claimed is substantial but the amount and timing of the ultimate recovery is uncertain. As a result, any recovery from litigation or settlement of these claims is a gain contingency and will be recognized if, and when, realized or realizable and earned.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 10: 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 related to our Climate Control products 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. At September 30, 2011, our accrued general liability insurance claims were $1,145,000 and are included in accrued and other liabilities. It is possible that the actual development of claims could be different than our estimates but, after consultation with legal counsel, if those general liability insurance claims for which we have not recognized a liability were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

Note 11: Derivatives, Hedges, Financial Instruments and Carbon Credits We have three classes of contracts that are accounted for on a fair value basis, which are commodities futures/forward contracts ("commodities contracts"), foreign exchange contracts and interest rate contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. In addition as discussed below, periodically we are issued carbon credits, which a certain portion of the carbon credits are to be sold and the proceeds given to Bayer Material Science LLC ("Bayer"). The carbon credits are accounted for on a fair value basis as discussed below. Also the contractual obligations associated with these carbon credits are accounted for on a fair value basis (as discussed below) unless we enter into a firm sales commitment to sell the carbon credits as discussed in Note 1 — Summary of Significant Accounting Policies. The valuations of these assets and liabilities were 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 September 30, 2011, the valuations of contracts classified as Level 2 related to interest rate swap contracts. For interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These interest rate contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. The valuation inputs included the total contractual weighted-average pay rate of 3.29% and the total estimated market weighted-average receive rate of 1.06%. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts. The valuations of assets and liabilities classified as Level 3 are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. At September 30, 2011, the valuations ($1.50 per carbon credit) of the carbon credits and the contractual obligations associated with these carbon credits are classified as Level 3 and are based on the range of ask/bid prices ($1.50 to $3.00) per carbon credit obtained from a broker involved in this low volume market, pricing terms included in sales agreements entered into during the first nine months of 2011, and inquiries from market participants concerning our listed ask price through a broker. The valuations are using undiscounted cash flows based on management's assumption that the carbon credits would be sold and the associated contractual obligations would be extinguished in the near term.

In addition, no valuation input adjustments were considered necessary relating to nonperformance risk for the carbon credits and associated contractual obligations. At December 31, 2010, the valuations ($3.25 per carbon credit) of contracts classified as Level 3 related to carbon credits and contractual obligations associated with these carbon credits.

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, 2010, our futures/forward copper contracts were for 750,000 pounds of copper through May 2011 at a weighted-average cost of $3.75 per pound. At September 30, 2011, our futures/forward copper contracts were for 375,000 pounds of copper through December 2011 at a weighted-average cost of $4.44 per pound. At December 31, 2010, our futures/forward natural gas contracts were for 800,000 MMBtu of natural gas through February 2011 at a weighted-average cost of $4.10 per MMBtu. At September 30, 2011, we did not have any futures/forward natural gas contracts. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

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, 2010, our foreign exchange contracts were for the receipt of approximately 783,000 Euros through June 2011 and for the payment of approximately 110,000 Euros through March 2011, at the total contractual weighted-average exchange rate of 1.26 (U.S. Dollar/Euro). At September 30, 2011, we did not have any foreign exchange contracts. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In April 2008, we 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 acquired an interest rate swap at a cost basis of $0.4 million, which sets a fixed three-month LIBOR rate of 3.595% on $25 million and matures in April 2012. In February 2011, we entered into an interest rate swap at no cost, which sets a fixed three-month LIBOR rate of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning in April 2012 through March 2016.

These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. During the nine months ended September 30, 2011 and 2010, no cash flows occurred relating to the purchase or sale of interest rate contracts. The cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

Carbon Credits and Associated Contractual Obligation

During December 2010 and May 2011, we were issued carbon credits by the Climate Action Reserve in relation to a greenhouse gas reduction project (“Project”) performed at the Baytown Facility. Pursuant to the terms of the agreement with Bayer (the “Bayer Agreement”), a certain portion of the carbon credits are to be used to recover the costs of the Project, and any balance thereafter to be allocated between Bayer and EDN. We have no obligation to reimburse Bayer for their costs associated with the Project, except through the transfer or sale of the carbon credits when such credits are issued to us. The carbon credits are accounted for on a fair value basis and the contractual obligations associated with these carbon credits are also accounted for on a fair value basis (unless we enter into a firm sales commitment to sell the carbon credits). At December 31, 2010, we had approximately 198,000 carbon credits, all of which were subject to contractual obligations. At September 30, 2011, we had a minimal amount of carbon credits, all of which were subject to contractual obligations. The cash flows associated with the carbon credits and the associated contractual obligations are included in cash flows from continuing investing activities.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

The following details our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010:

Description	Total Fair Value at September 30, 2011	Fair Value Measurements at September 30, 2011 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, 2010
			(In Thousands)		
Assets — Supplies, prepaid items and other:					
Commodities contracts	$ —	$ —	$ —	$ —	$ 761
Carbon credits	7	—	—	7	644
Foreign exchange contracts	—	—	—	—	49
Total	$ 7	$ —	$ —	$ 7	$ 1,454
Liabilities — Current and noncurrent accrued and other liabilities:					
Commodities contracts	$ 482	$ 482	$ —	$ —	$ —
Contractual obligations — carbon credits	7	—	—	7	644
Interest rate contracts	2,530	—	2,530	—	1,895
Total	$ 3,019	$ 482	$ 2,530	$ 7	$ 2,539

During the nine months ended September 30, 2011 and 2010, none of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications. In addition, the following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine and three months ended September 30, 2011 (not applicable for the nine and three months ended September 30, 2010):

	Nine Months Ended September 30, 2011		Three Months Ended September 30, 2011	
	Assets	Liabilities	Assets	Liabilities
	(In Thousands)			
Beginning balance	$ 644	$ (644)	$ 9	$ (7)
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total realized and unrealized gain (loss) included in earnings	1,028	(936)	(2)	—
Purchases	—	—	—	—
Issuances	—	—	—	—
Sales	(1,665)	—	—	—
Settlements	—	1,573	—	—
Ending balance	$ 7	$ (7)	$ 7	$ (7)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

Realized and unrealized net losses included in earnings and the income statement classifications are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Total net gains (losses) included in earnings:				
Cost of sales — Commodities contracts	$ (624)	$ (764)	$ (430)	$ 140
Cost of sales — Foreign exchange contracts	46	42	—	66
Other income — Carbon credits	1,028	—	(2)	—
Other expense — Contractual obligations relating to carbon credits	(936)	—	—	—
Interest expense — Interest rate contracts	(1,825)	(1,512)	(799)	(375)
	$ (2,311)	$ (2,234)	$ (1,231)	$ (169)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Change in unrealized gains (losses) relating to contracts still held at period end:				
Cost of sales — Commodities contracts	$ (482)	$ 141	$ (430)	$ 342
Other income — Carbon credits	7	66	(2)	66
Other expense — Contractual obligations relating to carbon credits	(7)	—	—	—
Interest expense — Interest rate contracts	(635)	(344)	(395)	4
	$ (1,117)	$ (137)	$ (827)	$ 412

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 September 30, 2011 and December 31, 2010, the fair value for variable interest rate debt (excluding the secured term loan at December 31, 2010) is believed to approximate their carrying value. At December 31, 2010, the estimated fair value of the secured term loan is based on defined LIBOR rates plus 6% utilizing information obtained from the lender. The fair values of fixed interest 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 September 30, 2011, the estimated fair value of the 2007 Debentures is based on the conversion rate and market price of LSB common stock. At December 31, 2010, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 11: Derivatives, Hedges, Financial Instruments and Carbon Credits (continued)

The estimated fair value and carrying value of our long-term debt are as follows:

	September 30, 2011		December 31, 2010	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Interest Rate:				
Secured Term Loan (1)	$ 73,125	$ 73,125	$ 26,721	$ 48,773
Working Capital Revolver Loan	—	—	—	—
Other debt (2)	—	—	2,437	2,437
Fixed Interest Rate:				
5.5% Convertible Senior Subordinated Notes	522	500	27,976	26,900
Other bank debt and equipment financing	9,631	9,679	17,251	17,282
	$ 83,278	$ 83,304	$ 74,385	$ 95,392

(1) Includes a fixed interest rate of 5.15% on the principal amount of $24.4 million at September 30, 2011.

(2) At December 31, 2010, the balance includes a variable interest rate debt agreement with a minimum interest rate of 6%, which interest rate was 6%.

Note 12: Income Taxes Provisions for income taxes are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Current:				
Federal	$ 24,497	$ 5,059	$ 2,583	$ 586
State	6,869	1,437	1,200	263
Total current provisions	$ 31,366	$ 6,496	$ 3,783	$ 849
Deferred:				
Federal	$ 1,932	$ 2,026	$ 554	$ 1,800
State	284	299	96	281
Total deferred provisions	2,216	2,325	650	2,081
Provisions for income taxes	$ 33,582	$ 8,821	$ 4,433	$ 2,930

For the nine and three months ended September 30, 2011 and 2010, the current provision for federal income taxes shown above includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. For the nine and three months ended September 30, 2011 and 2010, the current provision for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions. At December 31, 2010, we have remaining state tax net operating loss (“NOL”) carryforwards of approximately $7,200,000 that begin expiring in 2011.

Our annual estimated effective tax rate for 2011 includes the impact of permanent tax differences, such as the domestic manufacturer’s deduction, the advanced energy credit and other permanent items.

During June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately $800,000 for the nine months ended September 30, 2010. For the nine months ended September 30, 2010, the effect of this adjustment decreased basic and diluted net income per share by $.04. Management of the Company evaluated the impact of this accounting error and concluded the effect of this adjustment was immaterial to our 2007-2010 consolidated financial statements.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 12: Income Taxes (continued)

The tax provision for the nine months ended September 30, 2011 and 2010 was $33,582,000 (37% of pre-tax income) and $8,821,000 (43% of pre-tax income), respectively.

We had approximately $764,000 and $700,000 accrued for uncertain tax liabilities at September 30, 2011 and December 31, 2010, respectively, which are included in current and noncurrent accrued and other liabilities.

LSB and certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, the 2008-2010 years remain open for all purposes of examination by the U.S. Internal Revenue Service ("IRS") and other major tax jurisdictions. Currently we are under examination by the IRS and certain state tax authorities for the tax years 2007-2010.

Note 13: Other Expense, Other Income and Non-Operating Other Income (Expense), net

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Other expense:				
Losses on sales and disposals of property and equipment	$ 996	$ 508	$ 101	$ 249
Loss on contractual obligations associated with carbon credits	936	—	—	—
Other miscellaneous expense (1)	600	67	48	24
Total other expense	$ 2,532	$ 575	$ 149	$ 273
Other income:				
Gain on carbon credits	$ 1,028	$ —	$ (2)	$ —
Settlements of litigation and potential litigation (2)	757	—	—	—
Property insurance recoveries in excess of losses incurred (3)	—	3,982	—	3,243
Miscellaneous income (1)	250	197	60	30
Total other income	$ 2,035	$ 4,179	$ 58	$ 3,273
Non-operating other income (expense), net:				
Interest income	$ 61	$ 107	$ 20	$ 30
Miscellaneous income (1)	—	1	—	1
Miscellaneous expense (1)	(58)	(60)	(22)	(21)
Total non-operating other income (expense), net	$ 3	$ 48	$ (2)	$ 10

(1) Amounts represent numerous unrelated transactions, none of which are individually significant requiring separate disclosure.

(2) Amount relates primarily to the Chemical Business relating to a lawsuit filed in 2009 by Cherokee Nitrogen Company ("CNC") against a vendor, which alleged that CNC suffered property damages and lost income as a result of the vendor's negligence in installing certain equipment at the Cherokee Facility. In January 2011, a settlement at mediation was finalized, which included a payment to CNC of $735,000.

(3) Amount relates to recoveries from property insurance claims associated with our Chemical Business.

Note 14: Business Interruption Insurance Claim and Recovery In June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility was unable to produce anhydrous ammonia or urea ammonium nitrate ("UAN") during substantially all of third quarter of 2010. Our insurance policy provides for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period. Therefore, we filed an insurance claim for business interruption. During the nine months ended September 30, 2011, we recognized an insurance recovery of $8.6 million relating to this business interruption claim, which was recorded as a reduction to cost of sales. As of September 30, 2011, we do not have any remaining insurance claims associated with our business interruption coverage relating to this event.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 15: Segment Information

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Net sales:				
Climate Control	$ 212,628	$ 178,045	$ 71,804	$ 64,546
Chemical (1)	369,820	253,828	102,769	72,578
Other	7,444	5,877	2,207	1,824
	$ 589,892	$ 437,750	$ 176,780	$ 138,948
Gross profit: (2)				
Climate Control	$ 67,689	$ 60,195	$ 22,808	$ 22,964
Chemical (1)	89,789	30,631	10,677	5,871
Other	2,719	2,027	772	604
	$ 160,197	$ 92,853	$ 34,257	$ 29,439
Operating income: (3)				
Climate Control	$ 26,357	$ 22,632	$ 8,738	$ 10,112
Chemical (1)	78,923	12,310	7,105	1,247
General corporate expenses and other business operations, net (4)	(10,477)	(9,246)	(3,351)	(2,889)
	94,803	25,696	12,492	8,470
Interest expense	(5,481)	(5,943)	(1,901)	(1,864)
Losses on extinguishment of debt	(136)	(52)	—	—
Non-operating other income (expense), net:				
Climate Control	1	1	—	—
Chemical	1	6	—	1
Corporate and other business operations	1	41	(2)	9
Provisions for income taxes	(33,582)	(8,821)	(4,433)	(2,930)
Equity in earnings of affiliate-Climate Control	375	719	168	191
Income from continuing operations	$ 55,982	$ 11,647	$ 6,324	$ 3,877

(1) During most of the first nine months of 2011, the Pryor Facility had sustained production of anhydrous ammonia and UAN compared to limited production during the first nine months of 2010. For the nine and three months ended September 30, 2011, the Pryor Facility had net sales to unrelated third parties of $63.3 million and $10.5 million, respectively and operating income of $30.6 million and $0.1 million, respectively, resulting from those sales and an insurance recovery of $8.6 million recognized during the first nine months of 2011 relating to a business interruption claim, which was recorded as a reduction to cost of sales. In addition for the nine and three months ended September 30, 2011, the Chemical Business realized a net benefit of $4.4 million and $0.6 million, respectively, from the utilization by our other facilities of lower cost ammonia produced at the Pryor Facility. For the nine and three months ended September 30, 2010, the Pryor Facility had net sales to unrelated third parties of $7.8 million and $1.8 million and an operating loss of $11.2 million and $3.2 million, respectively. Due to limited and intermittent production at the Pryor Facility during the first nine months of 2010, most of its operating loss related to nonproduction-related expenses incurred and were classified as selling, general and administrative expenses (“SG&A”).

(2) Gross profit by business segment represents net sales less cost of sales. Gross profit classified as “Other” relates to the sales of industrial machinery and related components.

(3) Our chief operating decision makers use operating income by business segment for purposes of making decisions, which include resource allocations and performance evaluations. Operating income by business segment represents gross profit by business segment less SG&A incurred by each business segment plus other income and other expense earned/incurred by each business 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.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 15: Segment Information (continued)

(4) The amounts included are not allocated to our Climate Control and Chemical Businesses since these items are not included in the operating results reviewed by our chief operating decision makers for purposes of making decisions as discussed above. A detail of these amounts are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
	(In Thousands)			
Gross profit-Other	$ 2,719	$ 2,027	$ 772	$ 604
Selling, general and administrative:				
Personnel costs	(6,338)	(6,054)	(2,187)	(1,787)
Professional fees	(3,046)	(3,105)	(957)	(1,180)
All other	(3,420)	(2,333)	(909)	(682)
Total selling, general and administrative	(12,804)	(11,492)	(4,053)	(3,649)
Other income	102	230	26	160
Other expense	(494)	(11)	(96)	(4)
Total general corporate expenses and other business operations, net	$ (10,477)	$ (9,246)	$ (3,351)	$ (2,889)

Information about our total assets by industry segment is as follows:

	September 30, 2011	December 31, 2010
	(In Thousands)	
Climate Control	$ 122,790	$ 112,894
Chemical	215,294	179,033
Corporate assets and other	132,276	96,054
Total assets	$ 470,360	$ 387,981

Note 16: Related Party Transactions

Golsen Group

In January 2010, we paid interest of $137,500 relating to $5,000,000 of the 2007 Debentures held by the Golsen Group that was accrued at December 31, 2009. In March 2010, 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 the nine months ended September 30, 2010, we incurred interest expense of $206,250 relating to the debentures held by the Golsen Group, of which $137,500 was paid in June 2010.

In January 2011, we paid interest of $137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2010. In March 2011, 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. In March 2011, the Golsen Group sold $3,000,000 of the 2007 Debentures it held to a third party. In July 2011, the Golsen Group converted $2,000,000 of the 2007 Debentures into 72,800 shares of LSB common stock in accordance with the terms of the 2007 Debentures. During the nine months ended September 30, 2011, we incurred interest expense of $60,500 relating to the $2,000,000 of the 2007 Debentures that was held by the Golsen Group, of which $55,000 was paid in June 2011 and the remaining amount was forfeited and credited to capital in excess of par value as the result of the conversion. In addition in July 2011, the Golsen Group converted an $8,000 convertible promissory note into 4,000 shares of LSB common stock in accordance with the terms of such note.

The Series B Preferred and Series D Preferred are non-redeemable preferred stocks issued in 1986 and 2001, respectively.

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

Note 16: Related Party Transactions (continued)

Landmark Transactions

As approved by a special committee of our board of directors, in May 2011, Prime Financial L.L.C. ("Prime"), a subsidiary of LSB, entered into an agreement (the "First Purchase Agreement") to purchase from Landmark Land Company, Inc. ("Landmark") certain undeveloped real estate located in Oklahoma City, Oklahoma (the "Oklahoma Real Estate") for the purchase price of $2,250,000, which transaction was consummated in June 2011. The First Purchase Agreement grants Prime put options to sell the Oklahoma Real Estate to Landmark or to Gerald G. Barton ("Barton"), who is the chief executive officer and a substantial stockholder of Landmark. The put option may be exercised during the sixth year following Prime's purchase of the Oklahoma Real Estate. If a put option is exercised, the purchase price for the Oklahoma Real Estate will be $2,250,000, plus a premium equal to a simple 10% annual return on the purchase price beginning as of the closing of the First Purchase Agreement, subject to certain adjustments. For financial reporting purposes, no value from the purchase price was allocated to the put options because the appraised value of the Oklahoma Real Estate exceeded the purchase price.

As approved by a special committee of our board of directors, in September 2011, Prime entered into an agreement (the "Second Purchase Agreement") to purchase from Landmark certain undeveloped real estate located in Laguna Vista, Texas (the "Texas Real Estate") for the purchase price of $2,500,000, which transaction is expected to consummate during the fourth quarter of 2011. The Second Purchase Agreement grants Prime put options to sell the Texas Real Estate to Landmark or to Barton. The put option may be exercised during the sixth year following Prime's purchase of the Texas Real Estate. If a put option is exercised, the purchase price for the Texas Real Estate will be $2,500,000, plus a premium equal to a simple 10% annual return on the purchase price beginning as of the closing of the Second Purchase Agreement, subject to certain adjustments. The Second Purchase Agreement also grants Prime warrants to purchase up to 1,000,000 shares of Landmark's common stock, at $1.00 per share. The right of Prime to acquire Landmark shares under any unexercised warrants shall terminate on the completed exercise of the put options.

Landmark has also agreed to enter into a separate agreement at the closing to use its reasonable efforts to use, where technically feasible, geothermal heating and air conditioning units manufactured by one of the LSB's subsidiaries on other Landmark properties in the development where the Texas Real Estate is located.

Jack E. Golsen ("Golsen"), our chairman of the board of directors and chief executive officer and another individual previously formed a limited liability company ("LLC"), and each contributed $1,000,000 to the LLC. The LLC subsequently loaned Landmark approximately $2,000,000. In March 2011, Golsen sold his membership interest in the LLC to Barton in consideration for a promissory note in the principal amount of approximately $1,100,000, representing the amount that Golsen had invested in the LLC, plus interest (the "Barton Note"). The Barton Note was due and payable in June 2011. Pursuant to the terms of the First and Second Purchase Agreements, until the expiration of the put options, no payment will be made on the Barton Note and payment of the amounts owing under the Barton Note will be subordinate to any amounts owing Prime upon the exercise of a put option. Further, Golsen has agreed under the Second Purchase Agreement that no portion of the purchase price shall be used by Landmark to repay any indebtedness owing to Golsen.

In addition, Bernard Ille, one of our directors, served as a director of Landmark for many years until he resigned in March 2011. In light of the Barton Note and Mr. Ille's past relationship with Landmark, our board of directors appointed a special committee for the purpose of reviewing and determining whether the LSB should purchase the Oklahoma and Texas Real Estate. Also the special committee believed, based on an analysis of a real estate consultant, that the price that we were to pay for the properties approximated the market value, and also believed that these properties, when developed, have the potential to establish a model geothermal community.

Item 2. 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 our September 30, 2011 condensed consolidated financial statements. Certain statements contained in this MD&A may be deemed forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

Overview

General

LSB is a manufacturing, marketing and engineering company operating through our subsidiaries. LSB and its wholly-owned subsidiaries own the 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, modular geothermal chillers and other related products used to control the environment in commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems. For the first nine months of 2011, approximately 36% of our consolidated net sales relates to the Climate Control Business.

- Chemical Business manufactures and sells nitrogen based chemical products produced from four facilities located in El Dorado, Arkansas; Cherokee, Alabama; Pryor, Oklahoma; and Baytown, Texas for the agricultural, industrial and mining markets. Our products include high purity and commercial grade anhydrous ammonia, industrial and fertilizer grade ammonium nitrate ("AN"), UAN, sulfuric acids, nitric acids in various concentrations, nitrogen solutions, DEF and various other products. For the first nine months of 2011, approximately 63% of our consolidated net sales relates to the Chemical Business.

During most of the first nine months of 2011, the Pryor Facility had sustained production of anhydrous ammonia and UAN compared to limited production during the first nine months of 2010. Also as discussed below under "Chemical Business", during the third quarter of 2011, planned major maintenance activities ("Turnarounds") were performed at the Pryor, Cherokee, and El Dorado Facilities, which along with unplanned maintenance downtime, resulted in lower production, fixed overhead absorption and sales for the quarter.

Economic Conditions

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

Climate Control Business — Sales for the first nine months of 2011 were 19% higher than the same period in 2010, including a 64% increase in hydronic fan coil sales, an 11% increase in geothermal and water source heat pump sales, and a 14% increase in other HVAC sales. From a market sector perspective, the increase is due to a 28% improvement in commercial/institutional product sales partially offset by a 6% decrease in residential product sales. The improvement in commercial/institutional sales was in all major product lines and was primarily related to the increased backlog of customer orders for our products entering into 2011 resulting from increases in the level of customer orders in prior quarters. For the first nine months of 2011, sales and order levels of our residential products decreased from the comparable period in 2010 reflecting the slowdown in new residential construction. The latest information available from the Construction Market Forecasting Service provided by McGraw-Hill ("CMFS") indicates that in 2011 both commercial/institutional construction and residential construction sectors we serve are expected to decline slightly from 2010 levels. The National Architectural Billings Index published by American Institute of Architects ("AIA") continues to swing between increasing and decreasing design activity with no significant developing trends due to the weak economy.

Chemical Business — Our Chemical Business' primary markets are agricultural, industrial and mining. During the first nine months of 2011, approximately 56% of our Chemical Business' sales were into industrial and mining markets of which approximately 64% 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. During the first nine months of 2011, customer demand for our industrial products increased over the same period in 2010. However, we have begun to see some softening of demand for certain of our industrial chemical and agricultural grade AN products during the recent weeks, which could result in a reduction to the operating rates at the El Dorado Facility in the fourth quarter.

The remaining 44% of our Chemical Business' sales in the first nine months of 2011 were made into the agricultural fertilizer markets to customers that primarily purchase at spot market prices and not pursuant to contractual pricing arrangements. Our agricultural sales volumes and prices depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat, cotton and forage. The current outlook according to most market indicators, including reports in Green Markets, Fertilizer Week and the USDA's World Agricultural Supply and Demand Estimates, 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 change if there are unanticipated changes in commodity prices, acres planted or unfavorable weather conditions. Our Cherokee and Pryor Facilities produce anhydrous ammonia from natural gas and UAN from ammonia. During the first nine months of 2011, agricultural customer demand for and the selling prices of ammonia and UAN continued to increase while natural gas prices were generally lower compared to the same period of 2010. As a result, gross profit increased significantly at these two facilities. On the other hand, our El Dorado Facility is at a current cost disadvantage for their agricultural grade AN, which is produced from purchased ammonia, compared to competitive product produced from natural gas. Based on Fertecon and FMB Ammonia reports, purchased ammonia is in tight supply globally and the U.S. Tampa price increased significantly in the third quarter and is expected to continue to increase in the fourth quarter. Currently, certain of the El Dorado Facility's mid-south market area for agricultural grade AN remains in a drought condition, which is negatively affecting customer demand for that product. As a result, we are shipping agricultural grade AN to other freight logical markets and are attempting to divert production capacity to other products to help mitigate the negative effects of the drought.

Results for the Third Quarter of 2011

Our consolidated net sales for the third quarter of 2011 were $176.8 million compared to $138.9 million for the same period in 2010. The sales increase of approximately $37.9 million includes an increase of $30.2 million in our Chemical Business and an increase of $7.3 million in our Climate Control Business.

Our Chemical Business' operating income increased $5.9 million to $7.1 million. Our Climate Control Business' operating income decreased $1.4 million to $8.7 million.

Our resulting effective income tax rate for the third quarter of 2011 was approximately 41% compared to 44% for the third quarter of 2010.

Climate Control Business

Our Climate Control sales for the third quarter of 2011 were $71.8 million, or $7.3 million higher than the same period of 2010, comprised of approximately $2.5 million increase in geothermal and water source heat pump sales and a $5.3 million increase in hydronic fan coil sales, partially offset by a $0.5 million decrease in other HVAC sales. From a market sector perspective, there was a $9.3 million improvement in commercial/institutional product sales partially offset by an approximately $2.0 million decrease in residential product sales. The improvement in the commercial/institutional sector of our business is primarily attributable to a higher beginning backlog. The decline in the residential sector is related to the soft housing market.

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

- Education
- Single-Family Residential
- Multi-Family Residential
- Healthcare
- Hospitality
- Government/Public
- Retail
- Industrial

During the third quarter of 2011, approximately 79% of our Climate Control Business' sales were to the commercial/institutional and multi-family construction markets, and the remaining 21% were sales of geothermal heat pumps ("GHPs") to the single-family residential market.

For the third quarter of 2011, the product order intake level was $65.7 million as compared to $64.3 million for the second quarter of 2011; $71.6 million for the first quarter of 2011; $61.3 million for the fourth quarter of 2010; and $67.5 million for the third quarter of 2010. For the third quarter of 2011, product orders for commercial/institutional products decreased 4% whereas residential product orders increased 2% as compared to the same period of 2010. Order levels between quarters may be uneven and should not be taken as a strong indication of either deterioration or improvement in a particular sector that we serve, although, in general, our order levels reflect the slowdown in the economic recovery. Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval.

Our order backlog was $48.4 million at September 30, 2011 as compared to $49.9 million at June 30, 2011; $58.3 million at March 31, 2011; $47.6 million at December 31, 2010; and $54.8 million at September 30, 2010. The backlog consists of confirmed customer orders for product to be shipped at a future date. 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, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms.

Product orders and backlog, as reported, generally do not include amounts relating to shipping and handling charges, service orders or service contract orders. In addition, product orders and backlog, as reported, exclude contracts related to our engineering and construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.

Our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional HVAC systems. Tax legislation continues to provide incentives for customers purchasing products using forms of renewable energy. Homeowners who install GHPs are eligible for a 30% tax credit. Businesses that install GHPs are eligible for a 10% tax credit and five year accelerated depreciation on the balance of the system cost. During 2011, businesses also have the option of electing 100% bonus depreciation on qualifying equipment, such as GHPs, that are placed in service during the year.

As previously reported, we expect a slow recovery in the short-term and it is currently unclear when we will return to pre-recession levels. We continue to increase our sales and marketing efforts for all of our Climate Control products, primarily to expand the market for and application of our products, including GHPs.

Chemical Business

Our Chemical Business operates four chemical facilities. The Cherokee and Pryor Facilities produce anhydrous ammonia and nitrogen products from natural gas delivered by pipeline but can also receive supplemental anhydrous ammonia by other modes of delivery. The El Dorado and Baytown Facilities produce nitrogen products from anhydrous ammonia delivered by pipeline. The El Dorado Facility also produces sulfuric acid from recovered elemental sulfur delivered by truck and rail.

Our Chemical Business sales for the third quarter of 2011 were $102.8 million, an increase of $30.2 million. Sales increased across all product lines due to both increased pricing and volume. Sales from our Pryor Facility to unrelated parties were $10.5 million during the third quarter of 2011 compared to $1.8 million for the same period in 2010, with the majority of these sales going into the agricultural market. Agricultural sales for the third quarter of 2011 were $30.1 million compared to $18.5 million for the same period in 2010 primarily due to the increased sales volume from our Pryor Facility, higher selling prices of nitrogen fertilizer, partially offset by lower sales volume of agricultural grade AN due to drought conditions in certain of the El Dorado Facility's market areas. In addition, increases in raw material feedstock costs resulted in higher selling prices to certain industrial and mining customers that have contractual obligations allowing us to recover our costs.

The Chemical Business operating income for the third quarter of 2011 was $7.1 million or $5.9 million higher than the third quarter of 2010 primarily as a result of increased sales volume and higher margins on UAN produced at Cherokee and Pryor Facilities.

Although our Chemical Business results for the third quarter were improved over last year, historically our third quarter results are typically lower than the other three quarters of the year due to Turnarounds. Our Turnarounds are usually scheduled during the third quarter when we are past our major fertilizer production and sales season. As a result, agricultural sales are seasonally lower, Turnaround costs are expensed as incurred, and a significant amount of fixed overhead absorption is lost when our plants are not producing during the Turnarounds resulting in seasonally lower operating income than in other periods.

Our operating income during the third quarter of 2011 was significantly lower than it would otherwise have been primarily because the Pryor Facility's anhydrous ammonia plant was down for a Turnaround considerably longer than originally anticipated and for unplanned maintenance. As a result, the Pryor Facility's production of anhydrous ammonia and UAN was only 70% of the production volume experienced during the second quarter of 2011, thereby reducing fixed overhead absorption and limiting sales volume.

During October 2011, the Pryor Facility's production rate, expressed in tons per day, is approximately the same as in the second quarter. The demand for anhydrous ammonia and UAN is strong. A significant percentage of the fourth quarter production capacity of these two agricultural products has been presold on firm sales commitments. In addition, approximately 65% of our projected natural gas consumption for the fourth quarter is covered by purchase commitments or customer pricing agreements that pass through the cost of natural gas.

The percentage change in sales (volume and dollars) for the third quarter of 2011 compared to the third quarter of 2010 is as follows:

	Percentage Change of	
	Tons	Dollars
	Increase	
Chemical products:		
Agricultural	22%	63%
Industrial acids and other	9%	42%
Mining	1%	25%
Total weighted-average change	9%	42%

The increase in agricultural tons and dollars is due to increased tons of ammonia and UAN sales partially offset by lower tons of agricultural grade AN. The lower production of agricultural grade AN was primarily due to intermittent production issues, drought conditions in our primary Texas market area, and increased industrial acid sales volumes, which reduced the amount of acid available for conversion into AN. In addition, our Chemical Business experienced higher selling prices for all of our agricultural nitrogen fertilizers.

The increase in industrial acids and mining sales was partially due to improved economic conditions resulting in increased customer demand, but primarily resulted from higher ammonia prices in the third quarter of 2011 that were passed through in the selling price pursuant to pricing arrangements with certain customers.

As indicated above under "Overview — General", the Pryor Facility continued production of ammonia and UAN during the third quarter of 2011 after the completion of the Turnaround. During the third quarter of 2011, the production rate for ammonia (excluding Turnaround and unplanned downtime) was approximately 500 tons per day ("TPD"). The production rate for UAN (excluding Turnaround and unplanned downtime) was approximately 800 TPD.

During the third quarter of 2010, the Pryor Facility was unable to produce anhydrous ammonia or UAN due to a pipe failure and fire in June 2010 that damaged the ammonia plant's primary reformer. As a result, the Pryor Facility's overhead and other costs of approximately $6.2 million during the third quarter of 2010 were expensed as incurred. Costs associated with a Turnaround of $1.3 million were charged to cost of sales. As a result of the absence of production during the third quarter of 2010, the remaining $4.9 million included $4.6 million charged to SG&A and $0.3 million to other expense. In addition during the third quarter of 2010, the Pryor Facility recognized other income of $2.8 million relating a property insurance claim.

Our primary raw material feedstocks (anhydrous ammonia, natural gas and sulfur), which we generally purchase at prices in effect at the time of delivery, are commodities subject to significant price fluctuations. During the third quarter of 2011, the average prices for those commodities compared to the same period in 2010 were as follows:

	2011	2010
Natural gas average price per MMBtu based upon Tennessee 500 pipeline pricing point	$ 4.40	$ 4.67
Ammonia average price based upon low Tampa price per metric ton	$ 574	$ 386
Sulfur price based upon Tampa average quarterly price per long ton	$ 220	$ 95

Most of our Chemical Business sales in the industrial and mining markets 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. Our Chemical Business sales in the agricultural markets primarily were at the market price in effect at the time of sale or at a negotiated future price.

Business Interruption Insurance Claim and Recovery

In June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility was unable to produce anhydrous ammonia or UAN during substantially all of third quarter of 2010. Our insurance policy provides for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period. Therefore, we filed an insurance claim for business interruption. During the nine months ended September 30, 2011, we recognized an insurance recovery of $8.6 million relating to this business interruption claim, which was recorded as a reduction to cost of sales. As of September 30, 2011, we do not have any remaining insurance claims associated with our business interruption coverage relating to this event.

Liquidity and Capital Resources

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

	September 30, 2011	December 31, 2010
	(Dollars In Millions)	
Cash and cash equivalents	$ 108.0	$ 66.9
Short-term investments (1)	—	10.0
	$ 108.0	$ 76.9
Long-term debt:		
2007 Debentures	$ 0.5	$ 26.9
Secured Term Loan	73.1	48.8
Other	9.7	19.7
Total long-term debt, including current portion	$ 83.3	$ 95.4
Total stockholders' equity	$ 264.2	$ 179.4
Long-term debt to stockholders' equity ratio (2)	0.3	0.5

(1) These investments consisted 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.

(2) This ratio is based on total long-term debt divided by total stockholders' equity and excludes the use of cash, cash equivalents and short-term investments to pay down debt.

At September 30, 2011, our cash and cash equivalents totaled $108.0 million and our $50 million revolving credit facility (the "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.

For the fourth quarter of 2011, we expect our primary cash needs will be for working capital to fund our operations, capital expenditures, and general obligations. We expect to fund these cash needs from internally generated cash flows and cash on hand. Our internally generated cash flows and liquidity could be affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions.

As previously reported, during March 2011, one of the holders of the 2007 Debentures converted $24.4 million principal amount of the 2007 Debentures into 888,160 shares of LSB common stock in accordance with the conversion terms of the debentures. In addition, during July 2011, an additional $2.0 million was converted as discussed below under "Related Party Transactions". As of September 30, 2011, only $0.5 million of the 2007 Debentures remain outstanding, all of which were converted into 18,200 shares of LSB common stock in October 2011.

As previously reported and discussed below under "Loan Agreements-Terms and Conditions," on March 29, 2011, ThermaClime and certain of its subsidiaries entered into an amended and restated term loan agreement (the "Amended Agreement"), which amended ThermaClime's existing term loan agreement. Pursuant to the terms of the Amended Agreement, the maximum principal amount of ThermaClime's term loan facility (the "Secured Term Loan") was increased from $50 million to $60 million. The Amended Agreement also extended the maturity of the Secured Term Loan from November 2, 2012, to March 29, 2016.

On May 26, 2011, the principal amount of the Secured Term Loan was increased an additional $15 million to $75 million pursuant to the terms of the Amended Agreement.

The Secured Term Loan requires quarterly principal payments of approximately $0.9 million, plus interest and a final balloon payment of $56.3 million due on March 29, 2016. At September 30, 2011, the resulting weighted-average interest rate was approximately 3.96%. The Secured Term Loan is secured by the real property and equipment located at our El Dorado and Cherokee Facilities.

Certain 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.

The Working Capital Revolver Loan, which certain subsidiaries (the "Borrowers") are parties to, is available to fund these subsidiaries working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, the Borrowers may borrow on a revolving basis up to $50.0 million based on specific percentages of eligible accounts receivable and inventories. At September 30, 2011, we had approximately $48.6 million of borrowing availability under the Working Capital Revolver Loan based on eligible collateral and outstanding letters of credit. We consider the Working Capital Revolver Loan to be important to our overall capital structure and our current intention is to negotiate a renewal on or before maturity of April 2012.

The financial covenants of the Working Capital Revolver Loan and the Secured Term Loan 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 LSB and its subsidiaries that are not parties to the loan agreement. This limitation does not prohibit payment to LSB of amounts due under a Services Agreement, Management Agreement and a Tax Sharing Agreement with ThermaClime. Based upon our current projections, we believe our working capital is adequate to fund operations for the near term.

In 2009, we filed a universal shelf registration statement on Form S-3, with the SEC. 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

We recognize and pay federal income taxes at regular corporate tax rates. With few exceptions, the 2008-2010 years remain open for all purposes of examination by the IRS and other major tax jurisdictions. Currently, we are under examination by the IRS and certain state tax authorities for the tax years 2007-2010.

We believe that we do not have any material uncertain tax positions other than the failure to file original or amended state income tax returns in some jurisdictions where LSB or some of its subsidiaries may have a filing responsibility. We had approximately $764,000 and $700,000 accrued for uncertain tax liabilities at September 30, 2011 and December 31, 2010, respectively.

Capital Expenditures

Capital Expenditures-First Nine Months of 2011

Cash used for capital expenditures during the first nine months of 2011 was $31.1 million, including $4.3 million primarily for production equipment and other upgrades for additional capacity in our Climate Control Business and $24.5 million for our Chemical Business, primarily for process and reliability improvements of our operating facilities. During the first nine months of 2011, we had capital expenditures of $0.4 million associated with maintaining compliance with environmental laws, regulations and guidelines. The capital expenditures were primarily funded from working capital.

Committed and Planned Capital Expenditures-Fourth Quarter of 2011

At September 30, 2011, we had committed capital expenditures of approximately $11.4 million for the fourth quarter of 2011. The committed expenditures included $10.6 million in the Chemical Business. The Chemical Business committed capital expenditures included $6.4 million for process and reliability improvements; $3.7 million for plant expansion at our Pryor Facility; and $0.4 million to maintain compliance with environmental laws, regulations and guidelines including costs associated with the wastewater pipeline discussed below. In addition, our commitments included $0.8 million in our Climate Control Business primarily for facility upgrades and production equipment. We plan to fund these expenditures from available cash and working capital.

In addition to committed capital expenditures at September 30, 2011, we had additional planned capital expenditures for the fourth quarter of 2011 in our Chemical Business of approximately $3.4 million and in our Climate Control Business of approximately $3.0 million.

The planned capital expenditures are subject to economic conditions and approval by senior management. If these capital expenditures are approved, most of these expenditures will likely be funded from working capital and internal cash flows. In addition, see discussion below under “Information Request from EPA” that may require additional capital improvement to certain emission equipment not currently included in our committed or planned capital expenditures for the fourth quarter of 2011.

Wastewater Pipeline

The El Dorado Facility generates process wastewater, which is subject to a wastewater discharge permit issued by the ADEQ, which permit is generally renewed every five years. During April 2011, certain companies, including EDC, and the city of El Dorado, Arkansas (the “City”) entered into a funding agreement and operating agreement related to a wastewater pipeline to be constructed by the City. Each party to the agreements has agreed to contribute to the cost of construction and the annual operating costs of the pipeline. EDC anticipates its capital cost in connection with the construction of the pipeline including EDC’s right to use the pipeline to dispose of its wastewater will be approximately $4.0 million, of which $0.4 million has been capitalized as of September 30, 2011. The City plans to complete the construction of the pipeline in 2013. Once the pipeline is completed, EDC’s estimated share of the annual operating costs is to be $100,000 to $150,000. The initial term of the operating agreement is through December 2053.

Information Request from EPA

The EPA has sent information requests to most, if not all, of the operators of nitric acid plants in the United States, including our El Dorado and Cherokee Facilities and the Baytown Facility under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years. These information requests will 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 facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment 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 type of emission control equipment that might be imposed is unknown and, as a result, 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 chemical facilities has 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 be required to retrofit each facility with the "best available control technology." We believe this technology is already employed at the Baytown Facility. We are currently unable to determine the amount (or range of amounts) of any penalties that may be assessed by the EPA. Therefore no liability has been established at September 30, 2011, in connection with this matter.

Advanced Manufacturing Energy Credits

On January 8, 2010, two 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 June 2014 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. We anticipate utilizing approximately $0.8 million of these tax credits to partially offset our federal income tax liability for 2011.

Transactions with Landmark

As previously reported and as approved by a special committee of our board of directors, in May 2011, Prime Financial L.L.C. ("Prime"), a subsidiary of LSB, entered into an agreement (the "First Purchase Agreement") to purchase from Landmark Land Company, Inc. ("Landmark") certain undeveloped real estate located in Oklahoma City, Oklahoma (the "Oklahoma Real Estate") for the purchase price of $2.25 million, which transaction was consummated in June 2011 and funded from working capital. The First Purchase Agreement grants Prime put options to sell the Oklahoma Real Estate to Landmark or to Gerald G. Barton ("Barton"), who is the chief executive officer and a substantial stockholder of Landmark. The put option may be exercised during the sixth year following Prime's purchase of the Oklahoma Real Estate. If a put option is exercised, the purchase price for the Oklahoma Real Estate will be $2.25 million, plus a premium equal to a simple 10% annual return on the purchase price beginning as of the closing of the First Purchase Agreement, subject to certain adjustments. For financial reporting purposes, no value from the purchase price was allocated to the put options because the appraised value of the Oklahoma Real Estate exceeded the purchase price.

As previously reported and as approved by a special committee of our board of directors, in September 2011, Prime entered into an agreement (the "Second Purchase Agreement") to purchase from Landmark certain undeveloped real estate located in Laguna Vista, Texas (the "Texas Real Estate") for the purchase price of $2.5 million, which transaction is expected to consummate during the fourth quarter of 2011 and be funded from working capital. The Second Purchase Agreement grants Prime put options to sell the Texas Real Estate to Landmark or to Barton. The put option may be exercised during the sixth year following Prime's purchase of the Texas Real Estate. If a put option is exercised, the purchase price for the Texas Real Estate will be $2.5 million, plus a premium equal to a simple 10% annual return on the purchase price beginning as of the closing of the Second Purchase Agreement, subject to certain adjustments. The Second Purchase Agreement also grants Prime warrants to purchase up to one million shares of Landmark's common stock, at $1.00 per share. The right of Prime to acquire Landmark shares under any unexercised warrants shall terminate on the completed exercise of the put options.

Landmark has also agreed to enter into a separate agreement at the closing to use its reasonable efforts to use, where technically feasible, geothermal heating and air conditioning units manufactured by one of the LSB's subsidiaries on other Landmark properties in the development where the Texas Real Estate is located.

As previously reported, Jack E. Golsen ("Golsen"), our chairman of the board of directors and chief executive officer and another individual previously formed a limited liability company ("LLC"), and each contributed $1.0 million to the LLC. The LLC subsequently loaned Landmark approximately $2.0 million. In March 2011, Golsen sold his membership interest in the LLC to Barton in consideration for a promissory note in the principal amount of approximately $1.1 million, representing the amount that Golsen had invested in the LLC, plus interest (the "Barton Note"). The Barton Note was due and payable in June 2011. Pursuant to the terms of the First and Second Purchase Agreements, until the expiration of the put options, no payment will be made on the Barton Note and payment of the amounts owing under the Barton Note will be subordinate to any amounts owing Prime upon the exercise of a put option. Further, Golsen has agreed under the Second Purchase Agreement that no portion of the purchase price shall be used by Landmark to repay any indebtedness owing to Golsen.

In addition, Bernard Ille, one of our directors, served as a director of Landmark for many years until he resigned in March 2011. In light of the Barton Note and Mr. Ille's past relationship with Landmark, our board of directors appointed a special committee for the purpose of reviewing and determining whether the LSB should purchase the Oklahoma and Texas Real Estate. Also the special committee believed, based on an analysis of a real estate consultant, that the price that we were to pay for the properties approximated the market value, and also believed that these properties, when developed, have the potential to establish a model geothermal community.

Plant Turnaround Costs

Our Chemical Business expenses the costs of Turnarounds as they are incurred. During the third quarter of 2011, we incurred $6.3 million of Turnaround costs compared to approximately $3.9 million for the same period of 2010. These costs do not include the costs relating to lost absorption or reduced margins due to the associated plants being shut down. Based on our current plan for Turnarounds during the fourth quarter of 2011, we currently estimate that we will incur approximately $1.0 million of Turnaround costs. However, it is possible that the timing and actual costs of our Turnarounds could be significantly different from 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 $3.7 million in the first nine months of 2011 in connection with environmental regulatory issues. For the fourth quarter of 2011, we expect to incur expenses ranging from $0.9 million to $1.0 million in connection with environmental regulatory issues. However, it is possible that the actual costs could be significantly different than our estimates.

Proposed Legislation and Regulations Concerning Greenhouse Gas Emissions

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, including the EPA, are considering the scope and scale of greenhouse gas emission regulation. There are bills pending or that have been proposed 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. The EPA has instituted a mandatory greenhouse gas reporting requirement that began in 2010, which impacts all of our chemical manufacturing sites. Greenhouse gas regulations, if adopted, could increase the price of the electricity and other energy sources purchased by our chemical facilities; increase costs for natural gas and other raw materials (such as anhydrous ammonia); potentially restrict access to or the use of natural gas and other raw materials necessary to produce our chemical products; and require us to incur substantial expenditures to retrofit our chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions. 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 possible, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

Dividends

LSB is a holding company and, accordingly, its ability to pay cash dividends on its preferred stock and common stock depends in large part on its ability to obtain funds from its subsidiaries. The ability of ThermaClime (which owns a substantial portion of the companies comprising the Climate Control Business and Chemical Business) and its wholly-owned subsidiaries to pay dividends and to make distributions to LSB is restricted by certain covenants contained in the Working Capital Revolver Loan and the Secured Term Loan agreements. Under the terms of these agreements, so long as no default or event of default has occurred, is continuing or would result therefrom, ThermaClime cannot transfer funds to LSB in the form of cash dividends or other distributions or advances, except for the following:

- unrestricted payments up to $15.0 million to LSB, which amount was paid during the second quarter of 2011;
- loans to LSB entered into subsequent to March 29, 2011, provided the aggregate amount of such loans do not exceed $2.0 million at any time outstanding;
- amounts not to exceed $5.0 million annually under a certain management agreement between LSB and ThermaClime, provided certain conditions are met;
- the repayment of costs and expenses incurred by LSB that are directly allocable to ThermaClime or its subsidiaries for LSB's provision of services under certain services agreement;
- the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with LSB; and
- 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 income taxes paid to LSB within the previous bullet above, provided that certain other conditions are met.

Holders of our common stock and preferred stocks 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 2011**.**

During the first nine months of 2011, dividends totaling $304,700 were declared and paid on our outstanding 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:

- $0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of $60,000;
- $12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of $240,000; and
- $10.00 per share on our outstanding Noncumulative Preferred for an aggregate dividend of approximately $4,700.

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 the first nine months of 2011. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

Compliance with Long — Term Debt Covenants

As discussed below under "Subordinated Debentures and Loan Agreements — Terms and Conditions", the Working Capital Revolver Loan and Secured Term Loan 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 the fourth quarter of 2011.

Loan Agreements — Terms and Conditions

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 September 30, 2011, there were no outstanding borrowings. In addition, the net credit available for borrowings under our Working Capital Revolver Loan was approximately $48.6 million at September 30, 2011, 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 $25.0 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. As of September 30, 2011 and as defined in the agreement, ThermaClime's EBITDA was approximately $89.6 million; the fixed charge coverage ratio was 6.8 to 1; and the senior leverage coverage ratio was 0.8 to 1.

Secured Term Loan - On March 29, 2011, ThermaClime and certain of its subsidiaries entered into the Amended Agreement, which amended ThermaClime's existing term loan agreement, dated November 2, 2007, as previously amended. Pursuant to the terms of the Amended Agreement, the maximum principal amount of ThermaClime's Secured Term Loan was increased from $50.0 million to $60.0 million. On May 26, 2011, the principal amount of the Secured Term Loan was increased an additional $15.0 million to $75.0 million pursuant to the terms of the Amended Agreement. The Amended Agreement also extends the maturity of the Secured Term Loan from November 2, 2012, to March 29, 2016. The Secured Term Loan continues to be guaranteed by LSB.

The Secured Term Loan requires quarterly principal payments of approximately $0.9 million, plus interest and a final balloon payment of $56.3 million due on March 29, 2016. At September 30, 2011, the stated interest rate on the Secured Term Loan includes a variable interest rate of approximately 3.36% on the principal amount of $48.7 million (the variable interest rate is based on three-month LIBOR plus 300 basis points, which rate is adjusted quarterly) and a fixed interest rate of 5.15% on the principal amount of $24.4 million. At September 30, 2011, the resulting weighted-average interest rate was approximately 3.96%.

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 $68 million at September 30, 2011.

The Secured Term Loan borrowers are subject to numerous covenants under the Amended 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 LSB, all with certain exceptions. At September 30, 2011, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $84 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. As of September 30, 2011 and as defined in the agreement, Secured Term Loan borrowers' fixed charge coverage ratio was 5.2 to 1 and the leverage coverage ratio was 0.9 to 1.

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.

A prepayment premium equal to 2.5% of the principal amount prepaid is due to the lenders should the borrowers elect to prepay on or prior to March 29, 2012. This premium is reduced to 1.0% during the following 24-month period and is eliminated thereafter.

Cross-Default Provisions - The Working Capital Revolver Loan 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, historically our Chemical Business increases its inventory of agricultural products prior to the beginning of each planting season. The amount and timing of sales to the agricultural markets is further dependent upon weather conditions and other circumstances beyond our control.

Related Party Transactions

Golsen Group

In January 2011, we paid interest of $137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2010. In March 2011, 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. In March 2011, the Golsen Group sold $3,000,000 of the 2007 Debentures it held to a third party. In July 2011, the Golsen Group converted $2,000,000 principal amount of the 2007 Debentures into 72,800 shares of LSB common stock in accordance with the term of the 2007 Debentures. During the nine months ended September 30, 2011, we incurred interest expense of $60,500 relating to the $2,000,000 of the 2007 Debentures that was held by the Golsen Group, of which $55,000 was paid in June 2011 and the remaining amount was forfeited and credited to capital in excess of par value as the result of the conversion. In addition in July 2011, the Golsen Group converted an $8,000 convertible promissory note into 4,000 shares of LSB common stock in accordance with the terms of such note.

Also see discussion under “Liquidity and Capital Resources — Transactions with Landmark.”

Results of Operations

Nine Months Ended September 30, 2011 Compared To Nine Months Ended September 30, 2010

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for the nine months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	$ 136,644	$ 122,967	$ 13,677	11.1%
Hydronic fan coils	43,689	26,711	16,978	63.6%
Other HVAC products	32,295	28,367	3,928	13.8%
Total Climate Control	$ 212,628	$ 178,045	$ 34,583	19.4%
Gross profit — Climate Control	$ 67,689	$ 60,195	$ 7,494	12.4%
Gross profit percentage — Climate Control (1)	31.8%	33.8%	(2.0)%	
Operating income — Climate Control	$ 26,357	$ 22,632	$ 3,725	16.5%

(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 21% improvement in sales of our commercial products due to the higher backlog at the beginning of 2011 and stronger product order levels during the first nine months of 2011 partially offset by a 6% decline in sales of our residential products primarily due to lower product order levels in the first nine months of 2011. During the first nine months of 2011, we continued to maintain a market share leadership position of approximately 41%, based on preliminary market data supplied by the Air-Conditioning, Heating and Refrigeration Institute (“AHRI”);
- Net sales of our hydronic fan coils increased primarily due to a 34% increase in the number of units sold due to increased construction and renovation activities in the markets we serve and a 22% increase in the average unit sales price due to change in product mix. During the first nine months of 2011, we continued to have a market share leadership position of approximately 31% based on preliminary market data supplied by the AHRI;
- Net sales of our other HVAC products increased primarily as the result of an increase in the sales of our large custom air handlers, modular chillers, and engineering and construction services.

Gross Profit — Climate Control

The increase in gross profit in our Climate Control Business was primarily the result of higher sales volume as discussed above. The gross profit percentage declined primarily as a result of higher material costs and a higher mix of commercial products having a lower gross margin than residential products.

Operating Income — Climate Control

Operating income increased as a result of the increase in gross profit as discussed above partially offset by an increase in variable expenses related primarily to warranty expenses of $2.2 million due to increased sales volume and the impact of increasing our warranty coverage period for certain products effective during 2010. In addition, freight expenses increased $1.3 million due to increased sales volume and the impact from changes in customer/product mix.

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for the nine months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$ 163,060	$ 94,018	$ 69,042	73.4%
Industrial acids and other chemical products	124,038	94,058	29,980	31.9%
Mining products	82,722	65,752	16,970	25.8%
Total Chemical	$ 369,820	$ 253,828	$ 115,992	45.7%
Gross profit — Chemical	$ 89,789	$ 30,631	$ 59,158	193.1%
Gross profit percentage — Chemical (1)	24.3%	12.1%	12.2%	
Operating income — Chemical	$ 78,923	$ 12,310	$ 66,613	541.1%

(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. The Pryor Facility, which began sustained production in the fourth quarter of 2010, produces agricultural and industrial chemical products. For the first nine months of 2011, overall sales prices for the Chemical Business increased 31% and the volume of tons sold increased 12%, compared with the same period of 2010, generally as a result of the following:

- Agricultural products sales — Agricultural products sales increased $69.0 million, or 73%, primarily due to increased sales volumes and selling prices for UAN, partially offset by lower sales of agricultural grade AN. Tons of agricultural products sold increased 31% including 116,000 tons of UAN and 20,000 tons of ammonia from the Pryor Facility. The increase in UAN sales was driven by an increase in market demand for crop nutrients and strong grain commodity prices.
- Industrial acids and other chemical products sales — Industrial acids and other products sales increased $30.0 million, or 32%, primarily due to new customers and increased selling prices resulting from the pass through of higher raw material costs pursuant to the terms of sales agreements with certain customers.
- Mining products sales — Mining products sales increased $17.0 million, or 26% and volumes increased 7%. Sales prices were higher driven by a general increase in raw material and other costs, which we are able to pass through to certain customers pursuant to the terms of supply agreements. Our industrial grade AN is primarily sold to one customer pursuant to a multi-year supply contract in which the customer agreed to purchase, and we agreed to reserve certain minimum volumes of industrial grade AN during 2011. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and amounts associated with the reserved capacity despite not taking the total minimum volume requirement during the first nine months of 2011.

Gross Profit — Chemical

The increase in gross profit of $59.2 million primarily relates to an increase of $46.7 million on the increase in agricultural products sales reflecting a much stronger demand for UAN accompanied by lower cost per ton as the result of higher volumes, improved production efficiencies and positive results attributable to the Pryor Facility. The increase in gross profit percentage was attributable to the favorable sales mix of the higher margin UAN product including, but not limited, to the Pryor Facility sales in 2011. In addition, we recognized an $8.6 million business interruption recovery in 2011.

Operating Income — Chemical

In addition to the increase in gross profit of $59.2 million discussed above, our Chemical Business' operating income includes operating and other expenses associated with the Pryor Facility of approximately $2.8 million for the first nine months of 2011 compared to $13.4 million for the same period of 2010. Due to limited and intermittent production at the Pryor Facility during the first nine months of 2010, costs identifiable with production were classified as cost of sales and the remaining operational expenses were primarily classified as SG&A. This increase in operating income was partially offset by a gain of $3.9 million from property insurance recoveries received in 2010.

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 the nine months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales — Other	$ 7,444	$ 5,877	$ 1,567	26.7%
Gross profit — Other	$ 2,719	$ 2,027	$ 692	34.1%
Gross profit percentage — Other (1)	36.5%	34.5%	2.0%	
General corporate expense and other business operations, net	$ (10,477)	$ (9,246)	$ (1,231)	13.3%

(1) As a percentage of net sales

Provision For Income Taxes

The provision for income taxes for the first nine months of 2011 was $33.6 million compared to $8.8 million for the first nine months of 2010. The resulting effective tax rate for the first nine months of 2011 was 37% compared to 43% for the same period in 2010. As previously reported, during June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately $800,000 for the first nine months of 2010.

Three Months Ended September 30, 2011 Compared To Three Months Ended September 30, 2010

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for the three months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	$ 46,458	$ 44,006	$ 2,452	5.6%
Hydronic fan coils	15,806	10,506	5,300	50.4%
Other HVAC products	9,540	10,034	(494)	(4.9)%
Total Climate Control	$ 71,804	$ 64,546	$ 7,258	11.2%
Gross profit — Climate Control	$ 22,808	$ 22,964	$ (156)	(0.7)%
Gross profit percentage — Climate Control (1)	31.8%	35.6%	(3.8)%	
Operating income — Climate Control	$ 8,738	$ 10,112	$ (1,374)	(13.6)%

(1) As a percentage of net sales

Net Sales — Climate Control

- Net sales of our geothermal and water source heat pump products increased 6% primarily as a result of a 20% improvement in sales of our commercial products primarily due to the higher backlog at the beginning of third quarter of 2011 partially offset by a 12% decline in sales of our residential products due to lower product order levels in the third quarter;
- Net sales of our hydronic fan coils increased 50% primarily due to a 25% increase in the number of units sold due to increased construction and renovation activities in the markets we serve and a 19% increase in the average unit sales price due to change in product mix;
- Net sales of our other HVAC products decreased as the result of a decrease in the sales of our large custom air handlers and modular chillers partially offset by an increase in our engineering and construction services.

Gross Profit — Climate Control

The decline in gross profit percentage in our Climate Control Business was primarily the result of higher material costs and the higher mix of commercial products having a lower gross margin than residential products resulting in a decline in the gross profit despite the increase in sales volume.

Operating Income — Climate Control

Operating income decreased as a result of the decrease in gross profit as discussed above and by an increase in variable expenses related primarily to warranty expenses of $0.6 million due to increased sales volume and the impact of increasing our warranty coverage period for certain products effective during 2010. In addition, commission expenses increased $0.5 million due to increased sales volume and the impact from changes in customer/product mix.

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for the three months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales:				
Agricultural products	$ 30,127	$ 18,522	$ 11,605	62.7%
Industrial acids and other chemical products	42,887	30,224	12,663	41.9%
Mining products	29,755	23,832	5,923	24.9%
Total Chemical	$ 102,769	$ 72,578	$ 30,191	41.6%
Gross profit — Chemical	$ 10,677	$ 5,871	$ 4,806	81.9%
Gross profit percentage — Chemical (1)	10.4%	8.1%	2.3%	
Operating income — Chemical	$ 7,105	$ 1,247	$ 5,858	469.8%

(1) As a percentage of net sales

Net Sales — Chemical

For the third quarter of 2011, overall sales prices for the Chemical Business increased 36% and the volume of tons sold increased 9%, compared with the same period of 2010, generally as a result of the following:

- Agricultural products sales — Agricultural products sales increased $11.6 million, or 63%, primarily due to increased sales volumes and selling prices for UAN partially offset by lower sales of agricultural grade AN related to the severe drought in certain of our markets for this product. Tons of agricultural products sold increased 22% including 23,000 tons of UAN from the Pryor Facility. The increase in UAN sales was driven by an increase in market demand for crop nutrients and strong grain commodity prices.
- Industrial acids and other chemical products sales — Industrial acids and other products sales increased $12.7 million, or 42%, primarily due to new customers and increased selling prices resulting from the pass through of higher raw material costs pursuant to the terms of sales agreements with certain customers.
- Mining products sales — Mining products sales increased $5.9 million, or 25%. Sales prices were higher driven by a general increase in raw material and other costs, which we are able to pass through to certain customers pursuant to the terms of supply agreements. Our industrial grade AN is primarily sold to one customer pursuant to a multi-year supply contract in which the customer agreed to purchase, and our El Dorado Facility agreed to reserve certain minimum volumes of industrial grade AN during 2011. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and amounts associated with the reserved capacity despite not taking the total minimum volume requirement during the third quarter of 2011.

Gross Profit — Chemical

Gross profit increased $4.8 million on an increase in sales of $30.2 million. The increase was due, in part, to reduced costs per ton as the result of improved production efficiencies and sales at our Pryor Facility, as well as the strong demand and related improved selling prices for agricultural products. Gross profit for agricultural products was $4.5 million higher, due primarily to increased selling prices for nitrogen fertilizers and positive results attributable to the Pryor Facility. The increase in gross profit was partially offset by Turnarounds being performed by most of the facilities for extended periods. As a result, certain plants within these facilities were not producing while we performed the Turnarounds during which time fixed overhead costs were expensed. Turnaround expense for the third quarter of 2011 was $2.4 million higher compared to the same period in 2010.

Operating Income — Chemical

In addition to the increase in gross profit of $4.8 million discussed above, our Chemical Business' operating income includes operating and other expenses associated with the Pryor Facility of approximately $0.4 million for the third quarter of 2011 compared to $4.9 million for the same period of 2010. Due to substantially no production at the Pryor Facility during the third quarter of 2010, costs identifiable with a Turnaround were classified as cost of sales and the remaining operational expenses were primarily classified as SG&A. This increase in operating income was partially offset by a gain of $2.8 million from property insurance recoveries received in 2010.

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 the three months ended September 30,

	2011	2010	Change	Percentage Change
	(Dollars In Thousands)			
Net sales — Other	$ 2,207	$ 1,824	$ 383	21.0%
Gross profit — Other	$ 772	$ 604	$ 168	27.8%
Gross profit percentage — Other (1)	35.0%	33.1%	1.9%	
General corporate expense and other business operations, net	$ (3,351)	$ (2,889)	$ (462)	16.0%

(1) As a percentage of net sales

Provision For Income Taxes

The provision for income taxes for the third quarter of 2011 was $4.4 million compared to $2.9 million for the third quarter of 2010. The resulting effective tax rate for the third quarter of 2011 was 41% compared to 44% for the same period in 2010.

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 the first nine months of 2011, net cash provided by continuing operating activities was $52.5 million, including net income plus depreciation and other adjustments and net cash used by the following significant changes in assets and liabilities.

Accounts receivable increased $11.8 million including:

- an increase of $9.4 million relating to the Chemical Business primarily as the result of increased sales from our Pryor Facility and higher raw material costs passed through in the form of higher selling prices to certain customers of our El Dorado Facility and
- an increase of $2.4 million relating to the Climate Control Business due primarily to the timing of collections at the end of the third quarter of 2011.

Inventories increased $15.4 million including:

- an increase of $7.4 million relating to the Climate Control Business due primarily to higher costs of raw materials and components and inventory associated with modular geothermal chillers and
- an increase of $6.9 million relating to the Chemical Business primarily relating to increased raw material costs at our El Dorado Facility.

The change in accrued and prepaid income taxes of $7.5 million primarily relates to payments made to taxing authorities partially offset by the recognition of income taxes for the first nine months of 2011.

Customer deposits increased $5.4 million primarily relating to the Chemical Business due, in part, to cash received from customers associated with customer product orders.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities for the first nine months of 2011 was $22.0 million that consisted primarily of $31.1 million of capital expenditures of which $4.3 million and $24.5 million are for the benefit of our Climate Control and Chemical Businesses, respectively, partially offset by $10.0 million from short-term investments.

Cash Flow from Continuing Financing Activities

Net cash provided by continuing financing activities was $10.7 million that primarily consisted of proceeds from the Secured Term Loan totaling $25.0 million (net of debt issuance costs/fees) partially offset by payments on long-term debt and short-term financing totaling $15.4 million.

Critical Accounting Policies and Estimates

See our discussion on critical accounting policies and estimates in Item 7 of our Form 10-K for the year ended December 31, 2010 (“2010 Form 10-K”). In addition, 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. For the first nine months of 2011, we did not experience a material change in accounting estimates. However, it is reasonably possible that the estimates and assumptions utilized as of September 30, 2011 could change in the near term.

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of September 30, 2011, we have agreed to indemnify the sureties for payments, up to $11.6 million, made by them in respect of such bonds. All of these insurances bonds are expected to expire or be renewed 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.

Aggregate Contractual Obligations

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in our 2010 Form 10-K and in our Form 10-Qs for the quarterly periods ended March 31, 2011 and June 30, 2011, we had certain contractual obligations, with various maturity dates, related to the following:

- long-term debt,
- interest payments on long-term debt,
- interest rate contracts,
- capital expenditures,
- operating leases,
- futures/forward contracts,
- contractual obligations — carbon credits
- accrued contractual manufacturing obligations, and
- other contractual obligations.

During the third quarter of 2011 and as discussed under “Liquidity and Capital Resources,” an additional $2.0 million of the 2007 Debentures was converted into 72,800 shares of LSB common stock.

In addition, under “Liquidity and Capital Resources” of Item 2 and “Commodity Price Risk” of Item 3 of this Part I, we discussed the following:

- our purchase obligations relating to natural gas contracts were $5.1 million as of September 30, 2011,
- our contractual obligations relating to futures/forward contracts were $1.7 million as of September 30, 2011 and
- our committed capital expenditures were approximately $11.4 million for the fourth quarter of 2011.

Item 3. 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 firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At September 30, 2011, we had no embedded losses associated with sales commitments with firm sales prices.

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 September 30, 2011, our futures/forward copper contracts were for 375,000 pounds of copper through December 2011 at a weighted-average cost of $4.44 per pound ($1.7 million) and a weighted-average market value of $3.15 per pound ($1.2 million).

During the first nine months of 2011, certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs at the Cherokee and Pryor Facilities. Since these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At September 30, 2011, our purchase commitments under these contracts were for approximately 1.2 million MMBtu of natural gas through December 2011 at the weighted-average cost of $4.14 per MMBtu ($5.1 million).

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 exchange contracts. At September 30, 2011, we did not have any foreign exchange contracts.

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 September 30, 2011, 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. In addition, we have an interest rate swap, which sets a fixed three-month LIBOR of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning April 2012 through March 2016. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At September 30, 2011, the fair value of these contracts (unrealized loss) was $2.5 million.

As of September 30, 2011, the estimated fair value of our variable and fixed interest rate debt and the debt's carrying value were approximately the same amount. As of December 31, 2010, the carrying value of our variable and fixed interest rate debt exceeded the debt's estimated fair value by approximately $21.0 million.

Item 4. 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, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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:

- the commercial/institutional construction and residential construction sectors we serve are expected to decline slightly in 2011 from 2010 levels and continual swings between increasing and decreasing design activity with no significant developing trends due to the weak economy;
- purchased ammonia is in tight supply globally and the U.S. Tampa price is expected to continue to increase in the fourth quarter;
- shipment of backlog;
- the recent softening of demand for certain of our industrial chemical and agricultural grade AN products could result in adjustments to the operating rates at the El Dorado Facility in the fourth quarter;
- the current fertilizer outlook according to most market indicators point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell;
- a slow recovery in the short-term and it is currently unclear when we will return to pre-recession levels as it relates to our Climate Control Business;
- the cost to construct the wastewater pipeline and associated operating costs and that the construction would be completed in 2013;
- the matter regarding the dissolved minerals will not be an issue once the pipeline is operational;
- expenses in connection with environmental regulatory issues for the fourth quarter of 2011;
- future emission regulations or new laws affecting our businesses, operations, liquidity or financial results;
- the amount of committed and planned capital expenditures for the fourth quarter of 2011 and being funded from available cash and working capital;
- the amount and timing of Turnarounds for the fourth quarter of 2011;
- our primary cash needs will be for working capital to fund our operations, capital expenditures, and general obligations for the fourth quarter and funding these cash needs from internally generated cash flows and cash on hand;
- the amount of advanced manufacturing energy credits to be utilized to partially offset our federal tax liability for 2011;
- the amount of capital expenditures necessary in order to bring the equipment into compliance with the Clean Air Act could be substantial;
- meeting all required covenant tests for the fourth quarter of 2011;
- expansion of the market for our products, including GHPs;
- our internally generated cash flows and liquidity could be affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions;
- our working capital is adequate to fund operations for the near term;
- we do not have any material uncertain tax positions other than the failure to file original or amended state income tax returns in some jurisdictions where LSB or some of its subsidiaries may have a filing responsibility;
- costs relating to environmental and health laws and enforcement policies thereunder; and
- negotiate renewal of our Working Capital Revolver Loan.

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, the American Reinvestment and Recovery act, or in interpretation of such,
- releases of pollutants into the environment exceeding our permitted limits,
- 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, steel and purchased components,
- 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 our contingencies including pending litigation,
- changes in production rates at our chemical facilities,
- inability to obtain necessary raw materials and purchased components,
- material changes in accounting estimates,
- significant problems with our production equipment,
- fire or natural disasters,
- inability to obtain or retain our insurance coverage,
- other factors described in the MD&A contained in this report, and
- other factors described in “Risk Factors” of our 2010 Form 10-K and “Special Note Regarding Forward-Looking Statements” contained in our 2010 Form 10-K.

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 II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no material legal proceedings or material developments in any such legal proceedings pending against us not reported in Item 3 of our 2010 Form 10-K, in our March 31, 2011 Form 10-Q or in our June 30, 2011 Form 10-Q, except as follows:

In the pending litigation filed against us by 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 April 2011, the matter was tried before the court during September 2011. We are awaiting the court’s decision in this matter. The lawsuit is styled *Jayhawk Capital Management, LLC, et al. v. LSB Industries Inc., et al.*, Case No. 08-CV-2561, in the United States District Court for the District of Kansas at Kansas City.

Item 1A. Risk Factors

Reference is made to Item 1A of our 2010 Form 10-K, March 31, 2011 Form 10-Q and June 30, 2011 Form 10-Q for our discussion regarding risk factors. There are no material changes from the risk factors disclosed in our 2010 Form 10-K, March 31, 2011 Form 10-Q and June 30, 2011 Form 10-Q, except for the following:

We are adding a risk factor styled "Proposed ammonium nitrate security regulation" as follows:

In order to comply with the "Secure Handling of Ammonium Nitrate Act of 2007" as enacted by the United States Congress, the U.S. Department of Homeland Security ("DHS") has published in the August 3, 2011 *Federal Register* a Notice of Proposed Rulemaking. This regulation proposes to require sellers, buyers, their agents and transporters of solid ammonium nitrate and certain solid mixtures containing ammonium nitrate to possess a valid registration issued by DHS, keep certain records, report the theft or unexplained loss of regulated materials and certain other new requirements. We and other parties affected by this proposal may submit appropriate comments to DHS regarding the proposed regulation. Depending on our ability to pass these costs to our customers and on the provisions of the final regulation to be promulgated by DHS (subsequent to the December 1, 2011 deadline for comments on the proposal), these requirements may have a negative effect on the profitability of our ammonium nitrate business and may result in fewer distributors who are willing to handle the product.

We are removing the risk factor styled "Our previously utilized net operating loss carryforwards are subject to certain limitations and examination" since the statute of limitations on the federal tax returns that included the utilization of net operating loss carryforwards has expired.

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

As previously reported, during July 2011, $2.0 million principal amount of the 2007 Debentures were converted into 72,800 shares of our common stock in accordance with the conversion terms of the debentures, and we issued such shares of our common stock to the Golsen Group. The conversion shares were issued pursuant to an exemption from registration under Section 3(a)(9) and/or Section 4(2) of the Securities Act of 1933, as amended. In addition during July 2011, the Golsen Group converted an $8,000 convertible promissory note into 4,000 shares of our common stock in accordance with the conversion terms of such note.

Also in July 2011, we issued 520 shares of common stock upon the holder's conversion of 13 shares of our Noncumulative Preferred. Pursuant to the terms of the Noncumulative Preferred, the conversion rate was 40 shares of common stock for each share of Noncumulative Preferred. The common stock was issued pursuant to the exemption from the registration of securities afforded by Section 3(a)(9) of the Securities Act. No commissions or other remuneration was paid for this issuance. We did not receive any proceeds upon the conversion of the Noncumulative Preferred.

Item 3. Defaults upon Senior Securities

Not applicable

Item 4. (Reserved)

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a)	Exhibits The Company has included the following exhibits in this report:
10.1	Real Estate Purchase Contract, dated as of May 26, 2011, by and between DPMG, Inc., Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen.
10.2	Real Estate Purchase Contract, dated as of September 8, 2011, by and between South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen.
10.3	First Amendment to Real Estate Purchase Contract, effective October 20, 2011, by and among South Padre Island Development, LLC, Prime Financial L.L.C., Landmark Land Company, Gerald G. Barton and Jack E. Golsen.
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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 7th day of November 2011.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby
Tony M. Shelby
Executive Vice President of Finance and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Harold L. Rieker, Jr.
Harold L. Rieker, Jr.
Vice President and Principal Accounting Officer

Exhibit 10.1

REAL ESTATE PURCHASE CONTRACT

This Real Estate Purchase Contract (herein called the "**Agreement**") is entered into effective as of the date it has been signed by all parties, by and between **DPMG INC.**, a Delaware corporation (herein "**Seller**"), and **PRIME FINANCIAL L.L.C.**, an Oklahoma limited liability company, or its assigns (herein "**Buyer**"). **LANDMARK LAND COMPANY, INC.**, a Delaware corporation ("**Landmark**"), **GERALD G. BARTON**, an individual ("**Barton**"), and **JACK E. GOLSEN**, an individual ("**Golsen**"), are executing this Agreement for the specific purposes more particularly set forth herein.

R E C I T A L S :

(a) Buyer desires to purchaser from Seller the following:

(i) that certain real property located in The City of Oklahoma City, Oklahoma County, Oklahoma, more particularly described on **Exhibit A**" attached hereto (the "**Land**");

(ii) all right, title and interest of Seller in and to all streets, alleys, easements and rights-of-way in, on, across, in front of, abutting or adjoining the Land and any other appurtenances belonging thereto (collectively, the "**Appurtenances**"); and

(iii) all right, title and interest of Seller in and to all structures, sidewalks, parking areas, access ways, landscaping and other improvements located on the Land (collectively the "**Site Improvements**").

The Land, Appurtenances and Site Improvements are hereinafter collectively called the "**Property**."

(b) Seller is willing to sell and convey the Property to Buyer on the terms and conditions hereinafter set forth.

A G R E E M E N T S :

In consideration of the covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller, Buyer, Landmark, Barton, Holliman, and Golsen, as applicable, agree as follows:

Article 1 — Agreement to Buyer and Sell

Seller hereby agrees to sell the Property to Buyer and Buyer hereby agrees to purchase the Property from Seller, subject to the terms and conditions of this Agreement.

Article 2 — Purchase Price

The total purchase price for the Property (herein the "**Purchase Price**") shall be the sum of $2,250,000.00, payable as follows:

2.1 Earnest Money Deposit. Within two (2) business days after the full and final execution of this Agreement by all parties and as a condition precedent to the formation of this Agreement, Buyer shall deposit with Seller the sum of $325,000.00 (the "**Earnest Money Deposit**"). If Buyer has not terminated this Agreement pursuant to **Section 4.5** below and the transaction contemplated by this Agreement has not closed by June 30, 2011, through no fault of Seller, Buyer shall deposit with Seller on or before Thursday, June 30, 2011, the additional sum of $100,000 (the "**First Additional Earnest Money Deposit**") for an aggregate Earnest Money Deposit of $425,000. If Buyer has not terminated this Agreement pursuant to **Section 4.5** below and the transaction contemplated by this Agreement has not closed by July 15, 2011, through no fault of Seller, Buyer shall deposit with Seller on or before Friday, July 15, 2011, the additional sum of $100,000 (the "**Second Additional Earnest Money Deposit**") for an aggregate Earnest Money Deposit of $525,000. The First Additional Earnest Money Deposit and Second Additional Earnest Money Deposit shall be deemed to be a part of the Earnest Money Deposit under this Agreement. Except as otherwise set forth herein, the Earnest Money Deposit shall be deemed non-refundable after the end of the Inspection Period, as hereinafter defined. The Earnest Money Deposit shall be applied against the Purchase Price on the Closing Date, as hereinafter defined. American Guaranty Title Co. (the "**Title Company**"), whose mailing address is 4040 North Tulsa, Oklahoma City, Oklahoma 73112, Attention: Ms. Barbara Chatman, shall manage the closing of this transaction.

2.2 Buyer Payment of the Bank of the West Mortgage. Buyer shall pay at the Closing the Mortgage Loan (approximately $1,480,000.00) from Bank of the West to Seller, and the sum paid to Bank of the West shall also be credited to the Purchase Price under this Agreement.

2.3 Cash at Closing. On the Closing Date, Buyer shall pay to Seller the balance of the Purchase Price in cash or other immediately available funds, subject to the prorations and adjustments set forth below.

Article 3 — Title and Survey

3.1 Title Commitment. Within ten (10) days after the Effective Date, Seller shall provide to Buyer a title commitment (the "**Title Commitment**") covering the Land and Appurtenances which binds Old Republic Title Company of Oklahoma (the "**Title Insurer**") to issue at Closing an ALTA Owner's Policy of Title Insurance (Form 2006) (the "**Title Policy**") in the full amount of the Purchase Price; and true and correct copies of any and all instruments referenced in the Title Commitment which constitute exceptions or restrictions upon the title of Seller (the "**Title Documents**").

3.2 Survey. Within ten (10) days after the Effective Date, Seller shall provide to Buyer a current on-the-ground survey, or an updated version of an existing survey, of the Property dated after the Effective Date ("**Survey**"). The Survey, whether new or updated, shall be prepared in accordance with the "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys," jointly established and adopted by ALTA, ACSM, and NSPS in 2011, and meeting the "Minimum Angle, Distance, and Closure Requirements for Survey Measurements Which Control Land Boundaries for ALTA-ACSM Land Title Surveys" and containing items 1, 2, 3, 4, 6, 7(a), 8, 9, 10, 11, 13, 14, 15, 16, and 18 of Table A to those standards. In addition, the Survey shall show those parcels of land to be taken, permanently or temporarily, by the State of Oklahoma, more particularly described as Parcels 6, 6.1, 6.2 and 7 as listed and shown on State J/P 09033(29); County: Oklahoma; F.A.P.: IMY-0044-1(064)127RW (Sheets 3 and 4) (herein the "**Taking Parcels**"), including the separate gross land area of the Taking Parcels.

3.3 Title Review. After Buyer has received the last item to be furnished pursuant **Sections 3.1** and **3.2** above, Buyer shall have ten (10) business days within which to review all of said items and notify Seller in writing (the "**Objection Notice**") of Buyer's objections (the "**Title Objections**") to any matters contained therein. Any matters described in the Title Commitment or Survey to which Buyer does not object shall be deemed to be "**Permitted Exceptions**" to title under this Agreement. Any matters affecting marketability of title to the Land which first arise after the effective time of the Title Commitment and before the Closing shall be deemed Title Objections, unless Buyer otherwise waives the same in writing or closes the Transaction without written objection. Seller agrees to notify Buyer promptly upon Seller becoming aware of any Title Objection coming into existence after the date of the Title Commitment.

3.4 Cure or Noncure of Title Objections. Seller shall have until the Closing to cure the Title Objections. Seller shall not be obligated to cure or attempt to cure any Title Objection, other than voluntary mortgage liens or other liquidated sums secured by a lien filed against the Property, and shall in no event incur any liability to Buyer by reason of any failure or refusal to cure any Title Objection. Seller shall bear the cost of curing any Title Objections which it does elect or attempt to cure. Seller agrees, within five (5) business days of its receipt of the Objection Notice, to notify Buyer of any Title Objections which Seller determines it is unwilling or unable to cure. In the event that Seller has indicated its unwillingness or inability to cure a Title Objection or, in the alternative, if Seller does not give such a notice of its inability or unwillingness to cure such a defect and all Title Objections are not cured by the Closing Date, Buyer's exclusive rights under this Agreement shall be either:

(i) to waive any such uncured Title Objections, close the Transaction without reduction in the Purchase Price and accept such title as Seller is able to convey, and by such waiver and acceptance Buyer shall be deemed to have waived any and all claims and/or causes of action against Seller for damages or any other remedies for any and all defects in and/or exceptions to the title to the Property; or

(ii) to terminate this Agreement by notifying Seller and the Title Company in writing, in which event the Earnest Money Deposit shall be returned to Buyer, Seller shall bear the cost of all title work, including the Survey, procured in connection with this Agreement and thereafter Seller and Buyer shall have no further rights or obligations hereunder.

Article 4 — Seller's and Golsen's Representations and Agreements; Inspection Period

4.1 Representations, Warranties and Agreements by Seller and Golsen. Seller and Golsen, as applicable, hereby represent and warrant to Buyer, and agree with Buyer, as follows:

4.1.1 No Tenants. Seller represents, warrants and agrees that on the Effective Date and on the Closing Date, there are and will be no tenants of the Property, or any portion thereof, and no other parties in possession of any portion of the Property claiming under Seller.

4.1.2 No Pending Condemnation Other Than Related to Taking Parcels. Seller represents, warrants and agrees that on the Effective Date and on the Closing Date, other than the proposed taking of the Taking Parcels, there are no pending any eminent domain proceedings or special assessments of any nature with respect to the Property or any part thereof. Other than the proposed taking of the Taking Parcels, Seller has not received any notices of any eminent domain proceedings or special assessments being contemplated with respect to the Property or any part thereof, and Seller does not have any knowledge of any such other actions being contemplated. Neither Seller, nor any of its predecessors in interest going back to Newco XXV Inc. (herein "**Newco**"), has made any binding commitment to the Oklahoma Department of Transportation, the State of Oklahoma, or any other person, entity, or governmental subdivision, or their agents, to convey any of the Taking Parcels in lieu of condemnation or to accept any compensation for any such conveyance in lieu of condemnation.

4.1.3 Seller Authority. Seller represents, warrants and agrees that Seller has full power, authority and legal right to execute and deliver this Agreement and to perform and observe the covenants and agreements contained herein.

4.1.4 No Payments to Golsen or to LSB Industries, Inc. Seller and Golsen agree that no portion of the Purchase Price shall be used, directly or indirectly, to repay any indebtedness (a) owing to Golsen, or (b) owing from Landmark to any limited liability company of which Golsen is or was a member (as applicable, a "**Golsen Obligee**"). If any portion of the Purchase Price is used in violation of this Section, Golsen agrees that any such amount (the "**Mandatory Refund Amount**") shall become a personal obligation of Golsen to Seller. Immediately upon receipt by Golsen or the Golsen Obligee of the Mandatory Refund Amount, the Mandatory Refund Amount shall be immediately due and payable to Seller with interest on the unpaid principal balance at a rate which is equal to the "Prime Rate" as quoted in the then most recently published issue of *The Wall Street Journal*, plus Two Percent (2%). Seller agrees that the Purchase Price shall be deemed reduced by the principal of the Mandatory Refund Amount.

4.1.5 Continuing Representations. Seller's and Golsen's foregoing representations, warranties and agreements shall be deemed continuing and, unless written notice to the contrary is given to Buyer on or before the Closing, the same shall be true and correct on and as of the Closing with the same force and effect as if made at that time. Golsen's and Seller's agreements contained in **Section 4.1.4** above shall survive the Closing.

4.2 Inspection Period. Buyer shall have thirty (30) days from the Effective Date ("**Inspection Period**") to ascertain, in Buyer's sole and exclusive discretion, whether the Property is suitable for Buyer's intended development, use, and/or investment objectives. Buyer, at Buyer's sole expense, may study and investigate the Property in any reasonable way to enable Buyer to determine the suitability of the Property for its purposes. Such study and investigation may include but not be limited to, conducting a Phase I environmental study (the "**Phase I**") on the Property. Seller hereby grants to Buyer, Buyer's contractors, licensees, agents, servants, employees, officers, and directors all licenses and permissions necessary to conduct the Phase I for the term of the Inspection Period, subject only to Buyer's obligation to restore and repair any damage caused by any physical investigations, inspections, testing, sampling, or other entry onto the Property. Without limiting the ability of Buyer and its representatives to inspect the Property, Buyer shall specifically be allowed to perform inspections of the Property ("**Environmental Inspections**") for the presence of PCB emissions, hazardous wastes, asbestos, ACMs, and other hazardous or toxic materials.

4.3 Inspection.

4.3.1 Inspection of Premises. As part of its evaluation during the Inspection Period, Buyer and its representatives may, at all reasonable times during normal business hours, enter upon the Property to conduct reasonable soil tests and other appropriate on-site evaluations to ascertain whether the Property is suitable to meet Buyer's objectives. Buyer shall bear the cost of all such inspections or tests.

4.3.2 Inspection of Documents. Within five (5) days after the full execution of this Agreement, Seller shall deliver to Buyer the following documents (herein "**Property Documents**"):

(i) Copies of all service, maintenance, management or other contracts, if any, relating to the ownership of the Property as to which Seller or its agent;

(ii) Copies of any soil, engineering or environmental studies, audits, reports or surveys relating to the Property;

(iii) Such information as Buyer may reasonably request and as may be reasonably available to Seller concerning maintenance and repair expenses relating to the Property for the preceding three (3) years; and

(iv) Copies of all correspondence in the possession or control of Seller or Newco relating to the proposed condemnation of the Taking Parcels or conveyance in lieu thereof.

All of the Property Documents are confidential and shall not be distributed or disclosed by Buyer to any person or entity not associated with Buyer. If the transaction fails to close for any reason whatsoever, Buyer shall return to Seller all of the Property Documents which Seller has delivered to Buyer.

4.4 Indemnity. Buyer agrees to indemnify and hold Seller harmless from and against any and all liens, claims, causes of action, damages, liabilities, and expenses (including reasonable attorneys' fees) arising from any act, omission, or negligence of Buyer or Buyer's contractors, licensees, agents, servants, employees, officers, and directors, or arising from any accident, injury, or damage whatsoever occurring on or about the Property or any part thereof, by reason of Buyer's conducting the soil tests, and engineering work and other evaluation herein described, including but not limited to the Phase I, and shall restore the Property to its present condition. Buyer's obligations under this **Section 4.4** shall survive the termination of this Agreement and shall survive the Closing.

4.5 Termination. If Buyer determines that the Property is not suitable for Buyer's purposes, as determined in Buyer's absolute discretion, then Buyer shall deliver written notice thereof to Seller no later than the date of expiration of the Inspection Period. If the termination notice is timely given, then this Agreement shall terminate except for matters that expressly survive termination of this Agreement, the parties hereto shall be released from any further obligations hereunder, and the Earnest Money shall promptly be returned to Buyer. If Buyer does not timely give notice, then this Agreement shall continue in full force and effect, Buyer shall be deemed to have waived its right to terminate this Agreement pursuant to this **Section 4.5**.

4.6 Operation, Maintenance and Proposed Taking Negotiations Prior to Closing. From the Effective Date until the Closing Date or earlier termination of this Agreement, Seller shall:

(i) operate, maintain and repair the Property, or cause the Property to be operated, maintained and repaired, diligently and in the ordinary course of business and in the same manner as the Property is being operated, maintained and repaired during the Inspection Period;

(ii) not, without the prior written consent of Buyer, enter into any written or oral service contracts or other agreements with respect to the Property that will not be fully performed by Seller on or before the Closing Date, or that will not be cancelable by Buyer at any time and without liability, premium or other cost on or after the Closing Date;

(iii) advise Buyer promptly of any litigation, arbitration, additional condemnation, or administrative (including, without limitation, zoning, variance, code enforcement and regulatory) proceedings before any officer, court, board, governmental body or agency which concerns or affects the Property and of which Seller receives actual notice after the date hereof (e.g. a proposed change in the zoning classification of any property within 300 feet of the Land, the filing of a statutory lien against the Property, etc.); and

(iv) advise Buyer promptly of any future communications (oral, telephonic, written or electronic) made to or by Seller, or its affiliates, relating to the condemnation of the Taking Parcels or conveyance in lieu thereof, and not enter into any binding agreements regarding the compensation for such takings without Buyer's prior written consent, which consent may be withheld in Buyer's sole discretion.

Article 5 — Environmental Condition of the Property

5.1 Environmental Condition of the Property. Seller represents and warrants to Buyer that it has no current actual knowledge of any Environmental Conditions affecting the Property or any violations of Environmental Law with respect to the Property, nor does Seller have any current actual knowledge of any regulatory actions taken with respect to the Property regarding an actual or alleged Environmental Condition. Further, Seller represents that it has received no written notice of, and has no other current actual knowledge of, any pending or threatened claims or other restrictions of any nature related to any Environmental Condition or arising under Environmental Law with respect to the Property.

For purposes of **Section 5.1**, the following terms have the following meanings:

"**Environmental Condition**" means (i) the existence of any Hazardous Material in, or the Release of any Hazardous Material to, soil or groundwater at, on, or underlying the Property; (ii) the existence of any Hazardous Material in, or Release of any Hazardous Material to, soil or groundwater at, on or underlying other properties which is emanating from the Property; or (iii) the presence of any Hazardous Material on the Property.

"**Environmental Law**" means any applicable federal, state or local statute, ordinance, rule, regulation, guidance document, requirement, code, resolution, order, or decree (including consent decrees and administrative orders) as now in effect or hereafter amended which regulates the use, generation, handling, storage, treatment, transportation, decontamination, clean-up, removal, encapsulation, enclosure, abatement or disposal of any Hazardous Material and those which regulate the protection of environmentally sensitive areas.

"**Hazardous Material**" means any substance that poses a threat to, or is regulated to protect, human health, safety, public welfare, or the environment, including without limitation: (a) any "hazardous substance," "pollutant" or "contaminant," and any " petroleum" or "natural gas liquids" as those terms are defined or used under Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601) ("CERCLA"), (b) "solid waste" as defined by the federal Solid Waste Disposal Act [42 U.S.C. § 6901 et seq] (c) asbestos or a material containing asbestos,(f) any material that contains lead or lead based paint, (d) polychlorinated biphenyls, (h) any radioactive material; (i) urea formaldehyde, (j) putrescible materials, (k) infectious materials, (l) toxic microorganisms, including mold, or (l) any substance the presence or Release of which requires reporting, investigation or remediation under any Environmental Laws.

"**Release**" means any depositing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, migration, or disposing.

5.2 Reports and Tests. Seller represents and warrants to Buyer that it has delivered, or shall deliver in accordance with **Section 4.3.2**, to Buyer true and complete copies of all reports, studies, analyses, tests or monitoring that constitute all documents possessed by Seller that pertain to (i) Hazardous Materials on, in, under or about the Property, (ii) the Environmental Condition of the Property or (iii) compliance of the Property with Environmental Laws.

Article 6 — Closing

6.1 Closing. If this Agreement has not been terminated, the closing of the transaction contemplated herein shall be held within thirty (30) days from the expiration of the Inspection Period (the "**Closing**"). The Closing shall be effected through an escrow to be opened by the parties with the escrow department of the Title Company, and the actual date on which the Closing is consummated is called the "**Closing Date**." After the expiration of the Inspection Period, Buyer may, at its option, extend the Closing Date by two (2) additional periods of not more than fifteen (15) days provided Buyer has timely paid the First Additional Earnest Money Deposit, and if applicable, the Second Additional Earnest Money Deposit. The following procedure shall be followed by the parties in connection with the Closing:

6.1.1 Seller. At the Closing, Seller shall deliver or cause to be delivered to Buyer the following:

(i) General Warranty Deed. A General Warranty Deed (the "**Deed**"), in the form attached hereto as **Exhibit B**, conveying to Buyer the Real Property, subject only to the Permitted Exceptions.

(ii) FIRPTA Affidavit. An affidavit in form and substance satisfactory to Buyer stating that Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code and implementing regulations.

(iii) Proof of Authority. Such evidence as to the authority of Seller to enter into this Agreement and to discharge the obligations of Seller pursuant hereto as Buyer or the Title Company shall reasonably require.

(iv) Proforma Title Policy; Marked Title Commitment. A proforma copy of the Title Policy or original of the Title Commitment, marked and executed by the agent of the Title Insurer, unconditionally obligating the Title Insurer to deliver to Buyer the Title Policy insuring Buyer as the owner of the marketable fee simple title to the Land and Site Improvements and the holder of the dominant estate in and to the Appurtenances, if any, subject only to the Permitted Exceptions.

(v) Proration Amounts. Such payments to Buyer (or credits against the Purchase Price) as may be required to effect the prorations required by this Agreement.

(vi) Additional Documents. Such additional documents, including lien and possession affidavits, as may be reasonably requested by Buyer or the Title Company to consummate the Transaction.

6.1.2 Buyer. At Closing, Buyer shall deliver or cause to be delivered to Seller the following:

(i) Purchase Price. The Purchase Price, subject to adjustments and prorations as provided in this Agreement, in immediately available United States funds.

(ii) Proof of Authority. Such evidence as to the authority of Buyer to enter into this Agreement and to discharge the obligations of Buyer pursuant hereto as Seller or the Title Company shall reasonably require.

(iii) Additional Documents. Such additional documents as may be reasonably requested by Seller or the Title Company to consummate the Transaction.

(iv) Possession. Possession of the Property will be given to Buyer on the Closing Date, free from all parties claiming a right to possession or having claims against the Property or pursuant to contractual rights approved or agreed to be assumed by Buyer in writing.

Article 7 — Taxes, Prorations, and Brokerage

7.1 Costs and Prorations. Seller shall pay the following Closing costs: Seller's attorney's fees, the cost to extend, certify and examine the abstract of title to the Land and Appurtenances through the Closing Date, the cost of the Survey, the cost to cure any Title Objections, all transfer taxes, including the documentary stamp tax payable in connection with the recording of the Deed, one-half (1/2) of the cost of obtaining the Title Policy, one-half (1/2) of the Closing fee charged by the Title Company, and any other costs of Seller specified elsewhere in this Agreement. Buyer shall pay the following Closing costs: one-half (1/2) of the cost of obtaining the Title Policy, Buyer's attorney's fees, the cost to record the Deed, one-half (1/2) of the Closing fee charged by the Title Company, any costs associated with Buyer's financing of the acquisition of the Property, and any other costs of Buyer specified elsewhere in this Agreement. Any Closing costs not specifically allocated above or elsewhere in this Agreement shall be allocated in accordance with usual and customary practice in the locality of the Property, provided, if no usual or customary practice exists, such other costs will be borne equally by the parties.

7.2 Prorations. The income and expenses of the Property will be prorated as of the Closing Date and the Purchase Price will be adjusted on the following basis:

(i) Accounts Payable. All sums due for accounts payable by Seller which were owing or incurred by the Property prior to the Closing Date will be paid by Seller. Buyer will furnish to Seller any bills for such period received after the Closing Date for payment, and Buyer will have no further obligation with respect thereto. All accounts payable by the owner of the Property incurred on and after the Closing Date will be paid by Buyer.

(ii) Taxes. All real and personal property ad valorem taxes assessed against Seller and the Property for all years preceding the year in which Closing occurs, and any matured and unmatured installments of special assessments with respect to the Property, shall be paid by Seller. The real and personal property taxes for the year in which Closing occurs shall be prorated on a calendar year and per diem basis as of the Closing Date, and Seller agrees to accept as a credit against the Purchase Price the portion attributable to the period prior to the Closing Date. Buyer agrees to pay all real and personal property taxes for the year in which Closing occurs and subsequent years.

(iii) Method of Proration. In the event that the apportionments hereinabove provided for result in a credit balance to the Buyer, such sum shall be applied against the Purchase Price at the Closing. In the event the apportionments hereinabove provided result in a credit balance to the Seller, such credit balance shall be added to the Purchase Price payable at Closing.

7.3 Brokerage. Neither of the parties to this Agreement has a contract with a broker, and no brokerage fees will be paid in connection with the sale and purchase pursuant to this Agreement.

7.4 Attorneys' Fees. Except as expressly otherwise provided in this Agreement, each party shall pay the fees of its attorneys and any other professionals who advised it in connection with the negotiation, execution, investigations, and closing of the transaction contemplated by this Agreement. If any legal action is instituted between Seller, Buyer, or escrow holder in connection with this Agreement, the Property or the Earnest Money, the prevailing party shall be entitled to recover from the losing party all of its costs and expenses, including court costs and reasonable attorneys' fees.

Article 8 — Risk of Loss

8.1 Eminent Domain. In the event all or any portion of the Property, or any access to the Property, or any interest in the Property (in addition to the Taking Parcels) is taken or is threatened to be taken by eminent domain (whether or not an eminent domain proceeding is actually commenced) prior to Closing, Seller shall immediately notify Buyer in writing (the "**Eminent Domain Notice**") which shall include a description in reasonable detail of the property or interest therein to be taken and Seller's good faith estimate of the cost to repair or restore any damage to or loss of the Property which would be occasioned by the taking. In such event Buyer may, at its sole election, terminate this Agreement by giving written notice of such election to Seller and the Title Company not later than the earlier of (i) the last business day prior to scheduled Closing Date, provided, however, in no event shall Buyer be required to give notice of such election sooner than five (5) business days after receipt of the Eminent Domain Notice, and the Closing shall be adjourned, if necessary, to accommodate such period, or (ii) the fifteenth (15th) calendar day after Buyer's receipt of the Eminent Domain Notice. If Buyer so elects to terminate this Agreement, the Earnest Money Deposit shall be returned to Buyer and neither party shall have any further rights or obligations under this Agreement. Buyer's failure to give timely notice to terminate this Agreement as provided above shall be deemed to be an election to proceed to close the Transaction in accordance with the terms of this Agreement. In such latter event, Buyer shall be entitled to participate in the taking proceeding or the negotiations regarding the taking award, and Seller shall assign to Buyer at Closing Seller's right, title and interest in any taking award which remains unpaid to Seller in connection with such taking. Further in such event, Buyer shall receive as a credit against the Purchase Price the amount of any taking award previously paid to Seller in connection with the taking and not used in the repair or restoration of the Property prior to Closing. As used herein a "taking" shall be deemed to include a voluntary conveyance in lieu of a taking by eminent domain. The parties acknowledge and agree that Buyer has already received notice of the proposed taking of the Taking Parcels and therefore no additional Eminent Domain Notice is required with respect to those takings. Notwithstanding the foregoing, Seller shall be obligated to comply with **Section 4.1.2** and **Section 4.6(iv)** above. Further, Buyer shall not be deemed to have waived its right to terminate this Agreement pursuant to **Section 4.5** above if it determines the effect of the proposed taking of the Taking Parcels materially adversely affects the Property or for any other reason as provided in said **Section 4.5**.

Article 9 — Put Options

9.1 Put Options. As used in this **Article 9** the term "**Put Option Property**" will mean the Land, Appurtenances, and any Site Improvements existing at the date a Put Option hereunder is exercised, but less and except any Taking Parcels that have been taken by eminent domain or conveyance in lieu thereof as of the date the applicable Put Option(s) is(are) exercised. Landmark hereby grants to Buyer a put option ("**Put Option One**") to sell to Landmark the Put Option Property existing at the time Put Option One is exercised (the "**Put Option One Exercise Date**"). Barton hereby grants to Buyer a put option ("**Put Option Two**") to sell to Barton the Put Option Property existing at the time Put Option Two is exercised (the "**Put Option Two Exercise Date**"). Put Option Two shall be binding on Barton, his heirs, devisees, legatees, successors, and assigns. Put Option One and Put Option Two (herein sometimes collectively called the "**Put Options**" or individually a "**Put Option**") are only exercisable after the fifth (5th) anniversary of the date the Deed is recorded and on or before the sixth (6th) anniversary of the date the Deed is recorded ("**Put Option Term**"). Buyer may elect to exercise one or both Put Options. If Buyer elects to exercise both Put Options concurrently, the Put Options shall be deemed joint and several obligations of Landmark and Barton. Buyer may collect the Put Option Purchase Price from Landmark and/or Barton and convey the Put Option Property to Landmark and Barton as tenants in common. Notwithstanding the foregoing, Landmark and Barton may agree among themselves which will acquire the Put Option Property, or in what divided or undivided interests they will acquire the Put Option Property, and how the obligation to pay the Put Option Purchase Price will be allocated among them. Buyer agrees to cooperate with such internal agreements but only if the Put Option Property is timely acquired for the total Put Option Purchase Price.

9.2 Exercising Put Option(s). Buyer may exercise the Put Options during the Put Option Term by sending written notice of Buyer's election to exercise the Put Option(s) (the "**Put Option Exercise Notice(s)**").

9.3 Put Option Purchase Price. The purchase price for the Put Option Property (the "**Put Option Purchase Price**") shall be shall be equal to the Purchase Price together with interest thereon from the Closing Date (of Buyer's acquisition of the Property) until the Put Option Exercise Date at the annual rate of Ten Percent (10%) per year, not compounded, but less the net award or compensation received by Buyer for the condemnation, or conveyance in lieu of condemnation, of the Taking Parcels applied as of the date Buyer receives such award or compensation in immediately available funds, all determined as of the Put Option Exercise Date. In other words, the Put Option Purchase Price will be determined as if Buyer had loaned Landmark and Barton the Purchase Price on the date of Closing and Landmark and/or Barton are jointly and severally obligated to repay the same, with annual interest at Ten Percent (10%), not compounded, on the applicable Put Option Exercise Date, but considering that such hypothetical loan was partially prepaid by any funds received by Buyer in respect of the taking of the Taking Parcels, applied first to accrued unpaid interest and the balance to the principal. The intent of this **Article 9** is for Landmark and Barton to jointly and severally guarantee Buyer a Ten Percent (10%) return on its investment in the Property (less closing costs to consummate the Put Option)s)) over a period ending on the Put Option Exercise Date, but with such guarantee to expire if not exercised, on the sixth (6th) anniversary of the date the Deed is recorded.

9.4 Other Terms of Sale Pursuant to Put Option. The purchase and sale of the Put Option Property shall be consummated within thirty (30) days after the giving of the Put Option Exercise Notice(s). Landmark and Barton agree to accept title to the Put Option Property pursuant to a special warranty deed from Buyer (i.e. subject to the same title exceptions as contained in the Deed and further subject to the any easements or other encumbrances created by the taking of the Taking Parcels). Landmark and Barton further agree to accept the Put Option Property in its current physical condition, and if applicable, subject to such additional physical matters arising after the Closing Date provided such additional matters do not materially adversely affect the value of the Put Option Property. The closing costs relating to the consummation of the Put Option(s) and the allocation thereof among the Buyer (as seller), and Landmark and Barton (as buyers) shall be the same as set forth in **Section 7.1**; provided, however, Buyer shall not be obligated to furnish a survey of the Put Option Property. The income and expenses of the Put Option Property will be prorated as of the closing date of the consummation of the Put Option and the Put Option Purchase Price will be adjusted on the same basis as set forth in **Section 7.2** above.

9.5 Golsen Subordination. Golsen has represented that he has loaned $1,076,770.83 to Barton (the "**Golsen Loan**") pursuant to a promissory note dated March 2, 2011. Golsen has agreed to subordinate his right to be repaid the Golsen Loan to Buyer's prior right to be paid all sums that may become due and owing pursuant to the exercise of the Put Options. Therefore, Golsen agrees the Golsen Loan shall at all times be subordinate and inferior in right of payment to Buyer's right to be paid any amount becoming due under the Put Options. In furtherance of Golsen's subordination agreement set forth above, Golsen and Barton further agrees as follows:

(i) During the Put Option Term and any period thereafter if a Put Option has been exercised and not full performed by Landmark and/or Barton:

(a) Golsen will not ask, demand, sue for, take or receive from Barton (or from any assumptor or guarantor of the Golsen Loan, any nominee of any thereof, or otherwise), by set-off or in any other manner, or retain, any payment or distribution on account of the Golsen Loan (whether principal, interest or otherwise), nor will Golsen ask, demand or receive any security for all or any part of the Golsen Loan;

(b) Golsen hereby directs Barton not to make, and Barton hereby agrees not to make, any payments on the Golsen Loan until the earlier satisfaction or expiration of all Put Option obligations by Landmark and/or Barton;

(c) Golsen will not declare all or any part of the Golsen Loan owing to Golsen due and payable by reason of any default or any other reason, or commence, or join with any other creditor in commencing, any proceeding against the Barton under any bankruptcy, reorganization, readjustment of debt, suspension of payments, receivership, liquidation or insolvency law or statute now or hereafter in effect (**"Proceedings"**);

(d) if the Barton makes an assignment for the benefit of creditors or any Proceedings are commenced by or against Barton, then and in any such event and at any time thereafter, Golsen will, upon the written request of Buyer, (1) duly and promptly take such action as may be required by Buyer to collect the Golsen Loan for the account of Buyer (to be held by Buyer as security for the performance of the Put Option obligations and without allowance of interest thereon) and/or to file appropriate proofs of claim in respect of the Golsen Loan; (2) authorize and empower (and Golsen hereby authorizes and empowers) Buyer to vote the full amount of the Golsen Loan in any Proceeding affecting Barton and in any meeting of creditors of Barton, and (3) duly and promptly execute and deliver to Buyer or its representatives on demand such powers of attorney, proofs of claim and other instruments as may be requested by Buyer or its representatives in order to enable Buyer to (A) enforce any and all claims upon or with respect to the Golsen Loan; (B) collect and receive any and all such payments or distributions which may be payable or deliverable at any time upon or with respect to the Golsen Loan, and (C) vote the full amount of the Golsen Loan in any Proceeding or meeting referred to in the immediately preceding clause (2); and

(e) upon any distribution of the assets of Barton in connection with any dissolution, winding up, liquidation or reorganization of Barton (whether in connection with Proceedings, an assignment for the benefit of creditors, any other marshalling of the assets and liabilities of Barton or otherwise), Buyer shall first be entitled to receive payment in full of amount of any Put Option that has been exercised or otherwise the amount of any Put Option that that could be exercised on the last day of the Put Option Term (as applicable, the "**Superior Indebtedness**"), before Golsen shall be entitled to receive any payment in respect of the Golsen Loan, and any payment or distribution of assets of Barton to which Golsen would be entitled but for the provisions of this Agreement shall be made directly to Buyer to the extent necessary to pay the Superior Indebtedness, without regard to whether such Superior Indebtedness is then due or remains contingent only. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of assets of Barton of any kind or character, whether in cash, property or securities, to which Golsen would be entitled except for the provisions of this Agreement (including any such payment or distribution which may be payable or deliverable by virtue of the provisions of securities which are subordinated as junior in right of payment to the Golsen Loan) shall be made by the liquidating trustee, agent or other person making such payment or distribution (whether a trustee in bankruptcy, a receiver, a liquidating trustee or otherwise)(a **"Paying Party"**), or if received by Golsen, by Golsen, directly to Buyer, to the extent necessary to pay in full the Superior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to Buyer. Golsen hereby authorizes and directs each Paying Party to pay over to Buyer, upon demand by Buyer, all such payments or distributions without the necessity of any inquiry as to the status or balance of the Superior Indebtedness, and without further notice to or consent of Golsen. Golsen hereby irrevocably authorizes and empowers Buyer to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor, to execute, sign, endorse, transfer and deliver any and all receipts and instruments, and to file claims and take such other proceedings, all in the name of Golsen, or otherwise, as Buyer may deem necessary or advisable for the enforcement of this Agreement, but Buyer has no obligation to do so. In furtherance of the foregoing, but not by way of limitation thereof, in the event that Barton is subject to any Proceeding, with the result that Barton is excused from meeting its obligations to pay all or part of the interest otherwise accruing under the Superior Indebtedness during the period subsequent to the commencement of any such proceeding, Golsen agrees that all or such part of such interest, as the case may be, shall be payable out of, and to that extent diminish and be at the expense of, reorganization dividends or distributions in respect of such Golsen Loan. Buyer agrees to hold any Superior Indebtedness received before the exercise of any Put Option as security for any later obligation by Landmark and/or Barton to perform a Put Option later exercised. If the Put Option Period expires without a Put Option having been exercised, Buyer agrees promptly to pay any monies so held directly to Golsen.

9.6 Obligations Survive Closing. The rights and obligations of the parties under this **Article 9** shall survive the Closing,

Article 10 — First Right to Purchase

10.1 Recitals; Terminology. Seller has requested that it be given the first right to purchase (herein the "**First Right to Purchase**") the entire Property, or any portion thereof which comprises at least thirty (30) contiguous acres and which abuts the real property more particularly described on **Exhibit C** attached as a part hereof (the "**Holliman Land**"), as applicable, the "**First Offer Parcel**." The Holliman Land is owned by Claudia Holliman, a married person ("**Holliman**"). Seller has requested that the First Right to Purchase be assignable to Holliman. Buyer is willing to grant Seller such First Right to Purchase on the terms and conditions stated in this **Article 10**. Buyer is also willing to allow the First Right to Purchase to be assignable to Holliman, but only if Buyer is given prior written notice of such assignment and only so long as Holliman or an entity controlled by Holliman is the beneficial owner of all of the Holliman Land. The First Right to Purchase shall not be further assignable by Holliman (except to an entity owned or controlled by Holliman) and shall not be transferable upon the death of Holliman. The First Right to Purchase shall expire (a) upon any attempted assignment to a person or entity that is not owned or controlled by Holliman, (b) upon the First Right to Purchase Expiration Date, as hereinafter defined, or (c) upon the earlier death of Holliman. If the First Right to Purchase is assigned to Holliman and Holliman transfers the Holliman Land to a trust or other entity owned or controlled by Holliman, Buyer may, as a condition of giving the Offer Notice, as defined below, require Holliman to provide evidence satisfactory to Buyer that Holliman owns or controls the transferee of the Holliman Land. As used herein, the term "**control**" shall mean (i) the ownership of a majority of the voting or economic and beneficial interests in an entity, or (ii) the possession of the power, without the joinder or consent of any other person, to direct or cause the direction of the management policies of an entity, whether through ownership of voting securities, by contract, or otherwise. For purposes of this **Article 10**, the term "Holliman" shall be deemed to include any entity owned or controlled by Claudia Holliman. Seller or Holliman, as holder of the First Right to Purchase, will herein sometimes be called the "**Holder**."

10.2 Grant of First Right To Purchase. If Buyer determines to sell a First Offer Parcel (excluding a sale pursuant to the exercise of a Put Option as provided in **Article 9** above, for which the Holder waives the First Right to Purchase), Buyer shall first give the Holder written notice (the "**Offer Notice**") setting forth the legal description of the First Offer Parcel, including a survey of the First Offer Parcel, and stating a sales price pursuant to which Buyer would be willing to sell the First Offer Parcel (the "**Offer Terms**") The Offer Terms shall be deemed to include the same sharing of closing costs and prorations as are set forth herein for the sale of the Property from Seller to Buyer. The Holder shall have ten (10) business days within which to give Buyer written notice (the "**Offer Acceptance**") accepting the Offer Notice and agreeing to purchase the First Offer Parcel on the Offer Terms. If the Holder gives an Offer Acceptance the parties shall diligently and in good faith negotiate and execute a definitive purchase and sale agreement and close the sale of the First Offer Parcel within thirty (30) days of the date Buyer receives the Offer Acceptance. If the parties are unable to consummate timely the sale of the First Offer Parcel or if the Holder fails or refuses to give Buyer the Offer Acceptance timely, then Holliman's First Right to Purchase shall lapse, and Buyer shall thereafter be free to sell the First Offer Parcel or any portion thereof to a third party.

10.3 Expiration; No Recording. The First Right to Purchase shall expire on the tenth (10th) anniversary of the date of recording of the Deed (the "**First Right to Purchase Expiration Date**") unless the Holder has previously exercised the First Right to Purchase and the acquisition is pending, without default by the Holder, on the First Right to Purchase Expiration Date. Neither this Agreement nor a memorandum of the terms of this Article shall be recorded in the real property records of the County Clerk of Oklahoma County. Notwithstanding the foregoing, upon request by Buyer, the Holder shall execute a written release in recordable form releasing its rights in the Property if the First Right to Purchase has expired or failed to close timely through no fault of Buyer.

Article 11 — Default and Remedies

In the event a default occurs in the performance of any party's obligations hereunder, the non-defaulting party(ies) shall, as a condition of exercising its(their) remedies hereunder, provide written notice of such default to the defaulting party. The defaulting party shall thereafter have five (5) business days, commencing the day notice is deemed received, in which to remedy such default. If Seller defaults hereunder with respect to its obligation to sell the Property and fails to timely cure such default, or if Seller wrongfully refuses to close the sale of the Property under the terms of this Agreement, Buyer shall be entitled to the remedies under Oklahoma law at the time of the breach, including, without limitation, specific performance and injunctive relief (prohibitive and mandatory) and the right to recover as an element of its damages all costs and expenses, including, without limitation, those incurred in connection with the negotiation and drafting of this Agreement and the preparation for the Closing, as well as its court costs and the reasonable fees and expenses of its attorneys and expert witnesses, including such fees, costs, and expenses incurred in connection with appellate

proceedings. If Buyer defaults hereunder and fails to timely cure such default or if Buyer wrongfully refuses to close the purchase of the Property under the terms of this Agreement, Seller shall be entitled, as its sole remedy, to the Earnest Money Deposit, which Seller shall be entitled to retain in full satisfaction of any liability of Buyer hereunder. In the event of a dispute between Buyer and Seller relating to the Earnest Money Deposit, the prevailing party shall have the right to recover all of its expenses and costs incurred by reason of the dispute including, but not limited to, attorney's fees, court costs, and costs of suit preparation. Neither party shall be entitled to consequential or punitive damages in connection with a breach hereof. If Landmark or Barton default under their obligations contained in **Article 9**, or if Buyer has to take action to collect a Mandatory Refund Amount from Golsen under **Section 4.1.4**, Buyer shall be entitled to the remedies under Oklahoma law at the time of the breach, including, without limitation, specific performance and injunctive relief (prohibitive and mandatory) and the right to recover as an element of its damages all costs and expenses, including, without limitation, its court costs and the reasonable fees and expenses of its attorneys and expert witnesses, including such fees, costs, and expenses incurred in connection with appellate proceedings.

Article 12 — Notices

12.1 Notices. Any notice, request, demand, instruction or other communication given to either party hereunder, except those required to be delivered at Closing, shall be in writing, and shall be deemed to be delivered (a) on receipt if by hand delivery or facsimile transmission and (b) whether actually received or not, upon deposit of both the original and the copy, as provided below, in a regularly maintained official depository of the United States mail located in the continental United States, and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Seller: DPMG Inc.
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Attn: Mr. William W. Vaughan, III
Fax: (301) 374-3301

If to Buyer: Prime Financial L.L.C.
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: Mr. David M. Shear
Fax: (405) 236-1209

With a copy to: Spradling, Kennedy & McPhail, L.L.P.
1601 NW Expressway, Suite 1750
Oklahoma City, Oklahoma 73118
Attn: Mr. T. Scott Spradling
Fax: (405) 418-2705

If to Landmark: Landmark Land Company, Inc.
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Attn: Mr. William W. Vaughan, III
Fax: (301) 374-3301

If to Barton: Mr. Gerald G. Barton
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Fax: (301) 374-3301

With a copy to: Mr. William W. Vaughan, III
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Fax: (301) 374-3301

If to Golsen: Mr. Jack Golsen
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Fax: (405) 236-1209

12.2 Changes. Any party may change its notice address and change or add to its "copy to" addressee under this **Article 12**, by giving notice of the change to the other parties in the manner provided herein for giving notice. For the purpose of changing the addresses or addressees only, unless and until such written notice is received, the last address and addressee stated herein shall be deemed to continue in effect for all purposes.

Article 13 — Miscellaneous

13.1 Entire Agreement. This Agreement and the exhibits attached hereto contain the entire agreement between the parties, and no promise, representation, warranty or covenant not included in this Agreement or any such referenced agreements has been or is relied upon by either party.

13.2 Amendment. No modification or amendment of the terms of this Agreement relating to the purchase and sale of the Property shall be of any force or effect unless made in writing and executed by both Buyer and Seller. No modification or amendment of the terms of this Agreement relating to the restrictions on use of the Purchase Price or to the Mandatory Refund Amount obligations shall be of any force or effect unless made in writing and executed by Buyer, Seller, and Golsen. No modification or amendment of the terms of this Agreement relating to the Put Options and Golsen's subordination of his right to be paid the Golsen Loan shall be of any force or effect unless made in writing and executed by Buyer, Landmark, Barton and Golsen. No modification or amendment of the terms of this Agreement relating to the First Right to Purchase provisions shall be of any force or effect unless made in writing and executed by Buyer and Seller, or if Seller has previously assigned the First Right to Purchase to Holliman, then Holliman shall be a necessary party to any amendment to the provisions of this Agreement relating thereto.

13.3 Construction. If any litigation arises hereunder, it is specifically stipulated that this Agreement shall be interpreted and constructed according to the laws of the State of Oklahoma.

13.4 Venue. Venue for any legal action arising out of this Agreement shall be Oklahoma City, Oklahoma. Further, the prevailing party in any litigation between the parties is entitled to recover, as a part of its judgment, reasonable attorney's fees and costs of suit.

13.5 Effective Date. All references in this Agreement to the "Effective Date" or similar references shall be deemed to refer to the date when all parties have executed this Agreement.

13.6 Gender. Words of any gender used in this Agreement shall be held and construed to include any other gender, and words of singular number shall be held to include the plural and vice versa, unless the context requires otherwise.

13.7 Severability. If any one or more of the provisions of this Agreement, or the applicability of any such provision to a specific situation, shall be held to be invalid or unenforceable, such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable, and the validity and enforceability of all other provisions of this Agreement and all other applications of any such provisions shall not be affected thereby.

13.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts together shall constitute one and the same instrument.

13.9 Survival. All warranties, representations and agreements contained herein or arising out of the sale of the Property by Seller to Buyer shall survive the Closing hereof, including, without limitation, (i) Seller's restriction on use of the sales proceeds, (ii) Golsen's obligation pay the Mandatory Refund Amount (if applicable), (iii) Buyer's Put Options, (iv) Golsen's subordination of the Golsen Loan to the Superior Indebtedness, and (v) Holliman's First Right to Purchase.

13.10 Further Acts. In addition to the acts recited in this Agreement to be performed by Seller, Buyer, Landmark, Barton, Golsen and Holliman, respectively, the parties each agree to perform or cause to be performed at the Closing any and all such further acts as may be reasonably necessary to consummate the transactions contemplated hereby.

13.11 Exhibits. All exhibits described in this Agreement are by this reference fully incorporated herein and made a part hereof by reference for all purposes.

13.12 Binding Effect; Assignment. This Agreement and the terms and provisions hereof shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, personal representatives, successors, and assigns, whenever the context so requires or admits. Either Buyer or Seller may assign its rights under this Agreement without the prior written consent of the other party, so long as the assignee assumes the obligations of the assignor, and the assignor is not released from responsibility for its obligations except by performance by its assignee. Landmark, Barton, Golsen, and Holliman may not assign their rights or obligations under this Agreement without the written consent of Buyer which may be withheld in Buyer's discretion.

13.13 Confidentiality. Buyer and Seller acknowledge that the terms and conditions of this Agreement and the details of the ensuing negotiations will remain confidential between the parties to this Agreement and no proposals, drafts, or copies of the Agreement, or summaries of any kind will be distributed, copied, or otherwise transmitted orally or in writing, to any third party entity or person other than professional consultants or advisers involved in this transaction.

13.14 Exclusivity. So long as this Agreement is in effect, Seller shall take no action to market the Property or any part of it to any potential owner or user, and shall not accept any "back-up" contracts or conditional offers of any kind.

13.15 Foreign Person Notification. At the Closing, Seller shall deliver to Buyer and to the Title Company an affidavit(s) from Seller and any other parties required pursuant to Section 1445 of the Internal Revenue Code and/or regulations relating thereto stating, under the penalty of perjury (i) that Seller is not a foreign person, (ii) the U.S. Taxpayer identification number of Seller, and (iii) such other information as may be required by regulations enacted by the Department of Treasury, in connection with Section 1445 of the Internal Revenue Code. An executed counterpart of such affidavit will be furnished to the Buyer at Closing. If Seller is a Foreign Person, as defined by applicable law, or if Seller fails to deliver the above described affidavit, then Buyer or the Title Company shall withhold from the sales proceeds an amount sufficient to comply with applicable tax law and deliver the same to the Internal Revenue Service, together with appropriate tax forms.

IN WITNESS WHEREOF, the parties have executed this Agreement on the separate signature pages attached as a part hereof.

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Seller": DPMG INC., a Delaware corporation

By: /s/ Joe Olree
Name:
Title: Vice President

Date of Execution: May 26, 2011

[Remainder of this page intentionally left blank]

"Buyer": PRIME FINANCIAL L.L.C., an Oklahoma limited liability company

By: /s/ David R. Goss
Name: David R. Goss
Title: Manager

Date of Execution: 3/26/11, 2011

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Landmark": LANDMARK LAND COMPANY, INC., a Delaware corporation

By: /s/ W. W. Vaughn
Name:
Title: President

Date of Execution: 5/26/11, 2011

[Remainder of this page intentionally left blank]

"Barton": /s/ Gerald G. Barton
Gerald G. Barton, an individual

Date of Execution: 5/26/11, 2011

[Remainder of this page intentionally left blank]

"Golsen": /s/ Jack E. Golsen
Jack E. Golsen, an individual

Date of Execution: May 26, 2011

[Remainder of this page intentionally left blank]

Schedule of Exhibits:

Exhibit A Legal Description of the Land

Exhibit B Form of General Warranty Deed

Exhibit C Legal Description of the Holliman Land

EXHIBIT A

Legal Description of the Land

Lots ONE (1), TWO (2), and THREE (3), in Block FOURTEEN (14), of WILDEWOOD HILLS ADDITION, SECTION 3, to Oklahoma City, Oklahoma County, Oklahoma, according to the recorded plat thereof;

AND

A tract of land lying in the North Half of Section TEN (10), Township TWELVE (12) North, Range THREE (3) West of the Indian Meridian, City of Oklahoma City, Oklahoma County, Oklahoma, and being more particularly described as follows: BEGINNING at the Southeast corner of Lot ELEVEN (11), Block TWO (2), WILDEWOOD PROFESSIONAL PLAZA, an Addition to the City of Oklahoma City, as recorded in Book 39, of Plats, Page 68, Oklahoma County, Oklahoma; Thence South 88°52'52" East, along the Northerly right-of-way line of the access road for Interstate Highway 44, a distance of 196.33 feet; Thence North 80°01'10" East, along said Northerly right-of-way line, a distance of 392.46 feet; Thence North 60°21'08" East, along said Northerly right-of-way line, a distance of 239.65 feet; Thence North 74°06'23" East, along said Northerly right-of-way line, a distance of 90.34 feet; Thence North 00°05'45" East a distance of 585.04 feet; Thence North 89°57'52" East a distance of 659.60 feet; Thence North 00°07'18" East a distance of 619.92 feet; Thence North 89°55'17" West a distance of 10.00 feet; Thence North 00°07'37" West a distance of 67.90 feet to the Southeast corner of Lot ONE (1), Block NINETEEN (19), WILDEWOOD HILLS ADDITION, SECTION 4, to Oklahoma City, as recorded in Book 37, of Plats, Page 83; Thence North 89°55'17" West, along the Southerly line of Lots ONE (1), TWO (2), THREE (3), FOUR (4), FIVE (5), SIX (6), SEVEN (7), EIGHT (8) and NINE (9) of said Block NINETEEN (19), a distance of 707.23 feet; Thence North 42°40'17" West, along the Southwest line of Lot NINE (9), of said Block NINETEEN (19), a distance of 135.60 feet to the most Westerly corner of said Lot NINE (9), Block NINETEEN (19), said point also being the Easterly right-of-way line for Wildewood Drive as established by the plats of WILDEWOOD HILLS ADDITION, SECTION 4, SECTION 2 AND SECTION 3; Thence South 47°19'43" West, along said Easterly right-of-way line, a distance of 31.70 feet to the beginning of a tangent curve; Thence Southwesterly, along said Easterly right-of-way line, on a curve to the left having a radius of 609.93 feet (said curve subtended by a chord which bears South 39°42'13" West a distance of 161.86 feet) an arc distance of 162.34 feet to a point of tangency; Thence South 32°04'43" West, along said Easterly right-of-way line, a distance of 384.72 feet; Thence South 20°37'11" West, along said Easterly right-of-way line, a distance of 49.67 feet to a point of intersection with a non-tangent curve; Thence Southerly, along said Easterly right-of-way line, on a curve to the left having a radius of 403.48 feet (said curve subtended by a chord which bears South 13°54'43" West, a distance of 75.01 feet) an arc distance of 75.12 feet to a point of tangency; Thence South 08°34'43" West, along said Easterly right-of-way line, a distance of 8.34 feet; Thence North 81°25'17" West a distance of 50.00 feet to the Southeast corner of Lot ONE (1), Block FOURTEEN (14), WILDEWOOD HILLS ADDITION, SECTION 3, as recorded in Book 36 of Plats,

Page 96; thence South 88°48’03” West, along the South line of Lots ONE (1) through SEVEN (7), inclusive, Block FOURTEEN (14), of said Addition, a distance of 553.06 feet; Thence North 85°58’19” West, along the South line of Lots EIGHT (8), NINE (9), and TEN (10) of said Block FOURTEEN (14), a distance of 222.97 feet to the Southwest corner of Lot TEN (10) of said Block FOURTEEN (14), said point also being on the East line of Lot TWELVE (12) of said Block FOURTEEN (14); Thence South 00°01’57” East, along the East line of Lots TWELVE (12) and THIRTEEN (13) of said Block FOURTEEN (14), a distance of 145.00 feet to the Southeast corner of Lot THIRTEEN (13) of said Block FOURTEEN (14); Thence South 01°11’57” East a distance of 50.00 feet to a point on the South right-of-way line for Northeast 58th Street; Thence South 88°48’03” West, along said South right-of-way line, a distance of 116.36 feet to the beginning of a tangent curve; Thence Westerly, along said South right-of-way line, on a curve to the right having a radius of 73.99 feet (said curve subtended by a chord which bears North 81°55’34” West a distance of 23.85 feet) an arc distance of 23.95 feet to a point of intersection with a non-tangent line, said point being the Northeast corner of Lot TEN (10), Block THIRTEEN (13), WILDEWOOD HILLS ADDITION, SECTION 3; Thence South 31°55’09” West, along the Southeasterly line of said Lot TEN (10), a distance of 154.81 feet; Thence South 89°28’25” West, along the South line of said Lot TEN (10), a distance of 94.48 feet to the Southwest corner of said Lot TEN (10), said point being on the East line of Block SIX (6), WILDEWOOD HILLS ADDITION, BLOCKS 1-8 as recorded in Book 33 of Plats, Page 28; thence South 00°01’57” East, along the East line of Block SIX (6) and Block FIVE (5) of said Addition, a distance of 384.30 feet; Thence South 59°54’59” East, along the Northeasterly line of said Block FIVE (5), a distance of 201.14 feet to the Northeast corner of Lot FIVE (5), Block FIVE (5), WILDEWOOD HILLS ADDITION, BLOCKS 1-8, said point also being the Northwest corner of Lot THREE (3), Block TWO (2), WILDEWOOD PROFESSIONAL PLAZA; Thence South 79°48’04” East, along the North line of said Lot THREE (3), a distance of 76.95 feet to a point of intersection with a non-tangent curve, said point being the Northeast corner of said Lot THREE (3); Thence Northerly, Northeasterly and Easterly, on a curve to the right having a radius of 75.00 feet (said curve being subtended by a chord which bears North 49°30’00” East a distance of 95.01 feet) an arc distance of 102.89 feet to a point of tangency; Thence North 88°48’03” East a distance of 95.00 feet to the beginning of a tangent curve; Thence Easterly on a curve to the right having a radius of 435.20 feet (said curve subtended by a chord which bears South 87°00’59” East a distance of 63.49 feet) an arc distance of 63.54 feet to a point of tangency; Thence South 82°50’00” East, a distance of 98.64 feet to the beginning of a tangent curve; Thence Easterly, Southeasterly, and Southerly on a curve to the right having a radius of 75.00 feet (said curve subtended by a chord which bears South 50°49’59” East a distance of 79.49 feet) an arc distance of 83.78 feet to a point of intersection with a non-tangent line, said point being the Northwest corner of Lot TEN (10), Block TWO (2), of said WILDEWOOD HILLS PROFESSIONAL PLAZA (the preceding five courses being along the Southerly line of Lots FOUR (4) thru NINE (9), inclusive, Block TWO (2), of said Addition; Thence North 71°10’01’ East along the North line of said Lot TEN (10), Block TWO (2), a distance of 140.11 feet to the Northeast corner of said Lot TEN (10); Thence South 01°11’57” East, along the East line of Lots TEN (10) and ELEVEN (11), of said Block TWO (2), a distance of 211.49 feet to the POINT OF BEGINNING; The aforedescribed tract includes all of Lots FOUR (4) through NINE (9), inclusive, in Block TWO (2) of WILDEWOOD PROFESSIONAL PLAZA, now vacated, and all of Lots ONE (1) through ELEVEN (11), inclusive, in Block FIFTEEN (15), and Lots FOURTEEN (14) through TWENTY-THREE (23), inclusive, in Block FOURTEEN (14), of WILDEWOOD HILLS ADDITION, SECTION 3, now vacated.

EXHIBIT B

Form of General Warranty Deed

After Recording Return To:

GENERAL WARRANTY DEED

KNOW ALL MEN BY THESE PRESENTS:

THAT **DPMG INC.**, a Delaware corporation ("**Grantor**"), whose mailing address is 2817 Crain Highway, P.O. Box 1880, Upper Marlboro, Maryland 20774, Attention: Mr. William W. Vaughan, III, , in consideration of the sum of Ten and No/100 Dollars (U.S. $10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby grant, bargain, sell and convey unto **PRIME FINANCIAL L.L.C.**, an Oklahoma limited liability company ("**Grantee**"), whose mailing address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107, Attention: Mr. David M. Shear. the real property and premises situated in Oklahoma County, State of Oklahoma, more particularly described on **Exhibit A** attached as a part hereof (collectively, the "**Land**"), LESS AND EXCEPT all interests in and to all oil, gas, casinghead gas, and other gaseous or liquid hydrocarbons or substances produced therewith, coal, metallic ores, and other minerals and all rights pertaining thereto, including surface user rights, but together with (A) all easements, rights of way, privileges, appurtenances and other rights, if any, pertaining to the Land, (B) all right, title and interest of Grantor, if any, in and to any land lying in the bed of any street, road or avenue opened or proposed, public or private, in front of or adjoining the Land, and (C) all right, title and interest of Grantor in and to any award made or to be made in lieu thereof and in and to any unpaid award for damage to the Land by reason of change of grade of any street (collectively, the "**Appurtenances**"); and all buildings, structures, parking areas, landscaping and other improvements located on the Land (collectively, the "**Improvements**"). All of the foregoing property being conveyed hereby is hereinafter collectively called the "**Real Property**."

Grantor warrants title to the Real Property to be free, clear, and discharged of and from all former grants, charges, taxes, judgments, mortgages and other liens and encumbrances of whatsoever nature, except for the matters described on **Exhibit B** attached as a part hereof (the "**Permitted Title Exceptions**").

TO HAVE AND TO HOLD the Real Property unto the Grantee, its successors and assigns, forever.

IN WITNESS WHEREOF, Grantor has executed this instrument as of the _____ day of _____, 2011.

"Grantor": **DPMG INC.**, a Delaware corporation

By: _____
Name:
Title: _____ President

STATE OF _____)
) SS.
COUNTY OF _____)

This instrument was acknowledged before me on _____, 2011, by _____, as _____ President of DPMG INC., a Delaware corporation.

_____
Notary Public

My Commission Expires: _____

My Commission Number: _____

[Seal]

EXHIBIT A

Legal Description of the Land

[Intentionally omitted]

EXHIBIT B

Permitted Title Exceptions

[Intentionally omitted]

EXHIBIT C

Legal Description of the Holliman Land

Part of the Northeast Quarter (NE/4) of Section Ten (10), Township Twelve (12) North, Range Three (3) West of the I.M., Oklahoma County, Oklahoma, and more particularly described as follows:

Commencing at the NW corner of said NE/4; thence South 00°12’30” West along the West line of said NE/4 a distance of 1646.40 feet to the point or place of beginning; thence South 00°12’30” West along the West line of said NE/4 a distance of 578.00 feet to a point on the North right of way line of Northeast Highway as shown in Book 575, Page 533, in the office of the District Court Clerk, and recorded in Book 2077, Page 195, in the office of the County Clerk of Oklahoma County, Oklahoma; thence North 74°23’50” East along said Northerly right of way line a distance of 309.03 feet; thence North 70°19’28” East along said Northerly right of way line a distance of 300.04 feet; thence North 67°27’37” East along said Northerly right of way line a distance of 87.31 feet to a point 660.00 feet East of the West line of said NE/4; thence North 00°12’30” East and parallel to and 660.00 feet East of the West line of said NE/4 a distance of 359.52 feet to a point 1646.40 feet South of the North line of said NE/4; thence North 89°55’28” West and parallel to and 1646.40 feet South of the North line of said NE/4 a distance of 660.00 feet to the point or place of beginning.

Exhibit 10.2

REAL ESTATE PURCHASE CONTRACT

This Real Estate Purchase Contract (herein called the "**Agreement**") is entered into effective as of the date it has been signed by all parties, by and between **SOUTH PADRE ISLAND DEVELOPMENT, LLC,** a Delaware limited liability company (herein "**Seller**"), and **PRIME FINANCIAL L.L.C.,** an Oklahoma limited liability company, or its assigns (herein "**Buyer**"). **LANDMARK LAND COMPANY, INC.**, a Delaware corporation ("**Landmark**"), **GERALD G. BARTON**, an individual ("**Barton**"), and **JACK E. GOLSEN**, an individual ("**Golsen**"), are executing this Agreement for the specific purposes more particularly set forth herein.

R E C I T A L S:

(a) Buyer desires to purchase from Seller the following:

(i) that certain real property located in Cameron County, Texas, more particularly described on **Exhibit A**" attached hereto (the "**Land**");

(ii) all right, title and interest of Seller in and to all streets, alleys, easements and rights-of-way in, on, across, in front of, abutting or adjoining the Land and any other appurtenances belonging thereto (collectively, the "**Appurtenances**"); and

(iii) all right, title and interest of Seller in and to all structures, sidewalks, parking areas, access ways, landscaping and other improvements located on the Land (collectively the "**Site Improvements**").

The Land, Appurtenances and Site Improvements are hereinafter collectively called the "**Property**." The legal description for the Land used in the Deed required of Seller under this Agreement will be based on the description of the Land in the mutually acceptable Survey to be obtained pursuant to the terms of this Agreement.

(b) Seller is willing to sell and convey the Property to Buyer on the terms and conditions hereinafter set forth.

A G R E E M E N T S:

In consideration of the covenants contained herein and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller, Buyer, Landmark, Barton, and Golsen, as applicable, agree as follows:

Article 1 — Agreement to Buy and Sell

Seller hereby agrees to sell the Property to Buyer and Buyer hereby agrees to purchase the Property from Seller, subject to the terms and conditions of this Agreement.

Article 2 — Purchase Price

The total purchase price for the Property (herein the "**Purchase Price**") shall be the sum of $2,500,000.00, payable as follows:

2.1 Earnest Money Deposit. Within two (2) business days after the full and final execution of this Agreement by all parties and as a condition precedent to the formation of this Agreement, Buyer shall deposit with Seller the sum of $350,000.00 (the "**Earnest Money Deposit**"). If Buyer has not terminated this Agreement pursuant to **Section 4.5** below and the transaction contemplated by this Agreement has not closed by October 15, 2011, through no fault of Seller, Buyer shall deposit with Seller on or before October 15, 2011, the additional sum of $100,000 (the "**First Additional Earnest Money Deposit**") for an aggregate Earnest Money Deposit of $450,000. If Buyer has not terminated this Agreement pursuant to **Section 4.5** below and the transaction contemplated by this Agreement has not closed by November 15, 2011, through no fault of Seller, Buyer shall deposit with Seller on or before November 15, 2011, the additional sum of $100,000 (the "**Second Additional Earnest Money Deposit**") for an aggregate Earnest Money Deposit of $550,000. The First Additional Earnest Money Deposit and Second Additional Earnest Money Deposit shall be deemed to be a part of the Earnest Money Deposit under this Agreement. Except as otherwise set forth herein, the Earnest Money Deposit shall be deemed non-refundable after the end of the Inspection Period, as hereinafter defined. The Earnest Money Deposit shall be applied against the Purchase Price on the Closing Date, as hereinafter defined. Edwards Abstract and Title Co. (the "**Title Company**"), whose mailing address is 3111 West Freddy Gonzalez, Edinburg, Texas 78539, Attention: Ms. Diana Kaufold, shall manage the closing of this transaction, and the Title Commitment will be ordered through Ms. Diana Kaufold.

2.2 Intentionally Deleted.

2.3 Cash at Closing. On the Closing Date, Buyer shall pay to Seller the balance of the Purchase Price in cash or other immediately available funds, subject to the prorations and adjustments set forth below.

Article 3 — Title and Survey

3.1 Title Commitment. Within ten (10) days after the Effective Date, Seller shall provide to Buyer a title commitment (the "**Title Commitment**") covering the Land and Appurtenances which binds Stewart Title Company (the "**Title Insurer**") to issue at Closing a Texas ALTA Owner's Policy of Title Insurance (the "**Title Policy**") in the full amount of the Purchase Price; and true and correct copies of any and all instruments referenced in the Title Commitment which constitute exceptions or restrictions upon the title of Seller, or constitute liens and/or curative title matters disclosed in the Title Commitment (the "**Title Documents**").

3.2 Survey. Within ten (10) days after the Effective Date, Seller shall provide to Buyer, prepared by Ferris & Flinn, LLC, a current on-the-ground survey of each of the four tracts of Land that comprise the Property dated after the Effective Date ("**Survey**"). The Survey, whether new or updated, shall be prepared in accordance with the "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys," jointly established and adopted by ALTA, ACSM, and NSPS in 2011, and meeting the "Minimum Angle, Distance, and Closure Requirements for Survey Measurements Which Control Land Boundaries for ALTA-ACSM Land Title Surveys" and containing items 1, 2, 3, 4, 5, 6, 7(a), 7(b)(2), 8, 9, 10, 11, 13, 14, 15, 16, 18, 19 and 20 of Table A to those standards. In addition, Seller shall provide to Buyer, within ten (10) days after the Effective Date, a survey depicting the location of any proposed roadways and other easements that Seller proposes to reserve in the Deed, and the proposed roadways and other easements shall also be depicted and located on the applicable Survey of the Land. Buyer has retained Pena Engineering of McAllen, Texas, to review the Survey for Buyer. Seller shall cause Ferris & Flinn, LLC to cooperate with Pena Engineering in the preparation of a final Survey of the Property that is mutually acceptable to Seller and Buyer, and a surveyor certification, in a form mutually acceptable to the Buyer and Ferris & Flinn, LLC, shall be affixed to the Survey of each tract of Land comprising the Property, and to the survey of any proposed roadways and other easements that Seller proposes to reserve in the Deed.

3.3 Title Review. After Buyer has received the last item to be furnished pursuant **Sections 3.1** and **3.2** above, Buyer shall have the later of ten (10) business days or the end of the Inspection Period within which to review all of said items and notify Seller in writing (the "**Objection Notice**") of Buyer's objections (the "**Title Objections**") to any matters contained therein. Any matters described in the Title Commitment or Survey to which Buyer does not object shall be deemed to be "**Permitted Exceptions**" to title under this Agreement. Any matters affecting the condition or title to the Land which first arise after the later of the effective time of the Title Commitment or the Survey and before the Closing shall be deemed Title Objections, unless Buyer otherwise waives the same in writing or closes the Transaction without written objection. Seller agrees to notify Buyer promptly upon Seller becoming aware of any Title Objection coming into existence after the date of the Title Commitment.

3.4 Cure or Noncure of Title Objections. Seller shall have until the Closing to cure the Title Objections. Seller shall not be obligated to cure or attempt to cure any Title Objection, other than voluntary mortgage liens or other liquidated sums secured by a lien filed against the Property, and shall in no event incur any liability to Buyer by reason of any failure or refusal to cure any Title Objection. Seller shall bear the cost of curing any Title Objections which it does elect or attempt to cure. Seller agrees, within five (5) business days of its receipt of the Objection Notice, to notify Buyer of any Title Objections which Seller determines it is unwilling or unable to cure. In the event that Seller has indicated its unwillingness or inability to cure a Title Objection or, in the alternative, if Seller does not give such a notice of its inability or unwillingness to cure such a defect and all Title Objections are not cured by the Closing Date, Buyer's exclusive rights under this Agreement shall be either:

(i) to waive any such uncured Title Objections, close the Transaction without reduction in the Purchase Price and accept such title as Seller is able to convey, and by such waiver and acceptance Buyer shall be deemed to have waived any and all claims and/or causes of action against Seller for damages or any other remedies for any and all defects in and/or exceptions to the title to the Property associated with such uncured Title Objections; or

(ii) to terminate this Agreement by notifying Seller and the Title Company in writing, in which event Seller shall return the Earnest Money Deposit to Buyer within five (5) calendar days of the termination of the Agreement, Seller shall bear the cost of all title work, including the Survey and the survey consultation services of Pena Engineering, procured in connection with this Agreement and thereafter Seller and Buyer shall have no further rights or obligations hereunder.

Article 4 — Seller's and Golsen's Representations and Agreements; Inspection Period

4.1 Representations, Warranties and Agreements by Seller and Golsen. Seller and Golsen, as applicable, hereby represent and warrant to Buyer, and agree with Buyer, as follows:

4.1.1 Ownership, Tenants and Liens. Seller represents, warrants and agrees that Seller has good and indefeasible, fee simple title to the Property, and that on the Effective Date and on the Closing Date, except as otherwise permitted in this Agreement as to Lease (hereinafter defined) there are and will be no tenants of the Property, or any portion thereof, and no other parties in possession of any portion of the Property claiming under Seller. Seller also represents, warrants and agrees that as of the Closing Date, the Property will be free and clear of all liens and security interests, and that Seller will direct the Title Company to deliver to International Bank of Commerce the portion of the Purchase Price that is required by the bank in order for International Bank of Commerce to release its liens and security interest against the Property.

4.1.2 No Pending Condemnation. Seller represents, warrants and agrees that on the Effective Date and on the Closing Date, there are no pending any eminent domain proceedings or special assessments of any nature with respect to the Property or any part thereof. Seller has not received any notices of any eminent domain proceedings or special assessments being contemplated with respect to the Property or any part thereof, and Seller does not have any knowledge of any such other actions being contemplated.

4.1.3 Seller Authority. Seller represents, warrants and agrees that Seller has full power, authority and legal right to execute and deliver this Agreement and to perform and observe the covenants and agreements contained herein.

4.1.4 No Payments to Golsen or to LSB Industries, Inc. Seller and Golsen agree that no portion of the Purchase Price shall be used, directly or indirectly, to repay any indebtedness (a) owing to Golsen, or (b) owing from Landmark to any limited liability company of which Golsen is or was a member (as applicable, a "**Golsen Obligee**"). If any portion of the Purchase Price is used in violation of this Section, Golsen agrees that any such amount (the "**Mandatory Refund Amount**") shall become a personal obligation of Golsen to Seller. Immediately upon receipt by Golsen or the Golsen Obligee of the Mandatory Refund Amount, the Mandatory Refund Amount shall be immediately due and payable to Seller with interest on the unpaid principal balance at a rate which is equal to the "Prime Rate" as quoted in the then most recently published issue of *The Wall Street Journal*, plus Two Percent (2%).

4.1.5 Continuing Representations. Seller's and Golsen's foregoing representations, warranties and agreements shall be deemed continuing and, unless written notice to the contrary is given to Buyer on or before the Closing, the same shall be true and correct on and as of the Closing with the same force and effect as if made at that time. Golsen's and Seller's agreements contained in **Section 4.1.4** above shall survive the Closing.

4.2 Inspection Period. Buyer shall have the later of (i) thirty (30) days from the Effective Date, or (ii) twenty days after the Buyer's receipt of the last item to be furnished pursuant to **Sections 3.1 and 3.2** above ("**Inspection Period**") to ascertain, in Buyer's sole and exclusive discretion, whether the Property is suitable for Buyer's intended development, use, and/or investment objectives. Buyer, at Buyer's sole expense, may study and investigate the Property in any reasonable way to enable Buyer to determine the suitability of the Property for its purposes. Such study and investigation may include but not be limited to, conducting a Phase I environmental study (the "**Phase I**") on the Property. Seller hereby grants to Buyer, Buyer's contractors, licensees, agents, servants, employees, officers, and directors all licenses and permissions necessary to conduct the Phase I for the term of the Inspection Period, subject only to Buyer's obligation to restore and repair any damage caused by any physical investigations, inspections, testing, sampling, or other entry onto the Property. Without limiting the ability of Buyer and its representatives to inspect the Property, Buyer shall specifically be allowed to perform inspections of the Property ("**Environmental Inspections**") for the presence of PCB emissions, hazardous wastes, asbestos, ACMs, and other hazardous or toxic materials.

4.3 Inspection.

4.3.1 Inspection of Premises. As part of its evaluation during the Inspection Period, Buyer and its representatives may, at all reasonable times during normal business hours, enter upon the Property to conduct reasonable soil tests and other appropriate on-site evaluations to ascertain whether the Property is suitable to meet Buyer's objectives. Buyer shall bear the cost of all such inspections or tests.

4.3.2 Inspection of Documents. Within five (5) days after the full execution of this Agreement, Seller shall deliver to Buyer the following documents (herein "**Property Documents**"):

(i) Copies of all service, maintenance, management or other contracts, if any, relating to the ownership of the Property as to which Seller or its agent;

(ii) Copies of any soil, engineering or environmental studies, audits, reports or surveys relating to the Property; and

(iii) Such information as Buyer may reasonably request and as may be reasonably available to Seller concerning maintenance and repair expenses relating to the Property for the preceding three (3) years.

All of the Property Documents are confidential and shall not be distributed or disclosed by Buyer to any person or entity not associated with Buyer. If the transaction fails to close for any reason whatsoever, Buyer shall return to Seller all of the Property Documents which Seller has delivered to Buyer.

4.4 Indemnity. Buyer agrees to indemnify and hold Seller harmless from and against any and all liens, claims, causes of action, damages, liabilities, and expenses (including reasonable attorneys' fees) arising from any act, omission, or negligence of Buyer or Buyer's contractors, licensees, agents, servants, employees, officers, and directors, or arising from any accident, injury, or damage whatsoever occurring on or about the Property or any part thereof, by reason of Buyer's conducting the soil tests, and engineering work and other evaluation herein described, including but not limited to the Phase I, and shall restore the Property to its present condition to the extent reasonable under the circumstances. Buyer's obligations under this **Section 4.4** shall survive the termination of this Agreement and shall survive the Closing.

4.5 Termination. If Buyer determines that the Property is not suitable for Buyer's purposes, as determined in Buyer's absolute discretion, then Buyer shall deliver written notice thereof to Seller no later than the date of expiration of the Inspection Period. If the termination notice is timely given, then this Agreement shall terminate except for matters that expressly survive termination of this Agreement, the parties hereto shall be released from any further obligations hereunder, and Seller shall return the Earnest Money to Buyer within five (5) calendar days of the termination of this Agreement. If Buyer does not timely give notice, then this Agreement shall continue in full force and effect, Buyer shall be deemed to have waived its right to terminate this Agreement pursuant to this **Section 4.5**.

4.6 Operation and Maintenance Prior to Closing. From the Effective Date until the Closing Date or earlier termination of this Agreement, Seller shall:

(i) operate, maintain and repair the Property, or cause the Property to be operated, maintained and repaired, diligently and in the ordinary course of business and in the same manner as the Property is being operated, maintained and repaired during the Inspection Period;

(ii) not, without the prior written consent of Buyer, enter into any written or oral service contracts or other agreements with respect to the Property that will not be fully performed by Seller on or before the Closing Date, or that will not be cancelable by Buyer at any time and without liability, premium or other cost on or after the Closing Date; and

(iii) advise Buyer promptly of any litigation, arbitration, condemnation, or administrative (including, without limitation, zoning, variance, code enforcement and regulatory) proceedings before any officer, court, board, governmental body or agency which concerns or affects the Property and of which Seller receives actual notice after the date hereof (e.g. a proposed change in the zoning classification of any property within 300 feet of the Land, the filing of a statutory lien against the Property, etc.).

4.7 Seller Proposed Reservations and Conditions. Within ten (10) days of the Effective Date, Seller shall propose to Buyer, and Buyer and Seller, prior to the expiration of the Inspection Period, shall mutually agree on the terms of: (i) any roadways and other easements associated with the Property that Seller proposes to reserve in the Deed, or in a separate instrument, to be recorded at Closing; and (ii) any additional restrictions that Seller proposes to impose on any of the Property in the Deed, or in a separate instrument, to be recorded at Closing; collectively, the "Reserved Easements and Restrictions"). If Buyer finds any of the proposed Reserved Easements and Restrictions to be unacceptable, Buyer may terminate this Agreement.

4.8 Re-subdivision of the Property and Grant of Easements. Seller agrees to co-operate with Buyer, after the Closing, in the re-subdivision of the Property, to the extent re-subdivision is required or desired by Buyer, including the Seller's grant of any easements on Seller's remaining property for the benefit of the Property to the extent such easements are reasonably necessary in order for Buyer to develop, use and/or market the Property. Buyer's obligations under this **Section 4.8** shall survive the Closing.

4.9 Geothermal HVAC Equipment. At Closing, Seller will enter into an agreement, in a form mutually acceptable to Seller and Buyer, obligating Seller to use reasonable efforts to market and develop Seller's (and its parent and subsidiaries) remaining property in Cameron County, Texas, utilizing Climate Master, Inc. geothermal heating, ventilation and air conditioning equipment, where technically feasible and economically practical, including on the Property if re-acquired pursuant to the Put Options. Buyer's obligations under this **Section 4.9** shall survive the Closing.

4.10 Landmark Warrants. At the Closing, Landmark will issue to Buyer warrants authorizing Buyer to purchase, for up to seven years following the Closing, up to 1,000,000 shares of Landmark's common stock, at $1.00 per share. The right of Buyer to acquire any unexercised warrants, however, terminates on the closing and funding on the Put Option Property (as hereinafter defined) following Buyer's exercise of one or both Put Options (as hereinafter defined). The form of the definitive agreement on the warrants will be agreed to by Seller, Landmark, Barton and Buyer during the Inspection Period, and if the parties cannot agree on the form of the definitive agreement, Buyer may terminate this Agreement, and the Earnest Money Deposit shall be returned to Buyer,

4.11. Agricultural Lease on a Portion of the Property. Seller has advised Buyer that an unrecorded agricultural lease ("Lease") exists on Tract One and Tract Two of the Property. During the Inspection Period, Seller will provide Buyer a copy of the Lease, and Buyer, at its option, may require that the Lease be terminated as of Closing, or that prior to the expiration of the Inspection Period, the Seller, the tenant under the Lease, and Buyer, negotiate the terms of a mutually acceptable assumption of the Lease, or a new lease between Buyer and the tenant under the Lease, as to Tract One and Tract Two of the Property.

Article 5 — Environmental Condition of the Property

5.1 Environmental Condition of the Property. Seller represents and warrants to Buyer that it has no current actual knowledge of any prior or current Environmental Conditions affecting the Property or any prior or current violations of Environmental Law with respect to the Property, nor does Seller have any current actual knowledge of any prior or current regulatory actions taken with respect to the Property regarding an actual or alleged Environmental Condition. Further, Seller represents that it has received no written notice of, and has no other current actual knowledge of, any pending or threatened claims or other restrictions of any nature related to any Environmental Condition or arising under Environmental Law with respect to the Property.

For purposes of **Section 5.1**, the following terms have the following meanings:

"**Environmental Condition**" means (i) the existence of any Hazardous Material in, or the Release of any Hazardous Material to, soil or groundwater at, on, or underlying the Property; (ii) the existence of any Hazardous Material in, or Release of any Hazardous Material to, soil or groundwater at, on or underlying other properties which is emanating from the Property; or (iii) the presence of any Hazardous Material on the Property.

"**Environmental Law**" means any applicable federal, state or local statute, ordinance, rule, regulation, guidance document, requirement, code, resolution, order, or decree (including consent decrees and administrative orders) as now in effect or hereafter amended which regulates the use, generation, handling, storage, treatment, transportation, decontamination, clean-up, removal, encapsulation, enclosure, abatement or disposal of any Hazardous Material and those which regulate the protection of environmentally sensitive areas.

"**Hazardous Material**" means any substance that poses a threat to, or is regulated to protect, human health, safety, public welfare, or the environment, including without limitation: (a) any "hazardous substance," "pollutant" or "contaminant," and any " petroleum" or "natural gas liquids" as those terms are defined or used under Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601) ("CERCLA"), (b) "solid waste" as defined by the federal Solid Waste Disposal Act [42 U.S.C. § 6901 et seq] (c) asbestos or a material containing asbestos,(f) any material that contains lead or lead based paint, (d) polychlorinated biphenyls, (h) any radioactive material; (i) urea formaldehyde, (j) putrescible materials, (k) infectious materials, (l) toxic microorganisms, including mold, or (l) any substance the presence or Release of which requires reporting, investigation or remediation under any Environmental Laws.

"**Release**" means any depositing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, migration, or disposing.

5.2 Reports and Tests. Seller represents and warrants to Buyer that it has delivered, or shall deliver in accordance with **Section 4.3.2**, to Buyer true and complete copies of all reports, studies, analyses, tests or monitoring that constitute all documents possessed by Seller that pertain to (i) Hazardous Materials on, in, under or about the Property, (ii) the Environmental Condition of the Property or (iii) compliance of the Property with Environmental Laws.

Article 6 — Closing

6.1 Closing. If this Agreement has not been terminated, the closing of the transaction contemplated herein shall be held within thirty (30) days from the expiration of the Inspection Period (the "**Closing**"). The Closing shall be effected through an escrow to be opened by the parties with the escrow department of the Title Company, and the actual date on which the Closing is consummated is called the "**Closing Date**." The Closing of this transaction may take place through an exchange of documents delivered to the Title Company using overnight courier service, electronic mail, or facsimile. After the expiration of the Inspection Period, Buyer may, at its option, extend the Closing Date by two (2) additional periods of not more than fifteen (15) days each provided Buyer has timely paid the First Additional Earnest Money Deposit, and if applicable, the Second Additional Earnest Money Deposit. The following procedure shall be followed by the parties in connection with the Closing:

6.1.1 Seller. At the Closing, Seller shall deliver or cause to be delivered to Buyer the following:

(i) General Warranty Deed. A General Warranty Deed (the "**Deed**"), in the form attached hereto as **Exhibit B**, conveying to Buyer the Real Property, subject only to the Permitted Exceptions.

(ii) FIRPTA Affidavit. An affidavit in form and substance satisfactory to Buyer stating that Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code and implementing regulations.

(iii) Proof of Authority. Such evidence as to the authority of Seller to enter into this Agreement and to discharge the obligations of Seller pursuant hereto as Buyer or the Title Company shall reasonably require.

(iv) Proforma Title Policy; Marked Title Commitment. A proforma copy of the Title Policy or original of the Title Commitment, marked and executed by the agent of the Title Insurer, unconditionally obligating the Title Insurer (subject to the satisfaction of matters listed on Schedule C of the Title Commitment) to deliver to Buyer the Title Policy insuring Buyer as the owner of the indefeasible fee simple title to the Land and Site Improvements and the holder of the dominant estate in and to the Appurtenances, if any, subject only to the Permitted Exceptions, together with such endorsements as Buyer may reasonably request.

(v) Proration Amounts. Such payments to Buyer (or credits against the Purchase Price) as may be required to effect the prorations required by this Agreement. If the ad valorem tax statements on the Property for the calendar year of Closing have been issued as of the Closing Date, the ad valorem taxes on the Property through the calendar year of Closing shall be paid. If the Property is included with other real property under one or more ad valorem tax account numbers, all ad valorem taxes through the calendar year of Closing associated with those ad valorem tax account numbers shall be paid at Closing.

(vi) Additional Documents. Such additional documents, including lien and possession affidavits, lien releases, financing statement termination statements, the definitive agreement concerning the warrants addressed in Section 4.10 hereof, an assumption of the Lease or a new lease as contemplated in Section 4.11 hereof, and other documents as may be reasonably requested by Buyer or the Title Company to consummate the Transaction. In addition, documents addressing the Reserved Easements and Restrictions, and the terms of **Section 4.9** shall be executed and delivered.

6.1.2 Buyer. At Closing, Buyer shall deliver or cause to be delivered to Seller the following:

(i) Purchase Price. The Purchase Price, subject to adjustments and prorations as provided in this Agreement, in immediately available United States funds.

(ii) Proof of Authority. Such evidence as to the authority of Buyer to enter into this Agreement and to discharge the obligations of Buyer pursuant hereto as Seller or the Title Company shall reasonably require.

(iii) Additional Documents. Such additional documents as may be reasonably requested by Seller or the Title Company to consummate the Transaction, and documents addressing the matters in **Section 4.8 Section 4.9, Section 4.10 and Section 4.11**.

(iv) Possession. Possession of the Property will be given to Buyer on the Closing Date, free from all parties claiming a right to possession or having claims against the Property or pursuant to contractual rights approved or agreed to be assumed by Buyer in writing.

Article 7 — Taxes, Prorations, and Brokerage

7.1 Costs and Prorations. Seller shall pay the following Closing costs: Seller's attorney's fees, the cost of the Title Policy, the cost of the Survey, the cost of Buyer's consulting surveyor, Pena Engineering, the cost to cure any Title Objections, all transfer taxes, the cost to prepare and record the Deed, the cost associated with the preparation and recording of documents in **Section 4.8 and Section 4.9**, the Closing fee charged by the Title Company, and any other costs of Seller specified elsewhere in this Agreement. Buyer shall pay the following Closing costs: Buyer's attorney's fees, any costs associated with Buyer's financing of the acquisition of the Property, and any other costs of Buyer specified elsewhere in this Agreement. Any Closing costs not specifically allocated above or elsewhere in this Agreement shall be allocated in accordance with usual and customary practice in the locality of the Property, provided, if no usual or customary practice exists, such other costs will be borne by the Seller.

7.2 Prorations. The income and expenses of the Property will be prorated as of the Closing Date and the Purchase Price will be adjusted on the following basis:

(i) Accounts Payable. All sums due for accounts payable by Seller which were owing or incurred by the Property prior to the Closing Date will be paid by Seller. Buyer will furnish to Seller any bills for such period received after the Closing Date for payment, and Buyer will have no further obligation with respect thereto. All accounts payable by the owner of the Property incurred on and after the Closing Date will be paid by Buyer.

(ii) Taxes. All real and personal property ad valorem taxes assessed against Seller and the Property for all years preceding the year in which Closing occurs, and any matured and unmatured installments of special assessments with respect to the Property, shall be paid by Seller. The real and personal property taxes for the year in which Closing occurs shall be prorated on a calendar year and per diem basis as of the Closing Date, and Seller agrees to accept as a credit against the Purchase Price the portion attributable to the period prior to the Closing Date. After the ad valorem taxes for the year of closing are finally determined, Seller and Buyer shall adjust the prorations, in cash, based on the actual ad valorem taxes due for the year of closing, and Seller shall pay to Buyer, within ten days of such determination, any amounts owed to Buyer, or Buyer shall refund to Seller, within such ten day period, any amounts to be refunded to Seller. Subject to the proration adjustment between Seller and Buyer, Buyer agrees to pay all real and personal property taxes for the year in which Closing occurs and subsequent years. Seller discloses to Buyer that a portion of the Property (i.e., Tract One and Tract Two) is the subject of special valuation and reduced tax assessments pursuant to the provisions of Chapter 23, Subchapter D, of the Texas Tax Code. Tract Three and Tract Four of the Property, however, are not the subject of special valuation and reduced tax assessments pursuant to the provisions of Chapter 23, Subchapter D, of the Texas Tax Code, or under any other provision of law with respect to any period before the closing, and that any additional taxes, penalties or interest associated with any prior special valuation or reduced tax assessments, including pursuant to the provisions of Chapter 23, Subchapter D, of the Texas Tax Code are paid. If the calendar year of Closing, or any prior calendar years, are included in the ad valorem tax years used in the computation of the rollback taxes payable when a change in use is triggered by Buyer on Tract One or Tract Two, Seller will pay the portion of the roll-back taxes associated with those ad valorem tax years within fifteen days of Buyer's written request to Seller to pay such roll-back taxes. Buyer is responsible for the payment of rollback taxes for any calendar years not the responsibility of Seller. Seller, Landmark and Buyer, at Closing, will execute an agreement concerning the payment of roll-back taxes, and Landmark will guarantee Seller's payment of any roll-back taxes that are Seller's obligation under this Agreement. The terms of this sub-section shall survive the Closing.

(iii) Method of Proration. In the event that the apportionments hereinabove provided for result in a credit balance to the Buyer, such sum shall be applied against the Purchase Price at the Closing. In the event the apportionments hereinabove provided result in a credit balance to the Seller, such credit balance shall be added to the Purchase Price payable at Closing.

(iv) Survival. The obligations in **Section 7.2** shall survive the Closing.

7.3 Brokerage. Neither of the parties to this Agreement has a contract with a broker, and no brokerage fees will be paid in connection with the sale and purchase pursuant to this Agreement.

7.4 Attorneys' Fees. Except as expressly otherwise provided in this Agreement, each party shall pay the fees of its attorneys and any other professionals who advised it in connection with the negotiation, execution, investigations, and closing of the transaction contemplated by this Agreement. If any legal action is instituted between Seller, Buyer, or escrow holder in connection with this Agreement, the Property or the Earnest Money, the prevailing party shall be entitled to recover from the losing party all of its costs and expenses, including court costs and reasonable attorneys' fees.

Article 8 — Risk of Loss

8.1 Eminent Domain. In the event all or any portion of the Property, or any access to the Property, or any interest in the Property is taken or is threatened to be taken by eminent domain (whether or not an eminent domain proceeding is actually commenced) prior to Closing, Seller shall immediately notify Buyer in writing (the "**Eminent Domain Notice**") which shall include a description in reasonable detail of the property or interest therein to be taken and Seller's good faith estimate of the cost to repair or restore any damage to or loss of the Property which would be occasioned by the taking. In such event Buyer may, at its sole election, terminate this Agreement by giving written notice of such election to Seller and the Title Company not later than the earlier of (i) the last business day prior to scheduled Closing Date, provided, however, in no event shall Buyer be required to give notice of such election sooner than five (5) business days after receipt of the Eminent Domain Notice, and the Closing shall be adjourned, if necessary, to accommodate such period, or (ii) the fifteenth (15th) calendar day after Buyer's receipt of the Eminent Domain Notice. If Buyer so elects to terminate this Agreement, the Earnest Money Deposit shall be returned to Buyer and neither party shall have any further rights or obligations under this Agreement. Buyer's failure to give timely notice to terminate this Agreement as provided above shall be deemed to be an election to proceed to close the Transaction in accordance with the terms of this Agreement. In such latter event, Buyer shall be entitled to participate in the taking proceeding or the negotiations regarding the taking award, and Seller shall assign to Buyer at Closing Seller's right, title and interest in any taking award which remains unpaid to Seller in connection with such taking. Further in such event, Buyer shall receive as a credit against the Purchase Price the amount of any taking award previously paid to Seller in connection with the taking and not used in the repair or restoration of the Property prior to Closing. As used herein a "taking" shall be deemed to include a voluntary conveyance in lieu of a taking by eminent domain.

Article 9 — Put Options

9.1 Put Options. As used in this **Article 9** the term "**Put Option Property**" will mean the Land, Appurtenances, and any Site Improvements existing at the date a Put Option hereunder is exercised. Landmark hereby grants to Buyer a put option ("**Put Option One**") to sell to Landmark the Put Option Property existing at the time Put Option One is exercised (the "**Put Option One Exercise Date**"). Barton hereby grants to Buyer a put option ("**Put Option Two**") to sell to Barton the Put Option Property existing at the time Put Option Two is exercised (the "**Put Option Two Exercise Date**"). Put Option Two shall be binding on Barton, his heirs, devisees, legatees, successors, and assigns. Put Option One and Put Option Two (herein sometimes collectively called the "**Put Options**" or individually a "**Put Option**") are only exercisable after the fifth (5th) anniversary of the date the Deed is recorded and on or before the sixth (6th) anniversary of the date the Deed is recorded ("**Put Option Term**"). Buyer may elect to exercise one or both Put Options. If Buyer elects to exercise both Put Options concurrently, the Put Options shall be deemed joint and several obligations of Landmark and Barton. Buyer may collect the Put Option Purchase Price from Landmark and/or Barton and convey the Put Option Property to Landmark and Barton as tenants in common. Notwithstanding the foregoing, Landmark and Barton may agree among themselves which will acquire the Put Option Property, or in what divided or undivided interests they will acquire the Put Option Property, and how the obligation to pay the Put Option Purchase Price will be allocated among them. Buyer agrees to cooperate with such internal agreements but only if the Put Option Property is timely acquired for the total Put Option Purchase Price.

9.2 Exercising Put Option(s). Buyer may exercise the Put Options during the Put Option Term by sending written notice of Buyer's election to exercise the Put Option(s) (the "**Put Option Exercise Notice(s)**").

9.3 Put Option Purchase Price. The purchase price for the Put Option Property (the "**Put Option Purchase Price**") shall be shall be equal to the Purchase Price together with interest thereon from the Closing Date (of Buyer's acquisition of the Property) until the Put Option Exercise Date at the annual rate of Ten Percent (10%) per year, not compounded. In other words, the Put Option Purchase Price will be determined as if Buyer had loaned Landmark and Barton the Purchase Price on the date of Closing and Landmark and/or Barton are jointly and severally obligated to repay the same, with annual interest at Ten Percent (10%), not compounded, on the applicable Put Option Exercise Date. The intent of this **Article 9** is for Landmark and Barton to jointly and severally guarantee Buyer a Ten Percent (10%) return on its investment in the Property (less closing costs to consummate the Put Option)s)) over a period ending on the Put Option Exercise Date, but with such guarantee to expire if not exercised, on the sixth (6th) anniversary of the date the Deed is recorded.

9.4 Other Terms of Sale Pursuant to Put Option. The purchase and sale of the Put Option Property shall be consummated within thirty (30) days after the giving of the Put Option Exercise Notice(s). Landmark and Barton agree to accept title to the Put Option Property pursuant to a special warranty deed from Buyer (i.e. subject to the same title exceptions as contained in the Deed). Landmark and Barton further agree to accept the Put Option Property in its current physical condition, and if applicable, subject to such additional physical matters arising after the Closing Date provided such additional matters do not materially adversely affect the value of the Put Option Property. The closing costs relating to the consummation of the Put Option(s) and the allocation thereof among the Buyer (as seller), and Landmark and Barton (as buyers) shall be the same as set forth in **Section 7.1**; provided, however, Buyer shall not be obligated to furnish a survey of the Put Option Property. The income and expenses of the Put Option Property will be prorated as of the closing date of the consummation of the Put Option and the Put Option Purchase Price will be adjusted on the same basis as set forth in **Section 7.2** above.

9.5 Golsen Subordination. Golsen has represented that he has loaned $1,076,770.83 to Barton (the "**Golsen Loan**") pursuant to a promissory note dated March 2, 2011. Golsen has agreed to subordinate his right to be repaid the Golsen Loan to Buyer's prior right to be paid all sums that may become due and owing pursuant to the exercise of the Put Options. Therefore, Golsen agrees the Golsen Loan shall at all times be subordinate and inferior in right of payment to Buyer's right to be paid any amount becoming due under the Put Options. In furtherance of Golsen's subordination agreement set forth above, Golsen and Barton further agrees as follows:

(i) During the Put Option Term and any period thereafter if a Put Option has been exercised and not full performed by Landmark and/or Barton:

(a) Golsen will not ask, demand, sue for, take or receive from Barton (or from any assumptor or guarantor of the Golsen Loan, any nominee of any thereof, or otherwise), by set-off or in any other manner, or retain, any payment or distribution on account of the Golsen Loan (whether principal, interest or otherwise), nor will Golsen ask, demand or receive any security for all or any part of the Golsen Loan;

(b) Golsen hereby directs Barton not to make, and Barton hereby agrees not to make, any payments on the Golsen Loan until the earlier satisfaction or expiration of all Put Option obligations by Landmark and/or Barton;

(c) Golsen will not declare all or any part of the Golsen Loan owing to Golsen due and payable by reason of any default or any other reason, or commence, or join with any other creditor in commencing, any proceeding against the Barton under any bankruptcy, reorganization, readjustment of debt, suspension of payments, receivership, liquidation or insolvency law or statute now or hereafter in effect (**"Proceedings"**);

(d) if the Barton makes an assignment for the benefit of creditors or any Proceedings are commenced by or against Barton, then and in any such event and at any time thereafter, Golsen will, upon the written request of Buyer, (1) duly and promptly take such action as may be required by Buyer to collect the Golsen Loan for the account of Buyer (to be held by Buyer as security for the performance of the Put Option obligations and without allowance of interest thereon) and/or to file appropriate proofs of claim in respect of the Golsen Loan; (2) authorize and empower (and Golsen hereby authorizes and empowers) Buyer to vote the full amount of the Golsen Loan in any Proceeding affecting Barton and in any meeting of creditors of Barton, and (3) duly and promptly execute and deliver to Buyer or its representatives on demand such powers of attorney, proofs of claim and other instruments as may be requested by Buyer or its representatives in order to enable Buyer to (A) enforce any and all claims upon or with respect to the Golsen Loan; (B) collect and receive any and all such payments or distributions which may be payable or deliverable at any time upon or with respect to the Golsen Loan, and (C) vote the full amount of the Golsen Loan in any Proceeding or meeting referred to in the immediately preceding clause (2); and

(e) upon any distribution of the assets of Barton in connection with any dissolution, winding up, liquidation or reorganization of Barton (whether in connection with Proceedings, an assignment for the benefit of creditors, any other marshalling of the assets and liabilities of Barton or otherwise), Buyer shall first be entitled to receive payment in full of amount of any Put Option that has been exercised or otherwise the amount of any Put Option that that could be exercised on the last day of the Put Option Term (as applicable, the "**Superior Indebtedness**"), before Golsen shall be entitled to receive any payment in respect of the Golsen Loan, and any payment or distribution of assets of Barton to which Golsen would be entitled but for the provisions of this Agreement shall be made directly to Buyer to the extent necessary to pay the Superior Indebtedness, without regard to whether such Superior Indebtedness is then due or remains contingent only. Upon any such dissolution, winding up, liquidation or reorganization, any payment or distribution of assets of Barton of any kind or character, whether in cash, property or securities, to which Golsen would be entitled except for the provisions of this Agreement (including any such payment or distribution which may be payable or deliverable by virtue of the provisions of securities which are subordinated as junior in right of payment to the Golsen Loan) shall be made by the liquidating trustee, agent or other person making such payment or distribution (whether a trustee in bankruptcy, a receiver, a liquidating trustee or otherwise)(a **"Paying Party"**), or if received by Golsen, by Golsen, directly to Buyer, to the extent necessary to pay in full the Superior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to Buyer. Golsen hereby authorizes and directs each Paying Party to pay over to Buyer, upon demand by Buyer, all such payments or distributions without the necessity of any inquiry as to the status or balance of the Superior Indebtedness, and without further notice to or consent of Golsen. Golsen hereby irrevocably authorizes and empowers Buyer to demand, sue for, collect and receive every such payment or distribution and give acquittance therefor, to execute, sign, endorse, transfer and deliver any and all receipts and instruments, and to file claims and take such other proceedings, all in the name of Golsen, or otherwise, as Buyer may deem necessary or advisable for the enforcement of this Agreement, but Buyer has no obligation to do so. In furtherance of the foregoing, but not by way of limitation thereof, in the event that Barton is subject to any Proceeding, with the result that Barton is excused from meeting its obligations to pay all or part of the interest otherwise accruing under the Superior Indebtedness during the period subsequent to the commencement of any such proceeding, Golsen agrees that all or such part of such interest, as the case may be, shall be payable out of, and to that extent diminish and be at the expense of, reorganization dividends or distributions in respect of such Golsen Loan. Buyer agrees to hold any Superior Indebtedness received before the exercise of any Put Option as security for any later obligation by Landmark and/or Barton to perform a Put Option later exercised. If the Put Option Period expires without a Put Option having been exercised, Buyer agrees promptly to pay any monies so held directly to Golsen.

9.6 Obligations Survive Closing. The rights and obligations of the parties under this **Article 9** shall survive the Closing,

Article 10 — Intentionally Deleted

Article 11 — Default and Remedies

In the event a default occurs in the performance of any party's obligations hereunder, the non-defaulting party(ies) shall, as a condition of exercising its(their) remedies hereunder, provide written notice of such default to the defaulting party. The defaulting party shall thereafter have five (5) business days, commencing the day notice is deemed received, in which to remedy such default. If Seller defaults hereunder with respect to its obligation to sell the Property and fails to timely cure such default, or if Seller wrongfully refuses to close the sale of the Property under the terms of this Agreement, Buyer shall be entitled to the remedies under Texas law at the time of the breach, including, without limitation, specific performance and injunctive relief (prohibitive and mandatory) and the right to recover as an element of its damages all costs and expenses, including, without limitation, those incurred in connection with the negotiation and drafting of this Agreement and the preparation for the Closing, as well as its court costs and the reasonable fees and expenses of its attorneys and expert witnesses, including such fees, costs, and expenses incurred in connection with appellate proceedings. If Buyer defaults hereunder and fails to timely cure such default or if Buyer wrongfully refuses to close the purchase of the Property under the terms of this Agreement, Seller shall be entitled, as its sole remedy, to the Earnest Money Deposit, which Seller shall be entitled to retain in full satisfaction of any liability of Buyer hereunder. In the event of a dispute between Buyer and Seller relating to the Earnest Money Deposit, the prevailing party shall have the right to recover all of its expenses and costs incurred by reason of the dispute including, but not limited to, attorney's fees, court costs, and costs of suit preparation. Neither party shall be entitled to consequential or punitive damages in connection with a breach hereof. If Landmark or Barton default under their obligations contained in **Article 9**, or if Buyer has to take action to collect a Mandatory Refund Amount from Golsen under **Section 4.1.4**, Buyer shall be entitled to the remedies under Texas law at the time of the breach, including, without limitation, specific performance and injunctive relief (prohibitive and mandatory) and the right to recover as an element of its damages all costs and expenses, including, without limitation, its court costs and the reasonable fees and expenses of its attorneys and expert witnesses, including such fees, costs, and expenses incurred in connection with appellate proceedings.

Article 12 — Notices

12.1 Notices. Any notice, request, demand, instruction or other communication given to either party hereunder, except those required to be delivered at Closing, shall be in writing, and shall be deemed to be delivered (a) on receipt if by hand delivery or facsimile transmission and (b) whether actually received or not, upon deposit of both the original and the copy, as provided below, in a regularly maintained official depository of the United States mail located in the continental United States, and sent by registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

If to Seller: South Padre Island Development, LLC
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Attn: Mr. William W. Vaughan, III
Fax: (301) 374-3301

If to Buyer: Prime Financial L.L.C.
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107
Attn: Mr. David M. Shear
Fax: (405) 236-1209

With a copy to: Atlas & Hall, L.L.P.
818 Pecan Blvd.
P. O. Drawer 3725
McAllen, Texas 78502-3725
Attn: Mr. Frederick J. Biel
Fax: (956) 686 6109

If to Landmark: Landmark Land Company, Inc.
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Attn: Mr. William W. Vaughan, III
Fax: (301) 374-3301

If to Barton: Mr. Gerald G. Barton
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Fax: (301) 374-3301

With a copy to: Mr. William W. Vaughan, III
2817 Crain Highway
P.O. Box 1880
Upper Marlboro, Maryland 20774
Fax: (301) 374-3301

If to Golsen: Mr. Jack Golsen
16 South Pennsylvania Avenue
Oklahoma City, Oklahoma 73107

Fax: (405) 236-1209
If to Title Company: Ms. Diana Kaufold
3111 West Freddy Gonzalez
Edinburg, Texas 78539
Fax: (956) 289 3006

12.2 Changes. Any party may change its notice address and change or add to its "copy to" addressee under this **Article 12**, by giving notice of the change to the other parties in the manner provided herein for giving notice. For the purpose of changing the addresses or addressees only, unless and until such written notice is received, the last address and addressee stated herein shall be deemed to continue in effect for all purposes.

Article 13 — Miscellaneous

13.1 Entire Agreement. This Agreement and the exhibits attached hereto contain the entire agreement between the parties, and no promise, representation, warranty or covenant not included in this Agreement or any such referenced agreements has been or is relied upon by either party.

13.2 Amendment. No modification or amendment of the terms of this Agreement relating to the purchase and sale of the Property shall be of any force or effect unless made in writing and executed by both Buyer and Seller. No modification or amendment of the terms of this Agreement relating to the restrictions on use of the Purchase Price or to the Mandatory Refund Amount obligations shall be of any force or effect unless made in writing and executed by Buyer, Seller, and Golsen. No modification or amendment of the terms of this Agreement relating to the Put Options and Golsen's subordination of his right to be paid the Golsen Loan shall be of any force or effect unless made in writing and executed by Buyer, Landmark, Barton and Golsen. No modification or amendment of the terms of this Agreement relating to the First Right to Purchase provisions shall be of any force or effect unless made in writing and executed by Buyer and Seller.

13.3 Construction. If any litigation arises hereunder, it is specifically stipulated that this Agreement shall be interpreted and constructed according to the laws of the State of Texas.

13.4 Venue. Venue for any legal action arising out of this Agreement shall be Brownsville, Cameron County, Texas. Further, the prevailing party in any litigation between the parties is entitled to recover, as a part of its judgment, reasonable attorney's fees and costs of suit.

13.5 Effective Date. All references in this Agreement to the "Effective Date" or similar references shall be deemed to refer to the date when all parties have executed this Agreement.

13.6 Gender. Words of any gender used in this Agreement shall be held and construed to include any other gender, and words of singular number shall be held to include the plural and vice versa, unless the context requires otherwise.

13.7 Severability. If any one or more of the provisions of this Agreement, or the applicability of any such provision to a specific situation, shall be held to be invalid or unenforceable, such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable, and the validity and enforceability of all other provisions of this Agreement and all other applications of any such provisions shall not be affected thereby.

13.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts together shall constitute one and the same instrument.

13.9 Survival. All warranties, representations and agreements contained herein or arising out of the sale of the Property by Seller to Buyer shall survive the Closing hereof, including, without limitation, (i) Seller's restriction on use of the sales proceeds, (ii) Golsen's obligation pay the Mandatory Refund Amount (if applicable), (iii) Buyer's Put Options, and (iv) Golsen's subordination of the Golsen Loan to the Superior Indebtedness.

13.10 Further Acts. In addition to the acts recited in this Agreement to be performed by Seller, Buyer, Landmark, Barton and Golsen, respectively, the parties each agree to perform or cause to be performed at the Closing any and all such further acts as may be reasonably necessary to consummate the transactions contemplated hereby.

13.11 Exhibits. All exhibits described in this Agreement are by this reference fully incorporated herein and made a part hereof by reference for all purposes.

13.12 Binding Effect; Assignment. This Agreement and the terms and provisions hereof shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, personal representatives, successors, and assigns, whenever the context so requires or admits. Either Buyer or Seller may assign its rights under this Agreement without the prior written consent of the other party, so long as the assignee assumes the obligations of the assignor, and the assignor is not released from responsibility for its obligations except by performance by its assignee. Landmark, Barton, and Golsen may not assign their rights or obligations under this Agreement without the written consent of Buyer which may be withheld in Buyer's discretion.

13.13 Confidentiality. Buyer and Seller acknowledge that the terms and conditions of this Agreement and the details of the ensuing negotiations will remain confidential between the parties to this Agreement and no proposals, drafts, or copies of the Agreement, or summaries of any kind will be distributed, copied, or otherwise transmitted orally or in writing, to any third party entity or person other than professional consultants or advisers involved in this transaction.

13.14 Exclusivity. So long as this Agreement is in effect, Seller shall take no action to market the Property or any part of it to any potential owner or user, and shall not accept any "back-up" contracts or conditional offers of any kind.

13.15 Foreign Person Notification. At the Closing, Seller shall deliver to Buyer and to the Title Company an affidavit(s) from Seller and any other parties required pursuant to Section 1445 of the Internal Revenue Code and/or regulations relating thereto stating, under the penalty of perjury (i) that Seller is not a foreign person, (ii) the U.S. Taxpayer identification number of Seller, and (iii) such other information as may be required by regulations enacted by the Department of Treasury, in connection with Section 1445 of the Internal Revenue Code. An executed counterpart of such affidavit will be furnished to the Buyer at Closing. If Seller is a Foreign Person, as defined by applicable law, or if Seller fails to deliver the above described affidavit, then Buyer or the Title Company shall withhold from the sales proceeds an amount sufficient to comply with applicable tax law and deliver the same to the Internal Revenue Service, together with appropriate tax forms.

13.16 Construction of Agreement. The rule of construction that ambiguities in a document are construed against the party who drafted it does not apply in interpreting this Agreement.

13.17 Waiver of Jury Trial. **BUYER, SELLER, LANDMARK, BARTON AND GOLSEN, EACH AFTER CONSULTATION WITH AN ATTORNEY OF ITS OWN SELECTION (WHICH COUNSEL WAS NOT DIRECTLY OR INDIRECTLY IDENTIFIED, SUGGESTED OR SELECTED BY THE OTHER PARTIES), ALL VOLUNTARILY WAIVE A TRIAL BY JURY OF ANY ISSUE ARISING IN AN ACTION OR PROCEEDING AMONG THE PARTIES OR THEIR SUCCESSORS, UNDER OR CONNECTED WITH THIS AGREEMENT OR ITS PROVISIONS. THE PARTIES TO THIS AGREEMENT ACKNOWLEDGE TO EACH OTHER THAT THE ALL PARTIES ARE NOT IN SIGNIFICANTLY DISPARATE BARGAINING POSITIONS.**

13.18. Additional Seller Disclosures. Seller discloses to Buyer that the Property:

(i) is not situated in a utility or other statutorily created district providing water, sewer, drainage or flood control facilities and services, except for the Laguna Madre Water District. Seller, prior to Closing, will deliver to Buyer, and Buyer will execute, a statutory notice relating to the tax rate, bonded indebtedness, and/or standby fees of the Laguna Madre Water District, and Seller will provide Buyer a copy of the proposed disclosure during the Inspection Period.

(ii) does not adjoin or share a common boundary with the tidally influenced submerged lands of the State of Texas.

(iii) is not located seaward of the Gulf Intracoastal Waterway.

(iv) is not located outside the limits of a municipality. If the Property is located outside the limits of a municipality, the Property may now or later be included in the extra-territorial jurisdiction (AETJ@) of a municipality and may now or later be subject to annexation by the municipality. Each municipality maintains a map that depicts its boundaries and ETJ. To determine if the Property is located within a municipality=s ETJ, Buyer should contact all municipalities located in the general proximity of the Property for further information.

(v) is not located within an Agricultural Development District subject to Chapter 60 of the Texas Agriculture Code.

(vi) is not located in a certificated service area of a utility service provider, as such term is defined in Section 13.257, Texas Water Code.

IN WITNESS WHEREOF, the parties have executed this Agreement on the separate signature pages attached as a part hereof.

[Remainder of this page intentionally left blank]

"Seller": SOUTH PADRE ISLAND DEVELOPMENT, LLC, a Delaware limited liability company

By: /s/ Joe Olree
Name:
Title: Vice President

Date of Execution: September 1, 2011

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Buyer": PRIME FINANCIAL, L.L.C. an Oklahoma limited liability company

By: /s/ David R. Goss
Name:David R. Goss
Title:Vice President

Date of Execution: September 8, 2011

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Landmark": LANDMARK LAND COMPANY, INC., a Delaware corporation

By: /s/ W. W. Vaughan
Name:
Title: President

Date of Execution: September 1, 2011

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Barton": /s/ Gerald G. Barton

Gerald G. Barton, an individual

Date of Execution: September 1, 2011

[Remainder of this page intentionally left blank]

[Signature page to Real Estate Purchase and Sale Agreement]

"Golsen": /s/ Jack E. Golsen
Jack E. Golsen, an individual

Date of Execution: September 8, 2011

[Remainder of this page intentionally left blank]

Schedule of Exhibits:

Exhibit A Legal Description of the Land

Exhibit B Form of General Warranty Deed

EXHIBIT A

Legal Description of the Land

Tract One: 5.83 acre tract depicted on Schedule One attached hereto.

Tract Two: 15.39 acre tract depicted on Schedule Two attached hereto, with 5.39 acres, as depicted on the attached Schedule Two, with 5.39 acres more or less, dedicated as a right of way easement for future dedication as a public street.

Tract Three: Lot 2, Block 1, South Padre Island Golf Community, Phase 1, as recorded in Cabinet 1, Slot 1708-A, 1708-B and 1709-A, of the Map Records of Cameron County, Texas, SAVE and EXCEPT a 2.996 acre tract described on Schedule Three attached hereto.

Tract Four: 7.90 acre tract depicted on Schedule Four attached hereto.

EXHIBIT B

Form of General Warranty Deed

General Warranty Deed

Notice of confidentiality rights: If you are a natural person, you may remove or strike any or all of the following information from any instrument that transfers an interest in real property before it is filed for record in the public records: your Social Security number or your driver's license number.

Date:

Grantor:

Grantor's Mailing Address: [**include county**]

Grantee:

Grantee's Mailing Address: [**include county**]

Consideration:

Property (including any improvements):

Reservations from Conveyance:

Exceptions to Conveyance and Warranty:

Grantor, for the Consideration and subject to the Reservations from Conveyance and the Exceptions to Conveyance and Warranty, grants, sells, and conveys to Grantee the Property, together with all and singular the rights and appurtenances thereto in any way belonging, to have and to hold it to Grantee and Grantee's heirs, successors, and assigns forever. Grantor binds Grantor and Grantor's heirs and successors to warrant and forever defend all and singular the Property to Grantee and Grantee's heirs, successors, and assigns against every person whomsoever lawfully claiming or to claim the same or any part thereof, except as to the Reservations from Conveyance and the Exceptions to Conveyance and Warranty.

When the context requires, singular nouns and pronouns include the plural.

[ADD SIGNATURE LINE & ACKNOWLEDGMENT FOR GRANTOR]

After Recording Return To:

Atlas & Hall, L.L.P.
Attention: Frederick J. Biel
818 Pecan Ave.
P. O. Drawer 3725
McAllen, Texas 78502-3725

Exhibit B

Exhibit 10.3

FIRST AMENDMENT TO
REAL ESTATE PURCHASE CONTRACT

This First Amendment to Real Estate Purchase Contract ("Amendment") is effective as of October 20, 2011, and is entered into by and among: **SOUTH PADRE ISLAND DEVELOPMENT, LLC,** a Delaware limited liability company (herein "**Seller**"); **PRIME FINANCIAL L.L.C.,** an Oklahoma limited liability company, or its assigns (herein "**Buyer**"); **LANDMARK LAND COMPANY, INC.**, a Delaware corporation ("**Landmark**"); **GERALD G. BARTON**, an individual ("**Barton**"); and **JACK E. GOLSEN**, an individual ("**Golsen**").

WHEREAS, Seller, Buyer, Landmark, Barton and Golsen executed a Real Estate Purchase Contract ("Contract") on four tracts of land in Cameron County, Texas (the "Land") associated with Seller's and Landmark's ("Developer's") development of residential and commercial real property in Cameron County, Texas (the "Planned Development") of which the Land is a part; and

WHEREAS, International Bank of Commerce ("Lender") holds liens on the Land and other real property in the Planned Development that secure the payment of Developer's indebtedness to Lender; and

WHEREAS, Developer has advised Buyer that Lender and Developer are negotiating the terms of a renewal and extension of Developer's indebtedness owed to Lender that may: (i) increase the portion of the Purchase Price that Developer must pay to Lender in order to obtain a release of Lender's liens on the Land; and (ii) impose new or modified conditions on Developer that impact Developer's ability to market and close on its remaining Planned Development properties in the time and manner set forth in Developer's short, medium and long term business plans; collectively, the "Lender Additional Conditions"; and

WHEREAS, Buyer has advised Developer that Buyer is unwilling to proceed with the purchase of the Land if the Lender's Additional Conditions negatively affect Developer's short term cash flow or Developer's sales projections on its remaining Planned Development properties (collectively, the "Potential Adverse Consequences"), so Buyer and Developer, in lieu of Buyer terminating the Contract during the Inspection Period, have agreed to amend the Contract in certain respects to give Developer time to negotiate Lender Additional Conditions that are mutually acceptable to Developer and Lender, and that allow Developer to show Buyer, to Buyer's reasonable satisfaction, that the agreed Lender Additional Conditions either do not have any Potential Adverse Consequences that adversely affect the marketability or fair market value of the Land, or that minimize such risks.

NOW THEREFORE, Seller, Buyer, Landmark, Barton and Golsen agree as follows:

1. The Inspection Period under Section 4.2 is extended until the later of (i) ___ or (ii) twenty days after the date that Buyer receives an updated Title Commitment from the Title Company based on the information disclosed in the Survey.

2. The parties acknowledge that Buyer has provided Seller a letter dated October 20, 2011, detailing Buyer's Title Objections (as defined in the Contract) to title and survey matters disclosed in the Title Commitment and the Survey, as well as additional development matters identified during the Inspection Period, collectively, the "Buyer Issues." In lieu of the process set forth in Section 3.4 of the Contract, on and after the date of this Amendment, Seller and Buyer shall seek to resolve, prior to the expiration of the Inspection Period, to Seller's and Buyer's mutual satisfaction, the Buyer Issues. If there are unresolved Buyer Issues at the expiration of the Inspection Period, the Contract will terminate, unless Buyer, in writing, prior to the expiration of the Inspection Period, agrees to waive any outstanding Buyer Issues. If the Contract is terminated, Seller will return the Earnest Money Deposit to Buyer within five (5) calendar days of the termination of the Contract, Seller shall bear the cost of all title work, including the Survey, and any survey consultation services of Pena Engineering, procured in connection with the Contract, and thereafter Seller and Buyer shall have no further rights or obligations under the Contract.

3. Seller acknowledges receipt of the initial $350,000 Earnest Money Deposit required of Buyer under Section 2.1 of the Contract. The requirement for the "First Additional Earnest Money Deposit (as defined in the Contract), and the "Second Additional Earnest Money Deposit (as defined in the Contract) are deleted from the Contract.

4. The fourth sentence in Section 6.1 of the Contract is deleted in its entirety.

5. Except as provided in this Amendment, all other terms and conditions of the Contract remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment on the separate signature pages attached as a part hereof.

[Remainder of this page intentionally left blank]

[Signature page to First Amendment to Real Estate Purchase Contract]

"Seller": SOUTH PADRE ISLAND DEVELOPMENT, LLC,
a Delaware limited liability company

By: /s/ W.W. Vaughn
Name:
Title: Vice President

Date of Execution: 10/31/2011

[Remainder of this page intentionally left blank]

[Signature page to First Amendment to Real Estate Purchase Contract]

"Buyer": PRIME FINANCIAL, L.L.C. an Oklahoma limited liability company

By: _____
Name:
Title:

Date of Execution: _____, 2011

[Remainder of this page intentionally left blank]

[Signature page to First Amendment to Real Estate Purchase Contract]

"Landmark": LANDMARK LAND COMPANY, INC., a Delaware corporation

By: /s/ Joe Olree
Name:
Title: Vice President

Date of Execution: October 31, 2011

[Remainder of this page intentionally left blank]

[Signature page to First Amendment To Real Estate Purchase Contract]

"Barton": /s/ Gerald G. Barton

Gerald G. Barton, an individual

Date of Execution: 10/31/2011

[Remainder of this page intentionally left blank]

[Signature page to First Amendment to Real Estate Purchase Contract]

"Golsen":

_____

Jack E. Golsen, an individual

Date of Execution: _____, 2011

[Remainder of this page intentionally left blank]

Exhibit 31.1

CERTIFICATION

I, Jack E. Golsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) 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; and

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 functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

/s/ Jack E. Golsen
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tony M. Shelby, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) 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; and

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 functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2011

/s/ Tony M. Shelby
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 Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended September 30, 2011 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
(Principal Executive Officer)

November 7, 2011

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 Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended September 30, 2011 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, 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/ Tony M. Shelby
Tony M. Shelby
Executive Vice President of Finance and
Chief Financial Officer
(Principal Financial Officer)

November 7, 2011

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.