UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

or

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

For the transition period from __________ to __________

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	73-1015226
(State of Incorporation)	(I.R.S. Employer) Identification No.)
16 South Pennsylvania Avenue Oklahoma City, Oklahoma	73107
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	American Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: Preferred Share Purchase Rights

(Facing Sheet Continued)

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

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

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

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

The aggregate market value of the Registrant’s voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 29, 2007, was approximately $272 million. As a result, the Registrant is an accelerated filer as of December 31, 2007. For purposes of this computation, shares of the Registrant’s common stock beneficially owned by each executive officer and director of the Registrant and by Jayhawk Capital Management, L.L.C. and its affiliates were deemed to be owned by affiliates of the Registrant as of June 29, 2007. Such determination should not be deemed an admission that such executive officers, directors and other beneficial owners of our common stock are, in fact, affiliates of the Registrant or affiliates as of the date of this Form 10-K.

As of March 7, 2008 the Registrant had 21,106,292 shares of common stock outstanding (excluding 3,448,518 shares of common stock held as treasury stock).

FORM 10-K OF LSB INDUSTRIES, INC.

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PART I

ITEM 1. BUSINESS

General

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

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

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

We believe our Climate Control Business has developed leadership positions in niche markets by offering extensive product lines, customized products and improved technologies. Under this focused strategy, we have developed what we believe to be the most extensive line of water source heat pumps and hydronic fan coils in the United States. Further, we were a pioneer in the use of geothermal technology in the climate control industry and have used it to create what we believe to be the most energy efficient climate control systems commercially available today. We employ highly flexible production capabilities that allow us to custom design units for new construction markets and for the retrofit and replacement markets. Our products are currently installed in some of the most recognizable commercial developments in the country, including Prudential Tower, Rockefeller Plaza, Trump Tower, and Time Warner Center, and are slated to be in a number of developments currently under construction. In addition, we have a significant presence in the lodging industry with installations in numerous Hyatt, Marriott, Four Seasons, Starwood, Ritz Carlton and Hilton hotels. We also have a substantial share of resort destinations in Las Vegas where we have units installed in over 70,000 rooms for a number of premier properties, including the MGM Grand, Luxor, Venetian, Treasure Island, Bellagio, Mandalay Bay, Caesar’s Palace, Monte Carlo, Mirage, Golden Nugget, Hard Rock, Wynn resorts, and many others.

Our Chemical Business has three chemical production facilities located in Baytown, Texas (the “Baytown Facility”), El Dorado, Arkansas (the “El Dorado Facility”) and Cherokee, Alabama (the “Cherokee Facility”). Our Chemical Business is a supplier to some of the world’s leading chemical and industrial companies. By focusing on specific geographic areas, we have developed freight and distribution advantages over many of our competitors, and we believe our Chemical Business has established leading regional market positions, a key element in the success of this business. The primary raw material feedstocks (natural gas, anhydrous ammonia and sulfur) of the Chemical Business are commodities, subject to price fluctuations and are purchased at prices in effect at time of purchase.

The Baytown Facility consumes approximately 125,000 tons of purchased anhydrous ammonia per year. The majority of the Baytown Facility's production is sold pursuant to a long-term contract that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit.

The El Dorado Facility purchases approximately 220,000 tons of anhydrous ammonia and 40,000 tons of sulfur annually and produces and sells approximately 455,000 tons of nitrogen-based products and approximately 120,000 tons of sulfuric acid per year. The anhydrous ammonia is purchased pursuant to a supply agreement whereby the El Dorado Facility secures the majority of its requirements of anhydrous ammonia from one supplier. Although anhydrous ammonia is produced from natural gas, the price does not necessarily follow the spot-price of natural gas in the U.S. because anhydrous ammonia is an internationally traded commodity and the relative price is set in the world market while natural gas is primarily a nationally traded commodity. The ammonia supply to the El Dorado Facility is transported from the Gulf of Mexico by pipeline. Our cost of anhydrous ammonia is based upon formulas indexed to published industry prices, primarily tied to import prices. Historically, the sulfur costs have been relatively stable; however, the recent world sulfur shortages have led to significant increase in the cost of this raw material.

The Cherokee Facility normally consumes 4 to 6 million MMBtu's of natural gas annually and produces and sells approximately 305,000 tons of nitrogen-based products per year. Natural gas is a primary raw material for anhydrous ammonia. Natural gas costs continue to exhibit volatility. In 2007 daily spot prices per MMBtu, excluding transportation, ranged from $5.30 to $10.59.

Due to the uncertainty of the sales prices of our products in relation to the cost of sulfur, anhydrous ammonia and natural gas, our Chemical Business has pursued a strategy of developing customers that purchase substantial quantities of products pursuant to sales agreements and/or pricing arrangements that provide for the pass through of these raw material costs. These pricing arrangements help mitigate the commodity risk inherent in the raw material feedstocks of natural gas, anhydrous ammonia and sulfur. For 2007, approximately 60% of the Chemical Business' sales were made pursuant to sales agreements and/or pricing arrangements that pass-through the cost of these raw materials. The remaining sales are primarily into agricultural markets at the price in effect at time of shipment. The sales prices of our agricultural products have only a moderate correlation to the anhydrous ammonia and natural gas feedstock costs and reflect market conditions for like and competing nitrogen sources. This can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from reaching full performance potential. Our primary efforts to improve the results of our Chemical Business include maintaining the current level of non-seasonal sales volumes with an emphasis on customers that will accept the commodity risk inherent with natural gas and anhydrous ammonia, while maintaining a strong presence in the agricultural sector.

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating income (loss) and identifiable assets attributable to each of our lines of business and of the amount of our export sales in the aggregate and by major geographic area for each of the last three years appear in Note 20 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Climate Control Business

General

Our Climate Control Business manufactures and sells a broad range of standard and custom designed geothermal and water source heat pumps and hydronic fan coils as well as other products for the niche markets we serve. These products are for use in commercial and residential HVAC systems, including large custom air handlers and modular chiller systems. The construction of commercial, institutional and residential buildings including multi and single-family homes, the renovation of existing buildings and the replacement of existing HVAC systems drive the demand for our Climate Control products. Our Climate Control commercial products are used in a wide variety of buildings, such as hotels, motels, office buildings, schools, universities, apartments, condominiums, hospitals, nursing homes, extended care facilities, industrial and high tech manufacturing facilities, food and chemical processing facilities, and pharmaceutical manufacturing facilities. We target many of our products to meet increasingly stringent indoor air quality and energy efficiency standards.

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

	2007	2006	2005
Percentage of net sales of the Climate Control Business:			
Geothermal and water source heat pumps	58 %	61 %	54 %
Hydronic fan coils	30 %	27 %	34 %
Other HVAC products	12 %	12 %	12 %
	100 %	100 %	100 %
Percentage of our consolidated net sales:			
Geothermal and water source heat pumps	28 %	27 %	21 %
Hydronic fan coils	15 %	12 %	13 %
Other HVAC products	6 %	6 %	5 %
	49 %	45 %	39 %

Geothermal and Water Source Heat Pumps

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

Our Climate Control Business has also developed the use of geothermal water source heat pumps in residential and commercial applications. Geothermal systems, which circulate water and antifreeze through an underground heat exchanger, are among the most energy efficient systems available. We believe the longer life, lower cost to operate, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, will continue to increase demand for our geothermal products. We specifically target new residential construction of moderate and high-end multi and single-family homes, as well as commercial applications.

Hydronic Fan Coils

We believe that our Climate Control Business is a leading provider of hydronic fan coils. Our Climate Control Business targets the commercial and institutional markets. Hydronic fan coils use heated or chilled water, provided by a centralized chiller or boiler through a water pipe system, to condition the air and allow individual room control. Hydronic fan coil systems are quieter and have longer lives and lower maintenance costs than other comparable systems used where individual room control is required. Important components of our strategy for competing in the commercial and institutional renovation and replacement markets include the breadth of our product line coupled with customization capability provided by a flexible manufacturing process. The lodging and hospitality industry is a significant user of hydronic fan coils; however, fan coils are used in a wide variety of applications.

Geothermal and Water Source Heat Pump and Hydronic Fan Coil Market

We estimate the annual United States market for water source heat pumps and hydronic fan coils to be approximately $589 million based on data supplied by the Air-Conditioning and Refrigeration Institute (“ARI”). Levels of repair, replacement, and new construction activity generally drive demand in these markets.

Production and Backlog

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

During 2006 and 2007, we invested approximately $10.6 million in production and fabrication equipment, plant-wide process control systems and other upgrades relating to our Climate Control Business. In addition to the spending on equipment and systems, during 2006 and 2007, we invested a total of approximately $3.8 million in facilities.

As a result of record order intake level of our heat pump products during 2006 and 2007, our backlog of confirmed orders for these products had increased to high levels and our lead times had pushed out beyond levels that we consider to be optimum for good customer service. In order to work the backlog down and to improve product lead times, we have increased unit capacity by approximately 65% (through additional shifts, overtime, investment in equipment, and facilities) since the end of 2005, with the potential for a further increase in capacity by debottlenecking and the addition of certain fabrication equipment. The facility expansion included a new 46,000 square foot building next to our existing heat pump manufacturing facility and the renovation of 110,000 square feet of an existing facility for a distribution center.

Our fan coil business also experienced significant increases in customer orders and shipments during 2007 and was able to increase production capacity through increased utilization of second shifts, equipment purchases, and the extension and reconfiguration of production assembly lines. During 2007, we also made capital investments to substantially increase our capacity of tube-in-fin heat transfer coils used in geothermal and water source heat pumps and hydronic fan coils.

For 2008, we have committed to date to spend an additional $3.2 million for production equipment and land for future expansion. Our investment in the Climate Control Business will continue if order intake levels continue to warrant. These investments have and will increase our capacity to produce and distribute our Climate Control products.

As of December 31, 2007 and 2006, the backlog of confirmed orders for our Climate Control Business was approximately $54.5 million and $80.4 million, respectively. The decrease in our backlog relates primarily to utilizing the increased capacity discussed above. Our experience indicates that customers generally do not cancel orders after we receive them. We expect to ship substantially all the orders in the backlog within the next twelve months.

Marketing and Distribution

Distribution

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

	2007	2006	2005
Net sales to OEMs as a percentage of:			
Net sales of the Climate Control Business	19 %	17 %	22 %
Consolidated net sales	9 %	8 %	9 %

Market

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

Raw Materials

Numerous domestic and foreign sources exist for the materials used by our Climate Control Business, which materials include compressors, steel, electric motors, valves and copper. Periodically, our Climate Control Business enters into fixed-price copper contracts. We do not anticipate any difficulties in obtaining necessary materials for our Climate Control Business. In 2008, however, changes in market volatility, supply and demand could result in increased costs, lost production and/or delayed shipments. We believe the majority of cost increases, if any, will be passed to our customers in the form of higher prices as product price increases are implemented and take effect and while we believe we will have sufficient materials, a shortage of raw materials could impact production of our Climate Control products.

Competition

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

Continue to Introduce New Products

Our Climate Control Business will continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new markets.

Chemical Business

General

Our Chemical Business manufactures three principal product lines that are derived from natural gas, anhydrous ammonia, and sulfur:

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

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

	2007	2006	2005
Percentage of net sales of the Chemical Business:			
Agricultural products	41 %	34 %	35 %
Industrial acids and other chemical products	33 %	37 %	34 %
Mining products	26 %	29 %	31 %
	100 %	100 %	100 %
Percentage of our consolidated net sales:			
Agricultural products	20 %	18 %	21 %
Industrial acids and other chemical products	16 %	19 %	20 %
Mining products	13 %	16 %	18 %
	49 %	53 %	59 %

Agricultural Products

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

Industrial Acids and Other Chemical Products

Our Chemical Business manufactures and sells industrial acids and other chemical products primarily to the polyurethane, paper, fibers and electronics industries. We are a major supplier of concentrated nitric acid and mixed nitrating acids, specialty products used in the manufacture of fibers, gaskets, fuel additives, ordnance, and other chemical products. In addition, at the El Dorado Facility, we produce and sell blended and regular nitric acid and we are a niche market supplier of sulfuric acid, primarily to the region’s key paper manufacturers. At the Cherokee Facility, we are also a niche market supplier of industrial and high purity ammonia for many specialty applications, including chemicals to treat emissions from power plants.

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

The Baytown Facility is one of the two largest nitric acid manufacturing units in the United States, with demonstrated capacity exceeding 1,350 short tons per day. Subsidiaries within our Chemical Business entered into a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the Bayer Agreement, El Dorado Nitric Company ("EDNC"), a subsidiary within our Chemical Business, operates the Baytown Facility at Bayer's Baytown, Texas operation. Bayer purchases from EDNC all of its requirements for nitric acid at its Baytown operation for a term through at least May 2009. EDNC purchases from Bayer certain of its requirements for materials, utilities and services for the manufacture of nitric acid. Upon expiration of the initial ten-year term in 2009, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer Agreement may opt against renewal. Discussions with Bayer have begun regarding a renewal in 2009.

Mining Products

Our Chemical Business manufactures industrial grade ammonium nitrate (“AN”) and 83% AN solution for the mining industry. The El Dorado Facility is a party to a long-term cost-plus supply agreement. Under this supply agreement, the El Dorado Facility supplies Orica USA, Inc. (“Orica”) with a significant volume of industrial grade ammonium nitrate per year for a term through at least December 2010, with provisions for renewal thereafter.

Major Customer

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

	2007	2006	2005
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	19%	20%	19%
Consolidated net sales	9%	10%	11%

Raw Materials

Anhydrous ammonia and natural gas represent the primary components in the production of most of the products of our Chemical Business. Spot natural gas and anhydrous ammonia costs have fluctuated dramatically in recent years. The following table shows, for the period indicated, the high and low published prices for natural gas based upon the daily spot price at the Tennessee 500 pipeline pricing point and for ammonia based upon the low Tampa metric price per ton as published by Ferticon and FMB Ammonia reports.

	Daily Spot Natural Gas Prices Per MMBtu		Ammonia Price Per Metric Ton	
	High	Low	High	Low
2005	$15.25	$5.50	$399	$235
2006	$ 9.90	$3.54	$395	$270
2007	$10.59	$5.30	$460	$295

As of March 7, 2008, the published price of natural gas, as described above, was approximately $9.61 per MMBtu and ammonia was $635 per metric ton. Natural gas is an integral raw material in the production of anhydrous ammonia. Prices of raw material feedstocks of natural gas and anhydrous ammonia remain volatile, and we have pursued a strategy of developing customers that purchase substantial quantities of products pursuant to sales agreements and/or pricing formulas that provide for the pass-through of these raw material costs. These pricing arrangements provide a hedge against the commodity risk inherent in the raw material feedstocks of natural gas and anhydrous ammonia. In addition, we use exchange-traded futures contracts to hedge the natural gas requirements for most sales commitments with firm sales prices.

Interruptions to the natural gas supply chain by the hurricanes of 2005 continued to exacerbate natural gas prices into early 2006. The Cherokee Facility was forced to temporarily curtail production in January and February of 2006 when major customers reduced purchases due to the high natural gas raw material pass-through costs. By mid-2006, the Gulf of Mexico supply was back to approximately 90% of pre-hurricane levels based on a report from the U.S. Department of the Interior. During 2007, the Cherokee Facility did not curtail production due to interruptions to their natural gas supply chain.

Under an agreement, as amended, with its principal supplier of anhydrous ammonia, the El Dorado Facility will purchase a majority of its anhydrous ammonia requirements using a market price-based formula plus transportation to the El Dorado Facility through at least December 31, 2008. We believe that we can obtain anhydrous ammonia from other sources in the event of an interruption of service under the above-referenced contract. The Cherokee Facility’s natural gas feedstock requirements are generally purchased at spot market price. Periodically, the Cherokee Facility will hedge certain of its natural gas requirements with exchange-traded futures contracts as discussed above.

Historically, the sulfur costs have been relatively stable; however, as of the date of this report, the recent world sulfur shortages have led to a significant increase in the cost of this raw material during the second half at 2007 and into 2008.

Seasonality

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

Regulatory Matters

Our Chemical Business is subject to extensive federal, state and local environmental laws, rules and regulations as discussed under “Environmental Matters" of this Item and "Legal Proceedings" of Item 3.

Because of growing concerns over ammonium nitrate, other nitrogen fertilizers and other potentially hazardous materials, there have been new and proposed federal, state and industry requirements to place additional security controls over the distribution, transportation and handling of these products. Based on our current requirements, we believe there are no material capital expenditures to be expended relating to our security controls. However, this expectation could change in the near future.

We fully support these initiatives and believe they will not materially affect the viability of ammonium nitrate as a valued product to the agricultural industry.

Competition

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

Employees

As of December 31, 2007, we employed 1,788 persons. As of that date, our Climate Control Business employed 1,363 persons, none of whom was represented by a union, and our Chemical Business employed 360 persons, with 138 represented by unions under currently unexecuted negotiated agreements which the parties expect to execute in the near future. Assuming the union agreements are executed in their current form, the agreements will expire in July through November of 2010.

Environmental Matters

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

The Company has certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces. The asbestos insulation is in adequate condition to prevent leakage and can remain in place as long as the facility is operated or remains assembled. The Company plans to maintain the facilities in an adequate condition to prevent leakage through its standard repair and maintenance activities.

1. Discharge Water Matters

The El Dorado Facility within our Chemical Business generates process wastewater. The process water discharge and storm-water run off are governed by a state National Pollutant Discharge Elimination System ("NPDES") water discharge permit issued by the Arkansas Department of Environmental Quality ("ADEQ"), which permit is to be renewed every five years. The ADEQ issued to the El Dorado Facility a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility's June 2007 limits, the El Dorado Facility has significantly reduced the contaminant levels of its wastewater.

The El Dorado Facility has demonstrated its ability to comply with the more restrictive permit limits, and the rules which support the more restrictive dissolved minerals rules have been revised to authorize a permit modification to adopt achievable dissolved minerals permit limits. The ADEQ has agreed to issue a consent administrative order to authorize the El Dorado Facility to continue operations without incurring permit violations pending the modification of the permit to implement the revised rule and to dispose of the El Dorado Facility's wastewater into the creek adjacent to the El Dorado Facility. A draft of the proposed consent administrative order has been prepared by the ADEQ and submitted to the El Dorado Facility for review. We are currently reviewing the proposed consent administrative order.

To meet the June 2007 permit limits, the El Dorado Facility has conducted a study of the creek adjacent to the El Dorado Facility to determine whether a permit modification allowing for the discharge into the creek is appropriate. On September 22, 2006, the Arkansas Pollution Control and Ecology Commission approved the results of the study that showed that the proposed permit modification is appropriate and the proposal to allow the El Dorado Facility to dispose of its wastewater into the creek. A public hearing was held on the matter on November 13, 2006 with minimal opposition. As a result, the El Dorado Facility has been discharging its wastewater into the creek.

In addition, the El Dorado Facility has entered into a consent administrative order ("CAO") that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. A new CAO to address the shallow groundwater contamination became effective on November 16, 2006 and requires the evaluation of the current conditions and remediation based upon a risk assessment. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. As an interim measure, the El Dorado Facility has installed two recovery wells to recycle groundwater and to recover nitrates. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2007.

2. Air Matters

Under the terms of a consent administrative order relating to air matters ("AirCAO"), which became effective in February 2004, resolving certain air regulatory alleged violations associated with the El Dorado Facility's sulfuric acid plant and certain other alleged air emission violations, the El Dorado Facility is required to implement additional air emission controls at the El Dorado Facility no later than February 2010. We currently estimate the remaining environmental compliance related expenditures to be approximately $5.6 million, which has been committed for 2008.

In December 2006, the El Dorado Facility entered into a new CAO ("2006 CAO") with the ADEQ to resolve a problem with ammonia emissions from certain nitric acid units. The catalyst suppliers had represented the volume of ammonia emissions anticipated. The representation was the basis for the permitted emission limit, but the representation of the catalyst suppliers was not accurate. The ADEQ allowed the El Dorado Facility to re-evaluate the catalyst performance and required the El Dorado Facility to submit a permit modification with the appropriate ammonia limits. The permit modification was submitted to ADEQ on June 11, 2007, and is currently under review. Until the permit is modified, the 2006 CAO authorizes the El Dorado Facility to continue to operate certain nitric acid units (even though the El Dorado Facility is in non-compliance with the permitted emission limit for ammonia), provided that during this period of time, the El Dorado Facility monitors and reports the ammonia on a monthly basis.

3. Other Environmental Matters

In April 2002, Slurry Explosive Corporation ("Slurry"), later renamed Chemex I Corp., a subsidiary within our Chemical Business, entered into a Consent Administrative Order ("Slurry Consent Order") with the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The Slurry Consent Order addressed the release of contaminants from the facility into the soils and groundwater and surface water at the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent strip pit is used for fishing. Under the terms of the Slurry Consent Order, Slurry is required to, among other things, submit an environmental assessment work plan to the KDHE for review and approval, and agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility.

In December 2002, Slurry and Universal Tech Corporation ("UTeC"), both subsidiaries within our Chemical Business, sold substantially all of their operating assets 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, UTeC leased the real property to the buyer under a triple net long-term lease agreement.

However, Slurry retained the obligation to be responsible for, and perform the activities under, the Slurry Consent Order. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor (“Chevron”), the prior owner of the Hallowell Facility has agreed, within certain limitations, to pay and has been paying one-half of the costs incurred under the Slurry Consent Order subject to reallocation.

Based on additional modeling of the site, Slurry and Chevron are pursuing a course with the KDHE of long-term surface and ground water monitoring to track the natural decline in contamination, instead of the soil excavation proposed previously. On September 12, 2007, the KDHE approved our proposal to perform two years of surface and groundwater monitoring and to implement a Mitigation Work Plan to acquire additional field data in order to more accurately characterize the nature and extent of contaminant migration off-site. The two-year monitoring program will terminate in February 2009. As a result of receiving approval from the KDHE for our proposal, we recognized a reduction in our share of the estimated costs associated with this remediation by $377,000. This reduction is included in the net income from discontinued operations of $348,000 for 2007 (in accordance with Statement of Financial Accounting Standards (“SFAS”) 144.

At December 31, 2007, the total estimated liability (which is included in current and noncurrent accrued and other liabilities) in connection with this remediation matter is approximately $378,000 and Chevron’s share for these costs (which is included in accounts receivable and other assets) is approximately $194,000. These amounts are not discounted to their present value. It is reasonably possible that a change in estimate of our liability and receivable will occur in the near term.

ITEM 1A. RISK FACTORS

Risks Related to Us and Our Business

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

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

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

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

Periodically, our Chemical Business may not generate significant positive cash flows.

Due, in part, to extensive capital expenditures, our Chemical Business may not generate significant positive cash flows periodically. Continuing significant cash flow expenditures by this business could have a material adverse effect on our financial condition and liquidity.

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

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

Our Chemical Business also can be affected by cyclical factors such as inflation, global energy policy and costs, global market conditions and economic downturns in specific industries. Certain sales of our Chemical Business are sensitive to the level of activity in the agricultural, mining, automotive and housing industries. A decline in the activity in these industries in the United States has in the past, and could in the future, have a material adverse effect on the results of our Chemical Business.

Weather conditions adversely affect our Chemical Business.

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

Environmental and regulatory matters entail significant risk for us.

As discussed under “Environmental Matters” of Item 1, our Chemical Business is subject to numerous environmental laws and regulations. The manufacture and distribution of chemical products are activities, which entail environmental risks and impose obligations under environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Our Chemical Business has in the past, and may in the future, be subject to fines, penalties and sanctions for violations of environmental laws and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from the Chemical Business’ facilities. Further, a number of our Chemical Business’ facilities are dependent on environmental permits to operate, the loss or modification of which could have a material adverse effect on its operations and our financial condition.

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

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

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

During 2007, four customers of our Chemical Business accounted for 44% of its net sales and 22% of our consolidated sales, and our Climate Control Business had one customer that accounted for 17% of its net sales and 8% of our consolidated sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer on substantially similar terms.

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

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

We are effectively controlled by the Golsen Group.

Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") beneficially owned as of February 29, 2008, an aggregate of 3,395,743 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together votes as a class and represent approximately 19.5% of the voting power of our issued and outstanding voting securities as of that date. In addition, the Golsen Group also beneficially owned options and other convertible securities that allowed its members to acquire an additional 116,500 shares of our common stock within 60 days of February 29, 2008. Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

Loss of key personnel could negatively affect our business.

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

We may have inadequate insurance.

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

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

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 foreseeable future. However, our board of directors has not made a definitive decision whether or not to pay such dividends in 2008.

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

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

Restatements and amendments to our 2004 audited financial statements and certain matters related to our disclosure controls and procedures may present a risk of future restatements and could in turn lead to legal exposure.

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

As a result of this restatement to our 2004 financial statements, we also revised our 2004 Form 10-K and first two quarters 2005 Form 10-Qs to provide that our disclosure controls and procedures were not effective as of December 31, 2004, March 31, 2005 and June 30, 2005, in our Form 10-K/A and Forms 10-Q/A, as a result of assessing that the change from the LIFO method to the FIFO method of accounting was not material resulting in the decision at the time of the change not to disclose and not to restate the prior years financial statements. We believe that during December 2005, we corrected the weakness to our disclosure controls and procedures by, among other things, establishing a Disclosure Committee to maintain oversight activities and to examine and reevaluate our policies, procedures and criteria to determine materiality of items relative to our financial statements taken as a whole. Restatements by others have, in some cases, resulted in the filing of class action lawsuits against such companies and their management and further inquiries from the SEC. Any similar lawsuit against us could result in substantial defense and/or liability costs and would likely consume a material amount of management's attention that might otherwise be applied to our business. Under certain circumstances, these costs might not be covered by, or might exceed the limits of, our insurance coverage.

By letter received in August 2006 from the SEC, the SEC has made an informal inquiry of us relating to the change in inventory accounting from LIFO to FIFO resulting in the restatement of our financial statements, and, at this time, we do not know if the informal inquiry:

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

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

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

Our net operating loss carryforwards are subject to certain limitations and have not been audited or approved by the Internal Revenue Service.

Our net operating loss ("NOL") carryforwards have resulted from certain historical losses. At December 31, 2006, we had regular NOL carryforwards of approximately $49.9 million, all of which we have utilized or anticipate utilizing to reduce our federal income tax liability for 2007 and 2008. In future periods, our net income and liquidity will be negatively affected as we recognize and pay income taxes without the benefit of these NOL carryforwards. In addition, the amount of these NOL carryforwards utilized has not been audited or approved by the Internal Revenue Service.

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

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

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

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

We have authorized and unissued (including shares held in treasury) 53,982,012 shares of common stock and 4,229,415 shares of preferred stock as of December 31, 2007. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

We have adopted a preferred share purchase plan, which is designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Climate Control Business

Our Climate Control Business manufactures most of its heat pump products in a 270,000 square foot facility in Oklahoma City, Oklahoma. We lease this facility, with an option to buy, through May 2016, with options to renew for three additional five-year periods. For 2007, approximately 87% of the productive capacity of this manufacturing facility was being utilized, based primarily on two ten-hour shifts per day and a four-day work week. In addition, we acquired a new 46,000 square foot building adjacent to our existing heat pump manufacturing facility, primarily used for storage of raw material inventory, and we renovated 110,000 square feet of an existing facility for a distribution center.

Our Climate Control Business conducts its fan coil manufacturing operation in a facility located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet. We own this facility subject to a mortgage. For 2007, our Climate Control Business was using 87% of the productive capacity, based on one ten-hour shift per day and a four-day work week and a limited second shift in selected areas. The fan coil manufacturing operation increased the utilization of a second shift in order to increase its production capacity during 2007.

Our Climate Control Business conducts its large air handler manufacturing operation in a facility located in Oklahoma City, Oklahoma, consisting of approximately 110,000 square feet. We own this facility subject to a mortgage. For 2007, approximately 57% of the productive capacity of this manufacturing facility was being utilized, based on one eight-hour shift on a five-day work week and a partial second shift in selected areas.

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

Chemical Business

Our Chemical Business primarily conducts manufacturing operations (a) on 150 acres of a 1,400 acre tract of land located at the El Dorado Facility, (b) on 160 acres of a 1,300 acre tract of land located at the Cherokee Facility and (c) on leased property within Bayer's complex in the Baytown, Texas. The Company and/or its subsidiaries own all of its manufacturing facilities except the Baytown Facility. The Baytown Facility is leased pursuant to a long-term lease with an unrelated third party. Certain real property and equipment located at the El Dorado and Cherokee Facilities are being used to secure a $50 million term loan. For 2007, the following facilities were utilized based on continuous operation:

	Percentage of Capacity
El Dorado Facility (1)	92 %
Cherokee Facility (2)	95 %
Baytown Facility	91 %

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

2. Other

Zeller Pension Plan

In February 2000, the Company's board of directors authorized management to proceed with the sale of the automotive products business, since the automotive products business was no longer a "core business" of the Company. In May 2000, the Company sold substantially all of its assets in its automotive products business. After the authorization by the board, but prior to the sale, the automotive products business purchased the assets and assumed certain liabilities of Zeller Corporation ("Zeller"). The liabilities of Zeller assumed by the automotive products business included Zeller's pension plan, which is not a multi-employer pension plan. In June 2003, the principal owner ("Owner") of the buyer of the automotive products business was contacted by a representative of the Pension Benefit Guaranty Corporation ("PBGC") regarding the plan. The Owner was informed by the PBGC of a possible under-funding of the plan and a possible takeover of the plan by the PBGC. The PBGC previously advised the Company that the PBGC may consider the Company potentially liable for the under-funding of the Zeller Plan in the event that the plan is taken over by the PBGC and alleged that the under-funding is approximately $600,000. Our ERISA counsel has advised us that, based on certain assumptions and representations made by us to them, they believe that the possibility of an unfavorable non-appealable verdict against us in a lawsuit if the PBGC attempts to hold us liable for under-funding of the Zeller Plan is remote.

MEI Drafts

Masinexportimport Foreign Trade Company ("MEI") has given notice to the Company and Summit Machine Tool Manufacturing Corp. ("Summit"), a subsidiary of the Company, alleging that it was owed $1,533,000 in connection with MEI's attempted collection of ten non-negotiable bank drafts payable to the order of MEI. The bank drafts were issued by Aerobit Ltd. ("Aerobit"), a non-U.S. company, which at the time of issuance of the bank drafts, was a subsidiary of the Company. Each of the bank drafts has a face value of $153,300, for an aggregate principal face value of $1,533,000. The bank drafts were issued in September 1992, and had a maturity date of December 31, 2001. Each bank draft was endorsed by LSB Corp., which at the time of endorsement, was a subsidiary of the Company.

On October 22, 1990, a settlement agreement between the Company, Summit, and MEI (the “Settlement Agreement”), was entered into, and in connection with the Settlement Agreement, Summit issued to MEI obligations totaling $1,533,000. On May 16, 1992, the Settlement Agreement was rescinded by the Company, Summit, and MEI at the request of MEI, and replaced with an agreement purportedly substantially similar to the Settlement Agreement between MEI and Aerobit, pursuant to which MEI agreed to replace the original $1,533,000 of Summit’s obligations with Aerobit bank drafts totaling $1,533,000, endorsed by LSB Corp. Aerobit previously advised us that MEI has not fulfilled the requirements under the bank drafts for payment thereof. All of the Company’s ownership interest in LSB Corp. was sold to an unrelated third party in September 2002. Further, all of the Company’s interest in Aerobit was sold to a separate unrelated third party, in a transaction completed on or before November 2002. Accordingly, neither Aerobit, which was the issuer of the bank drafts, nor LSB Corp., which was the endorser of the bank drafts, are currently subsidiaries of the Company.

During 2007, Cromus, alleged to be a Romanian company and an assignee of MEI, filed a lawsuit against us and two of our subsidiaries, Summit Machine Tool Manufacturing Corp. (“Summit”) and Hercules Energy Mfg. Corp., Jack Golsen, our CEO, Mike Tepper, an officer of our company, Bank of America Corporation and others in the New York Supreme Court, in the case styled Cromus, as the assignee of MEI vs. Summit, Index No. 114890107 (NY Sup. Ct., NY Co. The complaint seeks $1,533,000 plus interest from 1990, $1,000,000 for failure to purchase certain equipment and $1,000,000 in punitive damages. We intend to contest this matter vigorously. As of December 31, 2007, no liability has been established relating to these alleged damages.

The Jayhawk Group and the University of Kansas Endowment Fund

During July 2007, we mailed to all holders of record of our Series 2 Preferred a notice of redemption of all of the outstanding shares of Series 2 Preferred. The redemption of our Series 2 Preferred was completed on August 27, 2007, the redemption date. The terms of the Series 2 Preferred required that for each share of Series 2 Preferred so redeemed, we would pay, in cash, a redemption price equal to $50.00 plus $26.25 representing dividends in arrears thereon pro-rata to the date of redemption. There were 193,295 shares of Series 2 Preferred outstanding, net of treasury stock, as of the date the notice of redemption was mailed. Pursuant to the terms of the Series 2 Preferred, the holders of the Series 2 Preferred could convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. If a holder of the Series 2 Preferred elected to convert his, her or its shares into our common stock pursuant to its terms, the Certificate of Designations for the Series 2 Preferred provided, and it is our position, that the holder that so converts would not be entitled to receive payment of any dividends in arrears on the shares so converted. The Jayhawk Group, a former affiliate of ours, converted 155,012 shares of Series 2 Preferred into 671,046 shares of common stock. The Jayhawk Group has advised us that it may bring legal action against us for all dividends in arrears (approximately $4 million) on the shares of Series 2 Preferred that it converted after receipt of the notice of redemption. The Company believes the likelihood that the Jayhawk Group may recover the dividends in arrears is not probable. Therefore, no liability has been established at December 31, 2007.

During the first quarter of 2008, the University of Kansas Endowment Charitable Gift Fund ("KU") filed a lawsuit against us in the U.S. District Court, for the District of Kansas at Kansas City, styled The KU Endownment Charitable Gift Fund vs. LSB Industries, Inc., Case No. 08-CV-2066. KU alleges that we improperly refused to accept 11,200 shares of Series 2 Preferred, which KU received as a gift from the controlling party of the Jayhawk Group, in our issuer exchange tender offer. Under the issuer exchange tender offer, we offered to exchange each outstanding share of Series 2 Preferred for 7.4 shares of our common stock and a waiver of all dividends in arrears, except for certain shares of Series 2 Preferred owned by the Jayhawk Group (including its controlling party, Kent McCarthy) and the Golsen Group pursuant to an agreement entered into between us and the Jayhawk Group. The gift to KU by the controlling party of the Jayhawk Group was made after the announcement of the issuer exchange tender offer, and it is our position, among other things, that the tender of the shares given as a gift was made contrary to the agreement between us and the Jayhawk Group and contrary to the terms of our issuer exchange tender offer. KU alleges, among other things, that it suffered losses because it was required to convert the 11,200 shares of Series 2 Preferred pursuant to the conversion terms of the Series 2 Preferred, which was 4.3 shares of our common stock for each share of Series 2 Preferred, and that the conversion was less favorable than the terms of issuer exchange tender offer. KU alleges that the refusal to accept the 11,200 shares of Series 2 Preferred was in violation of §14(d) of the Securities Exchange Act of 1934 ("34 Act"), a violation of §10b and Rule 10b-5 and §18 of the 34 Act, the Kansas Uniform Securities Act and common law fraud. We intend to vigorously defend this matter. As of December 31, 2007, no liability has been established relating to this claim. We have placed the carrier under our Executive Organizational Liability Insurance Policy Including Securities Liability ("Policy") on notice of this claim and litigation. This matter is being defended by our insurance carrier under the Policy under a reservation of rights. Our Policy is subject to a $250,000 self insured retention for securities actions.

We received a letter dated May 23, 2007 from a law firm representing a stockholder of ours demanding that we investigate potential short-swing profit liability under Section 16(b) of the Exchange Act of the Jayhawk Group. The stockholder alleges that the surrender by the Jayhawk Group of 180,450 shares of our Series 2 Preferred in our issuer exchange tender offer in March 2007 was a sale which was subject to Section 16 and matchable against prior purchases of Series 2 Preferred by the Jayhawk Group. The Jayhawk Group advised us that they do not believe that they are liable for short-swing profits under Section 16(b). The provisions of Section 16(b) provide that if we do not file a lawsuit against the Jayhawk Group in connection with these Section 16(b) allegations within 60 days from the date of the stockholder's notice to us, then the stockholder may pursue a Section 16(b) short-swing profit claim on our behalf. We engaged our outside corporate/securities counsel to investigate this matter. After completion of this investigation, we attempted to settle the matter with the Jayhawk Group but were unable to reach a resolution satisfactory to all parties. On October 9, 2007, the law firm representing the stockholder initiated a lawsuit against the Jayhawk Group pursuing a Section 16(b) short-swing profit claim on our behalf up to approximately $819,000. During the first quarter of 2008, the parties have agreed to settle this claim by a payment to us by the Jayhawk Group of $180,000, of which we will receive approximately $125,000 after attorneys' fees. This settlement is subject to a definitive settlement agreement.

Securities and Exchange Commission Inquiry

The SEC made an informal inquiry to the Company by letter dated August 15, 2006. The inquiry relates to the restatement of the Company's consolidated financial statements for the year ended December 31, 2004 and accounting matters relating to the change in inventory accounting from LIFO to FIFO. The Company has responded to the inquiry. At the present time, the informal inquiry is not a pending proceeding nor does it rise to the level of a government investigation. Until further communication and clarification with the SEC, if any, the Company is unable to determine:

- if the inquiry will ever rise to the level of an investigation or proceeding, or
- the materiality to the Company's financial position with respect to enforcement actions, if any, the SEC may have available to it.

Other Claims and Legal Actions

Wetherell v. Climate Master, a proposed class action filed by Donna Wetherell, individually and as a class action representative, Plaintiff, and Climate Master, Inc., Defendant, in the Circuit Court of the First Judicial Circuit, Johnson County, Illinois on September 14, 2007 alleges that certain evaporator coils sold by one of our subsidiaries in the Climate Control Business, Climate Master, Inc. ("Climate Master") in the state of Illinois from 1990 to approximately 2003 were defective. The complaint requests certification as a class action for the State of Illinois, which request has not yet been heard by the court. The plaintiff asserts claims based upon negligence, strict liability, breach of implied warranties, and the Illinois Consumer Fraud and Deceptive Business Practices Act. Climate Master has timely filed its pleadings to remove this action to federal court. Climate Master has also filed its answer denying the plaintiff's claims and asserting several affirmative defenses. Climate Master's insurers have been placed on notice of this matter. Currently the Company is unable to determine the amount of damages or the likelihood of any losses resulting from this claim. In addition, the Company intends to vigorously defend Climate Master in connection with this matter. Therefore, no liability has been established at December 31, 2007.

We are also involved in various other claims and legal actions which in the opinion of management, after consultation with legal counsel, if determined adversely to us, would not have a material effect on our business, financial condition or results of operations.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of 2007.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Jack E. Golsen (1)	Chairman of the Board and Chief Executive Officer. Mr. Golsen, age 79 first became a director in 1969. His term was renewed for 3 years at the annual meeting in 2007. Mr. Golsen, founder of the Company, is our Chairman of the Board of Directors and Chief Executive Officer and has served in those capacities since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen is a Trustee of Oklahoma City University. During his career, he acquired or started the companies which formed LSB. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A. which was formerly owned by LSB.
Barry H. Golsen (1)	Vice Chairman of the Board, President, and President of the Climate Control Business. Mr. Golsen, age 57, first became a director in 1981. His term will expire in 2009. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994, and has been the President of our Climate Control Business for more than five years. Mr. Golsen also serves as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.
David R. Goss	Executive Vice President of Operations and Director. Mr. Goss, age 67, first became a director in 1971. His term will expire in 2009. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University.
Tony M. Shelby	Executive Vice President of Finance and Director. Mr. Shelby, age 66, first became a director in 1971. His term will expire in 2008. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than five years. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University.

Jim D. Jones Senior Vice President, Corporate Controller and Treasurer. Mr. Jones, age 65, has been Senior Vice President, Controller and Treasurer since July 2003, and has served as an officer of the Company since April 1977. Mr. Jones is a certified public accountant and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Jones is a graduate of the University of Central Oklahoma.

David M. Shear (1) Senior Vice President and General Counsel. Mr. Shear, age 48, has been Senior Vice President since July 2004 and General Counsel and Secretary since 1990. Mr. Shear attended Brandeis University, graduating cum laude in 1981. At Brandeis University, Mr. Shear was the founding Editor-In-Chief of Chronos, the first journal of undergraduate scholarly articles. Mr. Shear attended the Boston University School of Law, where he was a contributing Editor of the Annual Review of Banking Law. Mr. Shear acted as a staff attorney at the Bureau of Competition with the Federal Trade Commission from 1985 to 1986. From 1986 through 1989, Mr. Shear was an associate in the Boston law firm of Weiss, Angoff, Coltin, Koski and Wolf.

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is listed for trading on the American Stock Exchange under the symbol "LXU". The following table shows, for the periods indicated, the high and low bid information for our common stock which reflects inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

	Year Ended December 31,			
	2007		2006	
Quarter	High	Low	High	Low
First	$ 15.71	$ 11.41	$ 7.48	$ 5.87
Second	$ 23.70	$ 14.76	$ 9.19	$ 6.95
Third	$ 25.25	$ 17.00	$ 10.25	$ 8.25
Fourth	$ 28.85	$ 20.54	$ 13.20	$ 8.50

Stockholders

As of March 7, 2008, we had 698 record holders of our common stock. This number does not include investors whose ownership is recorded in the name of their brokerage company.

Dividends

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

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

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

As of December 31, 2007, we have issued and outstanding 1,000,000 shares of Series D Preferred, 585 shares Non-Cumulative Preferred and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

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

Holders of our common stock are entitled to receive dividends only when 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 foreseeable future. However, our board of directors has not made a definitive decision whether or not to pay such dividends in 2008**.**

ITEM 6. SELECTED FINANCIAL DATA

	Years ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars In Thousands, Except Per Share Data)				
Selected Statement of Operations Data:					
Net sales	$ 586,407	$ 491,952	$ 397,115	$ 363,984	$ 317,026
Interest expense (1)	$ 12,078	$ 11,915	$ 11,407	$ 7,393	$ 6,097
Income from continuing operations before cumulative effect of accounting change (1) (2)	$ 46,534	$ 15,768	$ 5,634	$ 745	$ 3,705
Cumulative effect of accounting change	$ -	$ -	$ -	$ (536)	$ -
Net income	$ 46,882	$ 15,515	$ 4,990	$ 209	$ 3,705
Net income (loss) applicable to common stock	$ 41,274	$ 12,885	$ 2,707	$ (2,113)	$ 1,378
Income (loss) per common share applicable to common stock:					
Basic:					
Income (loss) from continuing operations before cumulative effect of accounting change	$ 2.09	$ .92	$ .25	$ (.12)	$ .11
Net income (loss) from discontinued operations	$ .02	$ (.02)	$ (.05)	$ -	$ -
Cumulative effect of accounting change	$ -	$ -	$ -	$ (.04)	$ -
Net income (loss)	$ 2.11	$ .90	$ .20	$ (.16)	$ .11
Diluted:					
Income (loss) from continuing operations before cumulative effect of accounting change	$ 1.82	$ .77	$ .22	$ (.12)	$ .10
Net income (loss) from discontinued operations	$ .02	$ (.01)	$ (.04)	$ -	$ -
Cumulative effect of accounting change	$ -	$ -	$ -	$ (.04)	$ -
Net income (loss)	$ 1.84	$ .76	$ .18	$ (.16)	$ .10
Selected Balance Sheet Data:					
Total assets	$ 307,554	$ 219,927	$ 188,963	$ 167,568	$ 161,813
Redeemable preferred stock	$ 56	$ 65	$ 83	$ 97	$ 103
Long-term debt, including current portion	$ 122,107	$ 97,692	$ 112,124	$ 106,507	$ 103,275
Stockholders' equity	$ 94,283	$ 43,634	$ 14,861	$ 9,915	$ 8,862
Selected other data:					
Cash dividends declared per common share	$ -	$ -	$ -	$ -	$ -

(1) In May 2002, the repurchase of Senior Unsecured Notes using proceeds from a Financing Agreement was accounted for as a voluntary debt restructuring. As a result, subsequent interest payments associated with the Financing Agreement debt were recognized against the unrecognized gain on the transaction. The Financing Agreement debt was repaid in September 2004.

(2) Income from continuing operations before cumulative effect of accounting change includes a gain on extinguishment of debt of $4.4 million for 2004.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2007 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

General

We are a manufacturing, marketing and engineering company. Our wholly-owned subsidiary, ThermaClime, through its subsidiaries, owns substantially all of our core businesses consisting of the:

- Climate Control Business engaged in the manufacturing and selling of a broad range of air conditioning and heating products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers and other products used in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems.

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

2007 Results

LSB's 2007 sales were $586.4 million compared to $492.0 million in 2006, operating income was $59.0 million compared to $27.1 million in 2006 and income from continuing operations was $46.5 million compared to $15.8 million in 2006. Net income was $46.9 million in 2007 compared to $15.5 million for 2006.

Our Climate Control Business continued to report strong sales and operating results due to beginning backlogs and strong new order flow for the year. Our Climate Control Business net sales were $286.4 million compared to $221.2 million in 2006, a 29.5% increase. Operating income before allocation of corporate overhead was $34.2 million, a 34.5% increase over the $25.4 million in 2006.

Our Chemical Business reported improved results in 2007 with net sales of $288.8 million compared to $260.7 million in 2006, a 10.8% increase. Operating income before allocation of corporate overhead was $35.0 million compared to $9.8 million in 2006, an increase of 257.8%. As indicated above, the increase in 2007 operating income included certain non-recurring income items totaling $7.1 million that are discussed below.

For 2007, net income also included a litigation settlement of $3.3 million and insurance recoveries totaling $3.8 million, which are described more fully below under Chemical Business.

In addition, net income for 2007 was impacted by our provision for income taxes. For 2007 and recent prior years, our provisions for income taxes have included benefits from the utilization of NOL carryforwards. The net provisions for income taxes in 2007 and 2006 were $2,540,000 and $901,000, respectively. The 2007 provision included a current provision for federal income taxes of $5,260,000 for regular federal income tax and alternative minimum income tax ("AMT"). The 2007 provision also included a current provision of state income taxes of $1,980,000 which includes the provision for 2007 state income taxes, as well as, $1,047,000 for uncertain state income tax positions recognized in accordance with FIN 48.

The 2007 provisions are partially offset by a benefit for deferred income taxes of $4,700,000 resulting from the reversal of valuation allowance on deferred tax assets, the benefit of AMT credits, and other temporary differences. At December 31, 2006, we had regular NOL carryforwards of approximately $49.9 million and other temporary differences. Prior to 2007, we had valuation allowances in place against the net deferred tax assets arising from the NOL carryforwards and other temporary differences. As the result of improving financial results during 2007 and our expectation of generating taxable income in the future, we determined that the valuation allowance was no longer required as of September 30, 2007. As a result, we reversed the valuation allowance as a benefit for income taxes and recognized deferred tax assets and deferred tax liabilities. At December 31, 2007, we had net current deferred tax assets of $10.0 million and net non-current deferred tax liabilities of $5.3 million.

The existence of the valuation allowance in prior years, and the reversal of the valuation allowance during 2007, caused our effective tax rate to be substantially lower in 2007 and prior years than we anticipate it being in future periods. In future periods we anticipate that our effective tax rate will more closely approximate the regular federal and state statutory tax rates, substantially increasing the income tax expense we recognize each year.

At December 31, 2007, we have federal NOL carryforwards of only approximately $2.9 million remaining. We anticipate fully utilizing the federal NOL carryforwards in 2008 at which time we will begin paying federal income taxes at regular corporate tax rates.

Due to regular tax NOL carryforwards with a full valuation allowance, the only current tax expense for 2006 was for federal AMT and state income taxes as discussed above.

Climate Control Business

Our Climate Control Business has consistently generated annual profits and positive cash flows and continues to do so. As indicated above, Climate Control's net sales and operating income for 2007 were higher than in 2006. The increase in sales and operating income as compared to 2006 is attributable to strong demand for the geothermal and water source heat pumps, which reported a sales increase of $30.9 million and hydronic fan coils that reported a sales increase of $26.3 million.

Most of the products of our Climate Control Business are produced to customer orders that are placed well in advance of required delivery dates. As a result, our Climate Control Business maintains a significant backlog that eliminates the necessity to carry substantial inventories other than for firm customer orders. As a result of strong order flow in the recent past, our Climate Control backlog of confirmed orders had increased to high levels and our lead times had pushed out beyond levels that we consider to be optimum for good customer service. In order to work the backlog down and to improve product lead times, we increased production capacity. We invested $7.6 million in 2006, an additional $6.8 million in 2007 and currently have committed approximately $3.2 million for additional plant and equipment capacity and land for future expansion. At December 31, 2007, the backlog of confirmed orders was approximately $54 million compared to $62 million at September 30, 2007 and $80 million at December 31, 2006. We expect to ship substantially all the orders in the backlog within the next twelve months.

Our Climate Control Business will continue to launch new products and product upgrades in an effort to maintain our current market position and to establish presence in new markets. Climate Control Business's profitability over the last few years has been affected by operating losses of certain new product lines being developed during that time. Our emphasis has been to increase the sales levels of these operations above the breakeven point. During 2007, the results for these new products reflected modest improvement. Although these new products have not yet achieved profitability, we continue to believe that these new products have good long-term prospects.

Management continues to focus on the following objectives for Climate Control:

· increasing the sales and operating margins of all products,
· developing and introducing new and energy efficient products, and
· improving production and product delivery performance.

Chemical Business

Our Chemical Business has production facilities in Baytown, Texas (the “Baytown Facility”), El Dorado, Arkansas (the “El Dorado Facility”) and Cherokee, Alabama (the “Cherokee Facility”). The Baytown and El Dorado Facilities produce nitrogen products from anhydrous ammonia that is delivered by pipeline and sulfuric acid from recovered elemental sulfur delivered by truck and rail. The Cherokee Facility produces anhydrous ammonia and nitrogen products from natural gas that is delivered by pipeline.

As indicated above, Chemicals net sales and operating income for 2007 were higher than in 2006. The increase in sales and operating income as compared to 2006 is attributable to strong demand for agricultural products and consistent demand for the industrial and mining products, Also operating income for 2007 and 2006 included the following unusual income items:

	2007	2006
	(In Millions)	
Settlement of litigation	$ 3.3	$ -
Insurance recoveries of business interruption claims	3.8	0.9
Total	$ 7.1	$ 0.9

The $3.3 million reflects the net proceeds of $2.7 million received by the Cherokee Facility and the retention by the Cherokee Facility of a disputed $0.6 million accounts payable as a result of the settlement agreement with Dynegy, Inc. and one of its subsidiaries to settle a previously reported lawsuit.

The $3.8 million is a result of the settlement of a business interruption claim filed by the Cherokee Facility with their insurers. The proceeds from this settlement were used for general working capital purposes.

The increase in operating income relative to sales (excluding the unusual income items noted above) is primarily a result of increased gross profit margins, resulting from higher nitrogen fertilizer demand in our agricultural markets. Low wheat and corn stocks-to-use ratios, as well as low inventories of other crops, resulted in strong demand for nitrogen fertilizer in 2007, which has had a positive effect on the approximate one-third of our sales which are sold in the agricultural markets.

Our primary raw material feedstocks, anhydrous ammonia, natural gas and sulfur, are commodities subject to significant price fluctuations, and are generally purchased at prices in effect at the time of purchase. Due to the uncertainty of these commodity markets, we have developed customers that purchase our products pursuant to agreements and/or pricing formulas that provide for the pass through of raw material and other variable costs and certain fixed costs. Approximately 60% percent of our Chemical Business' products sold in 2007 were to those customers.

Our Chemical Business uses precious metals as a catalyst in the manufacturing process. During 2007, we had accumulated precious metals in excess of our production requirements. Therefore we sold a portion of the excess metals. As a result, we recognized a gain of $2.0 million which increased gross profit and operating profit of our Chemical Business compared to 2006. However, this increase to gross profit and operating profit of $2.0 million was partially offset by a net decrease of $1.8 million due primarily to the increase in precious metals expense of approximately $1.5 million compared to 2006 as the result of cost increases for these metals.

Our Chemical Business continues to focus on growing our non-seasonal industrial customer base with an emphasis on customers accepting the risk inherent with raw material costs, while at the same time, maintaining a strong presence in the seasonal agricultural sector, when the potential for favorable gross profit margins is available. The operation's strategy is to maximize production efficiency of the facilities, thereby lowering the fixed cost of each ton produced.

Completion of Tender Offer

During November 2006, the Company entered into the Jayhawk Agreement with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed to tender 180,450 shares of the 346,662 shares of the Series 2 Preferred, if the Company made an exchange or tender offer for the Series 2 Preferred. In addition, as a condition to the Jayhawk Group's obligation to tender such shares of Series 2 Preferred in an exchange/tender offer, the Jayhawk Agreement further provided that the Golsen Group would exchange only 26,467 of the 49,550 shares of Series 2

Preferred beneficially owned by them. As a result, only 309,807 of the 499,102 shares of Series 2 Preferred outstanding would be eligible to participate in an exchange/tender offer, with the remaining 189,295 being held by the Jayhawk Group and the Golsen Group.

On January 26, 2007, our board of directors approved and on February 9, 2007, we began a tender offer to exchange shares of our common stock for up to 309,807 of the 499,102 outstanding shares of the Series 2 Preferred. The tender offer expired on March 12, 2007 and our board of directors accepted the shares tendered on March 13, 2007. The terms of the tender offer provided for the issuance by the Company of 7.4 shares of common stock in exchange for each share of Series 2 Preferred tendered in the tender offer and the waiver of all rights to dividends in arrears on the Series 2 Preferred tendered. As a result of this tender offer, we issued 2,262,965 shares of our common stock for 305,807 shares of Series 2 Preferred that were tendered. As a result, we effectively settled the dividends in arrears on the Series 2 Preferred tendered totaling approximately $7.3 million ($23.975 per share). Because the exchange was pursuant to terms other than the original conversion terms, the transaction was considered an extinguishment of the preferred stock. In addition, the transaction qualified as an induced conversion under SFAS 84. Accordingly, we recorded a charge (stock dividend) to accumulated deficit of approximately $12.3 million, which equaled the excess of the fair value of the common stock issued over the fair value of the common stock issuable pursuant to the original conversion terms. To measure fair value, we used the closing price of our common stock on March 13, 2007, the date the shares so tendered were accepted by our board of directors.

Included in the amounts discussed above and pursuant to the Jayhawk Agreement and the terms of the tender offer, the Jayhawk Group and the Golsen Group tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock. As a result, we effectively settled the dividends in arrears on these shares of Series 2 Preferred tendered totaling approximately $4.96 million with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

Stock Options Receiving Stockholders' Approval

We adopted SFAS 123 (revised 2004), Share-Based Payment (“SFAS 123(R)”) using the modified prospective method effective January 1, 2006, which required us to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. As previously reported, on June 19, 2006, the Compensation and Stock Option Committee of our board of directors granted 450,000 shares of non-qualified stock options (the “Options”) to certain Climate Control Business employees, which were subject to shareholders’ approval. The option price of the Options is $8.01 per share which is based on the market value of our common stock at the date the board of directors granted the shares (June 19, 2006). The Options vest over a ten-year period at a rate of 10% per year and expire on September 16, 2016 with certain restrictions. Under SFAS 123(R), the fair value for the Options was estimated, using an option pricing model, as of the date we received shareholders’ approval which occurred during our 2007 annual shareholders’ meeting on June 14, 2007. Under SFAS 123(R) for accounting purposes, the grant date and service inception date is June 14, 2007.

As previously reported, the total fair value for the Options was estimated to be approximately $6.9 million, or $15.39 per share, using a Black-Scholes-Merton option pricing model. As of June 14, 2007, we began amortizing the total estimated fair value of the Options to selling, general, and administrative expense ("SG&A") which will continue through June 18, 2016 (a weighted-average vesting period of 8.46 years). As a result, we incurred stock-based compensation expense of $0.4 million for 2007. At December 31, 2007, the total stock-based compensation expense not yet recognized is approximately $6.5 million relating to the non-vested options.

During 2005, we accounted for our stock option plans under the recognition and measurement principles of APB Opinion No. 25 ("APB 25") and related interpretations. Under APB 25, stock-based compensation cost was not reflected in our results of operations, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of SFAS 123(R) to stock-based compensation during 2005, using a Black-Scholes-Merton option pricing model, net income would have decreased by approximately $0.5 million.

Liquidity and Capital Resources

The following is our cash, total interest bearing debt and stockholders' equity at December 31,:

	2007	2006
	(in millions)	
Cash on hand	$ 58.2	$ 2.3
Long-term debt		
2007 Debentures due 2012	$ 60.0	$ -
Secured Term Loan due 2012	50.0	-
Senior Secured Loan due 2009	-	50.0
Working Capital Revolver Loan	-	26.0
2006 Debentures due 2011	-	4.0
Other	12.1	17.0
Total long-term debt	$ 122.1	$ 97.7
Total stockholder's equity	$ 94.3	$ 43.6

As indicated above, our capital structure and liquidity at December 31, 2007, are improved from that at December 31, 2006. Although long-term debt is $24.4 million higher, there is $58 million cash on hand and the $50 million Working Capital Revolver Loan is undrawn and available to fund operations, if needed. Long-term debt, before the use of cash on hand to pay down debt, dropped from 2.2 times stockholders' equity at December 31, 2006, to 1.3 times at December 31, 2007.

During 2007, we completed the following transactions that favorably affected our liquidity and capital resources:

- converted the remaining $4.0 million of the 7% Convertible Senior Subordinated Debentures (the “2006 Debentures”) into 564,789 shares of our common stock;
- exchanged, converted or redeemed the remaining 499,102 shares, net of treasury stock, of Series 2 Preferred, along with all cumulative dividends in arrears;
- prepaid the $50 million Senior Secured Loan due 2009 from proceeds of a new $50 million secured term loan due 2012, at a lower interest rate and less collateral; and
- finalized a private placement of the 5.5% Convertible Senior Subordinated Notes due 2012 (the “2007 Debentures”) pursuant to which we sold $60.0 million aggregate principal amount to twenty-two qualified institutional buyers.

The 2007 Debentures bear interest at the annual rate of 5.5% and mature on July 1, 2012. We received net proceeds of approximately $57.0 million, after discounts and commissions.

We used the net proceeds from the 2007 Debentures for the following:

- $2.0 million to redeem 25,820 outstanding shares of our Series 2 Preferred (including dividends in arrears);
- $3.9 million to repay certain outstanding mortgages and equipment loans;
- $2.1 million to pay dividends in arrears on our outstanding shares of Series B Preferred and Series D Preferred,
- $25.0 million was loaned to ThermaClime to reduce the outstanding borrowing under the Working Capital Revolver Loan; and
- the remaining balance of approximately $24.0 million invested in money market investments.

In November 2007, ThermaClime and certain of its subsidiaries entered into the $50 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the Senior Secured Loan due 2009. The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%. The interest rate at December 31, 2007 was 7.90%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity.

The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $48 million at December 31, 2007.

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

The Working Capital Revolver Loan is a $50.0 million credit facility that provides for advances to ThermaClime and its subsidiaries based upon specified percentages of eligible accounts receivable and inventories. At December 31, 2007, there were no borrowings outstanding under this loan and approximately $0.8 million of the line was being used for issued and outstanding letters of credit. Historically, ThermaClime’s primary cash needs have been for working capital and capital expenditures. ThermaClime and its subsidiaries depend upon their Working Capital Revolver Loan, internally generated cash flows, and secured property and equipment financing in order to fund operations and pay obligations. In connection with the new Secured Term Loan due 2012, the lenders of the Working Capital Revolver Loan released their second position security liens to the assets which collateralize the Term Loan and agreed to certain other modifications to the Working Capital Revolver Loan agreement, including, among other things, a .25% reduction to the interest rate.

The Working Capital Revolver Loan and the Secured Term Loan have financial covenants that are discussed below under "Loan Agreements – Terms and Conditions".

ThermaClime's ability to maintain borrowing availability under its Working Capital Revolver Loan depends on its ability to comply with the terms and conditions of its loan agreements and its ability to generate cash flow from operations. ThermaClime is restricted under its credit agreements as to the funds it may transfer to the Company and its non-ThermaClime affiliates and certain ThermaClime subsidiaries. This limitation does not prohibit payment to the Company of amounts due under a Services Agreement, Management Agreement and a Tax Sharing Agreement.

Income Taxes

In 2007 and prior years, our effective tax rate has been minimal due to the availability of NOL carryforwards. At December 31, 2007, we have federal NOL carryforwards of only approximately $2.9 million remaining. We anticipate fully utilizing the federal NOL carryforwards in 2008 and we will begin paying federal income taxes at regular corporate tax rates.

Filing Requirements Pursuant to Sarbanes Oxley

As of June 29, 2007, our public float held by non-affiliates exceeded the $75 million threshold but was less than the $700 million threshold. As a result, we became an accelerated filer on December 31, 2007. Therefore, we have been and will continue to incur additional costs to meet the requirements as an accelerated filer for the year ended December 31, 2007 and future periods.

Capital Expenditures

General

Cash used for capital expenditures in 2007 was $14.8 million, including $5.8 million primarily for product equipment and other upgrades and for additional capacity in our Climate Control Business and $8.6 million for our Chemical Business, primarily for process and reliability improvements of existing facilities. As discussed below, our current commitment for 2008 includes additional spending for production equipment in our Climate Control Business and spending for process and reliability improvement in our Chemical Business, including $5.6 million related to certain air emissions abatement.

Other capital expenditures for 2008 are believed to be discretionary and are dependent upon an adequate amount of liquidity and/or obtaining acceptable funding. We have carefully managed those expenditures to projects necessary to execute our business plans and those for environmental and safety compliance.

Current Commitments

As of the date of this report, we have committed capital expenditures of approximately $14.1 million for 2008. The expenditures include $10.9 million for our Chemical Business and $3.2 million for our Climate Control Business. We plan to fund these expenditures from working capital, which may include utilizing our Working Capital Revolver Loan.

The committed capital expenditures for our Chemical Business includes approximately $5.6 million for certain capital expenditures required to expand capacity and bring the El Dorado Facility's sulfuric acid plant air emissions to lower limits.

Certain events relating to our Chemical Business

Pryor Facility - We are evaluating the feasibility of activating all or a portion of our ammonia and urea chemical plant in Pryor, Oklahoma (the "Pryor Facility"). The feasibility study is based on producing and marketing approximately 325,000 tons of UAN fertilizer per year. A final decision to activate the Pryor Facility has not been made. If we decide to activate the Pryor Facility and the activation project is approved by our board of directors, this project could take approximately twelve months to obtain the necessary permits and complete the plant improvements. The preliminary estimated total cost to activate the Pryor Facility is approximately $15 million to $20 million with approximately one-half of these costs to be expensed as incurred.

El Dorado Facility - El Dorado Chemical Company ("EDC") produces industrial grade ammonium nitrate for Orica USA, Inc. ("Orica") under a multi-year supply agreement which contract includes required minimum annual and monthly volumes. Orica has notified EDC that it will significantly reduce its expected purchases for the month of March 2008 below the required minimum monthly volume. It is currently unknown when Orica will resume purchasing at the contractual volumes. Under the terms of the contract, Orica must pay liquidated damages if it fails to purchase the minimum monthly volume, which liquidated damages compensate EDC for product not taken at the minimum monthly contractual volume. Orica has indicated that it believes the contract may not require the payment of certain components of the normal formula price to EDC when Orica pays liquidated damages in lieu of purchasing product at the minimum monthly contractual level. The amount in question is approximately $230,000 for March 2008, although Orica has agreed to pay such amount to EDC.

Baytown Facility - The Baytown Facility is operated by EDNC, a subsidiary within our Chemical Business, under the Bayer Agreement with Bayer and a leveraged lease agreement with a financial institution ("lessor") all of which expire in June 2009. Under the lease agreement, EDNC, as lessee, has the right to acquire the leased facility by exercising a fixed price purchase option ("purchase option"). The option price is approximately $17.6 million. Under the agreements between EDNC and Bayer, Bayer may, at its option, require EDNC to exercise the purchase option or refuse to allow EDNC to exercise the purchase option. If Bayer directs EDNC to exercise the purchase option, Bayer is responsible to pay the option price to the lessor. We have had preliminary discussions with Bayer regarding a renewal of the Bayer Agreement between EDNC and Bayer which may require EDNC to exercise the purchase option under the lease agreement. If required by Bayer as a condition to renewing the agreements with Bayer, we may, in our sole discretion, agree to pay the purchase option as part of the renewal agreements, provided the economics of the transaction are acceptable to us. For 2007, the Baytown Facility contributed approximately 19% of the net sales of our Chemical Business and approximately 9% of our consolidated net sales.

Stock Repurchase Authorization

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

Dividends

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

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

We have not paid cash dividends on our outstanding common stock in many years. Pursuant to our exchange/tender offer in March 2007, we issued approximately 2.3 million shares of our common stock in exchange for approximately 0.3 million shares of the Series 2 Preferred in accordance with the terms of the Series 2 Preferred. As a result, we effectively settled the dividends in arrears totaling approximately $7.3 million. Based on the terms of the tender offer, we recorded a charge (stock dividend) to accumulated deficit of approximately $12.3 million, which equaled the excess of the fair value of the common stock issued over the fair value of the common stock issuable pursuant to the original conversion terms of the Series 2 Preferred.

During 2007, we paid cash dividends of approximately $678,000 on the 25,820 shares of Series 2 Preferred, which we redeemed pursuant to the notice of redemption we mailed to all holders of record of our Series 2 Preferred on July 12, 2007. The holders of 167,475 shares of our Series 2 Preferred exercised their right to convert each share into 4.329 shares of our common stock. For the holders that converted the shares of Series 2 Preferred into common stock, it is our position that the holders were not entitled to any dividends in arrears on those shares so converted. See “Related Party Transactions” of this MD&A as to certain comments made by the Jayhawk Group relating to our redemption and amounts paid to the Golsen Group as a result of the redemption and shares issued to the Jayhawk Group as a result of conversions of its Series 2 Preferred.

In addition, our board of directors declared and we paid dividends on the Series B Preferred, Series D Preferred and noncumulative redeemable preferred stock totaling approximately $1,890,000, $360,000 and $6,000, respectively. These dividends were paid with a portion of the net proceeds of the 2007 Debentures and working capital. As a result, there were no unpaid dividends in arrears at December 31, 2007. See “Related Party Transactions” of this MD&A for a discussion as to the Golsen Group’s ownership of the Series B Preferred and Series D Preferred.

We do not currently anticipate paying cash dividends on our outstanding common stock in the foreseeable future. However, our board of directors has not made a definitive decision whether or not to pay such dividends in 2008**.**

Compliance with Long-Term Debt Covenants

As discussed below under “Loan Agreements - Terms and Conditions”, the Secured Term Loan and Working Capital Revolver Loan, as amended, of ThermaClime and its subsidiaries require, among other things, that ThermaClime meet certain financial covenants. ThermaClime's forecasts for 2008 indicate that ThermaClime will be able to meet all required financial covenant tests for the year ending December 31, 2008.

Loan Agreements - Terms and Conditions

5.5% Convertible Senior Subordinated Debentures – As previously reported and as discussed above under “Liquidity and Capital Resources,” on June 28, 2007, we completed a private placement to twenty-two qualified institutional buyers, pursuant to which we sold $60.0 million aggregate principal amount of the 2007 Debentures. We received net proceeds of approximately $57 million, after discounts and commissions. 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, beginning on January 1, 2008. In addition, the 2007 Debentures are unsecured obligations and are subordinated in right of payment to all of our existing and future senior indebtedness, including indebtedness under our revolving debt facilities. The 2007 Debentures are effectively subordinated to all present and future liabilities, including trade payables, of our subsidiaries.

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

Working Capital Revolver Loan – ThermaClime's Working Capital Revolver Loan is available to fund its working capital requirements, if necessary. 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. In connection with the Secured Term Loan (discussed below), the Working Capital Revolver Loan was amended. The amendment includes the release of the lenders second position security liens to the assets that collateralize the Secured Term Loan and certain other modifications to the terms of the Working Capital Revolver Loan, including among other things, an interest rate reduction of .25% and an extended maturity date of April 13, 2012. As a result of using a portion of the proceeds from the 2007 Debentures to pay down the Working Capital Revolver Loan, at December 31, 2007, there were no outstanding borrowings. At March 7, 2008, the net credit available for additional borrowings under our Working Capital Revolver Loan was approximately $49.2 million. The Working Capital Revolver Loan requires that ThermaClime meet certain financial covenants measured quarterly. ThermaClime was in compliance with those covenants for the twelve-month period ended December 31, 2007.

Secured Term Loan - In November 2007, ThermaClime and certain of its subsidiaries entered into the $50 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the previous Senior Secured Loan as discussed above under "Liquidity and Capital Resources." The Secured Term Loan matures on November 2, 2012.

The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%. The interest rate at December 31, 2007 was 7.90%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity.

The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $48 million at December 31, 2007.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At December 31, 2007, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $60 million. The Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio and a maximum leverage ratio, both measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the year ended December 31, 2007.

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 1% of the principal amount prepaid is due to the lender should the borrowers elect to prepay on or prior to November 6, 2009. This premium is reduced to 0.5% during the following twelve-month period and is eliminated thereafter.

Cross - Default Provisions - The Working Capital Revolver Loan agreement and the Secured Term Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of the Secured Term Loan, the lender may declare an event of default, making the debt due on demand. If this should occur, there are no assurances that we would have funds available to pay such amount or that alternative borrowing arrangements would be available. Accordingly, ThermaClime could be required to curtail operations and/or sell key assets. These actions could result in the recognition of losses that may be material.

Seasonality

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

Related Party Transactions

Jayhawk

Jayhawk Capital Management, L.L.C., and certain of its affiliates (collectively, the “Jayhawk Group”), a former significant shareholder and affiliate, were participants to various investment transactions in certain issues of the Company’s debt and equity securities during the past several years, which both increased and decreased their ownership interest in the Company. During August 2007, the two directors appointed by the holders of our Series 2 Preferred were no longer eligible to serve on our board and as of December 31, 2007, the Jayhawk Group had decreased its ownership in our debt and equity securities to the level whereby they are no longer considered a related party. However, the Jayhawk Group was a participant in the following transactions related to our debt and equity securities during the period it was considered a related party:

During 2006, a member of the Jayhawk Group purchased $1,000,000 principal amount of the 2006 Debentures. In April 2007, the Jayhawk Group converted all of such 2006 Debentures into 141,040 shares of our common stock, at the conversion rate of 141.04 shares per $1,000 principal amount of 2006 Debentures (representing a conversion price of $7.09 per share pursuant to the Indenture covering the 2006 Debentures). During 2007, we paid the Jayhawk Group $70,000 of which $46,000 relates to interest earned on the 2006 Debentures and $24,000 relates to additional consideration paid to convert the 2006 Debentures.

On March 25, 2003, the Jayhawk Group purchased from us in a private placement pursuant to Rule 506 of Regulation D under the Securities Act, 450,000 shares of common stock and a warrant for the purchase of up to 112,500 shares of common stock at an exercise price of $3.49 per share. In connection with such sale, we entered into a Registration Rights Agreement with the Jayhawk Group, dated March 23, 2003. During 2007, the Jayhawk Group exercised the warrant and purchased 112,500 shares of our common stock at the exercise price of $3.49 per share. The aggregate 562,500 shares of our common stock were registered for resale under the Form S-1 Registration Statement, No. 333-145721, declared effective by the SEC on November 19, 2007.

During November 2006, we entered into an agreement (the "Jayhawk Agreement") with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed, that if we made an exchange or tender offer for the Series 2 Preferred, to tender 180,450 shares of the 346,662 shares of Series 2 Preferred owned by the Jayhawk Group upon certain conditions being met. The Jayhawk Agreement further provided that the Golsen Group would exchange or tender 26,467 shares of Series 2 Preferred beneficially owned by them, as a condition to the Jayhawk Group's tender of 180,450 of its shares of Series 2 Preferred. Pursuant to the Jayhawk Agreement and the terms of our exchange tender offer, during March 2007, the Jayhawk Group and members of the Golsen Group tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock in our tender offer. As a result, we effectively settled the dividends in arrears totaling approximately $4.96 million, with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

We received a letter, dated May 23, 2007, from a law firm representing a stockholder of ours demanding that we investigate potential short-swing profit liability under Section 16(b) of the Exchange Act of the Jayhawk Group. The stockholder alleges that the surrender by the Jayhawk Group of 180,450 shares of our Series 2 Preferred in our issuer exchange tender offer in March 2007 was a sale which was subject to Section 16 and matchable against prior purchases of Series 2 Preferred by the Jayhawk Group. The Jayhawk Group advised us that they do not believe that they are liable for short-swing profits under Section 16(b). The provisions of Section 16(b) provide that if we do not file a lawsuit against the Jayhawk Group in connection with these Section 16(b) allegations within 60 days from the date of the stockholder's notice to us, then the stockholder may pursue a Section 16(b) short-swing profit claim on our behalf. After completion of the investigation of this matter by our outside corporate/securities counsel, we attempted to settle this matter with the Jayhawk Group, but were unable to reach a resolution satisfactory to all parties. On October 9, 2007, the law firm representing the stockholder initiated a lawsuit against the Jayhawk Group pursing a Section 16(b) short-swing profit claim on our behalf up to $819,000. During the first quarter of 2008, the parties have agreed to settle this claim by a payment to us by the Jayhawk Group of $180,000, of which we will receive approximately $125,000 after attorneys' fees. This settlement is subject to a definitive settlement agreement.

The redemption of all of our outstanding Series 2 Preferred was completed on August 27, 2007. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. The Certificate of Designations for the Series 2 Preferred provided, and it is our position, that the holders of Series 2 Preferred that elected to convert shares of Series 2 Preferred into our common stock prior to the scheduled redemption date were not entitled to receive payment of any dividends in arrears on the shares so converted. As a result, holders that elected to convert shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted. On or about August 16, 2007, the Jayhawk Group elected to convert the 155,012 shares of Series 2 Preferred held by it, and we issued to the Jayhawk Group 671,046 shares of our common stock as a result of such conversion.

The Company has been advised by the Jayhawk Group, in connection with the Jayhawk Group's conversion of its holdings of Series 2 Preferred, the Jayhawk Group may bring legal proceedings against us for all dividends in arrears on the Series 2 Preferred that the Jayhawk Group converted after receiving a notice of redemption. The 155,012 shares of Series 2 Preferred converted by the Jayhawk Group after we issued the notice of redemption for the Series 2 Preferred would have been entitled to receive approximately $4.0 million of dividends in arrears on the August 27, 2007 redemption date, if such shares were outstanding on the redemption date and had not been converted and into common stock.

As a holder of Series 2 Preferred, the Jayhawk Group participated in the nomination and election of two individuals to serve on our board of directors in accordance with the terms of the Series 2 Preferred. As the result of the exchanges, conversions and redemption of the Series 2 Preferred during 2007, resulting in less than 140,000 shares of Series 2 Preferred being outstanding, the right of the holders of Series 2 Preferred to nominate and elect two individuals to serve on our board of directors terminated pursuant to the terms of the Series 2 Preferred. Therefore the two independent directors elected by the holders of our Series 2 Preferred no longer serve as directors on our board of directors and the Jayhawk Group is no longer considered an affiliate of ours.

Golsen Group

In connection with the completion of our March 2007 tender offer for our outstanding shares of our Series 2 Preferred, members of the Golsen Group tendered 26,467 shares of Series 2 Preferred in exchange for our issuance to them of 195,855 shares of our common stock. As a result, we effectively settled approximately $0.63 million in dividends in arrears on the shares of Series 2 Preferred tendered. The tender by the Golsen Group was a condition to Jayhawk's Agreement to tender shares of Series 2 Preferred in the tender offer. See discussion above under "Jayhawk."

After our exchange tender offer of our Series 2 Preferred, the Golsen Group held 23,083 shares of Series 2 Preferred. Pursuant to our redemption of the remaining outstanding Series 2 Preferred during August 2007, the Golsen Group redeemed 23,083 shares of Series 2 Preferred and received the cash redemption amount of approximately $1.76 million pursuant to the terms of our redemption of all of our outstanding Series 2 Preferred. The redemption price was $50.00 per share of Series 2 Preferred, plus $26.25 per share in dividends in arrears pro-rata to the date of redemption. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. Holders that converted shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted.

Cash Dividends

As discussed above, during 2007, we paid cash dividends to the Golsen Group of approximately $606,000 related to 23,083 shares of Series 2 Preferred redeemed.

In September 2007, we paid the dividends in arrears on our outstanding preferred stock utilizing a portion of the net proceeds of the sale of the 2007 Debentures and working capital, including approximately $2,250,000 of dividends in arrears on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

Quail Creek Bank

Bernard Ille, a member of our board of directors, is a director of Quail Creek Bank, N.A. (the “Bank”). The Bank was a lender to one of our subsidiaries. During 2007, the subsidiary made interest and principal payments on outstanding debt owed to the Bank in the respective amount of $.1 million and $3.3 million in 2007. At December 31, 2006, the subsidiary’s loan payable to the Bank was approximately $3.3 million, (none at December 31, 2007) with an annual interest rate of 8.25%. The loan was secured by certain of the subsidiary’s property, plant and equipment. This loan was paid in full in June 2007 utilizing a portion of the net proceeds of our sale of the 2007 Debentures.

Critical Accounting Policies and Estimates

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

Changes in Accounting Estimates

- as discussed under “Overview - 2007 Results”, we reversed the valuation allowance on our deferred tax balances which resulted in recognition of a deferred tax benefit of $4,700,000 which is included in our provision for income taxes and
- the recognition of $1.0 million of additional state income taxes included in our provision for income taxes as discussed above under “Overview - 2007 Results”.

The net effect of these changes in accounting estimates increased income from continuing operations and net income by $3.7 million for 2007. In addition, these changes in accounting estimates increased basic and diluted net income per share by $0.19 and $0.16, respectively, for 2007.

Receivables and Credit Risk - Our sales to contractors and independent sales representatives are generally subject to a mechanics lien in the Climate Control Business. Our other sales are generally unsecured. Credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due (determined based upon how recently payments have been received). Our periodic assessment of accounts and credit loss provisions are based on our best estimate of amounts that are not recoverable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas, however, six customers account for approximately 26% of our total net receivables at December 31, 2007. We do not believe this concentration in these six customers represents a significant credit risk due to the financial stability of these customers. At December 31, 2007 and 2006, our allowance for doubtful accounts of $1.3 million and $2.3 million, respectively, were netted against our accounts receivable.

Inventory Valuations - Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor and manufacturing overhead costs. At December 31, 2007 and 2006, the carrying value of certain nitrogen-based inventories produced by our Chemical Business was reduced to market because cost exceeded the net realizable value by $13,000 and $426,000, respectively. In addition, the carrying value of certain slow-moving inventory items (primarily Climate Control products) was reduced to market because cost exceeded the net realizable value by $460,000 and $829,000 at December 31, 2007 and 2006, respectively.

Precious Metals - Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. As of December 31, 2007 and 2006, precious metals were $10.9 million and $6.4 million, respectively, and are included in supplies, prepaid items and other in the consolidated balance sheets. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed. For 2007, 2006 and 2005, the amounts expensed for precious metals were approximately $6.4 million, $4.8 million and $3.1 million, respectively. These precious metals expenses are included in cost of sales. Occasionally, during major maintenance and/or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within the manufacturing equipment. For 2007, 2006 and 2005, we recognized recoveries of precious metals at historical FIFO costs of approximately $1.8 million, $2.1 million and $1.6 million, respectively. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals. We recognized gains of $2.0 million for 2007 (none in 2006 and 2005) from the sale of excess precious metals. These recoveries and gains are reductions to cost of sales.

Impairment of Long-Lived Assets and Goodwill - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable and goodwill is reviewed for impairment at least annually. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. Assets to be disposed of are reported at the lower of the carrying amounts of the assets or fair values less costs to sell. At December 31, 2007, we had no long-lived assets that met the criteria presented in SFAS 144 to be classified as assets held for sale. We have considered impairment of our long-lived assets and goodwill. The timing of impairments cannot be predicted with reasonable certainty and are primarily dependent on market conditions outside our control. Should sales prices permanently decline dramatically without a similar decline in the raw material costs or should other matters, including the environmental requirements and/or operating requirements set by Federal and State agencies change substantially from our current expectations, a provision for impairment may be required based upon such event or events. See Item 1 "Business-Environmental Matters." Based on estimates obtained from external sources and internal estimates based on inquiry and other techniques, we recognized impairments relating to certain non-core equipment of $120,000 relating to Corporate assets during 2005 (none in 2007 and 2006) and $250,000, $286,000 and $117,000 relating to certain capital spare parts and idle assets in our Chemical Business during 2007, 2006 and 2005, respectively. These impairments are included in other expense in the consolidated statements of income.

Accrued Insurance Liabilities - We are self-insured up to certain limits for group health, workers’ compensation and general liability insurance claims. Above these limits, we have commercial insurance coverage for our contractual exposure on group health claims and statutory limits under workers’ compensation obligations. We also carry excess umbrella insurance of $50 million for most general liability risks excluding environmental risks. We have a separate $30 million insurance policy covering pollution liability at our El Dorado and Cherokee Facilities. Our accrued insurance liabilities are based on estimates of claims, which include the incurred claims amounts plus estimates of future claims development calculated by applying our historical claims development factors to our incurred claims amounts. We also consider the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims and other insurance-related costs. At December 31, 2007 and 2006, our accrued insurance liabilities were $3.0 million and $1.6 million, respectively, and are included in accrued and other liabilities in the consolidated balance sheets. It is possible that the actual development of claims could exceed our estimates. Amounts recoverable from our insurance carriers over the self-insured limits are included in accounts receivable.

Product Warranty - Our Climate Control Business sells equipment for which we provide warranties covering defects in materials and workmanship. Generally, the base warranty coverage for most of the manufactured equipment is limited to 18 months from the date of shipment or 12 months from the date of start-up, whichever is shorter, and to 90 days for spare parts. In some cases, the customer may purchase an extended warranty. Our accounting policy and methodology for warranty arrangements is to periodically measure and recognize the expense and liability for such warranty obligations using a percentage of net sales, based on historical warranty costs. It is possible that future warranty costs could exceed our estimates. At December 31, 2007 and 2006, our accrued product warranty obligations were $1.9 million and $1.3 million, respectively and are included in current and noncurrent accrued and other liabilities in the consolidated balance sheets.

Plant Turnaround Costs - We expense the costs as they are incurred relating to planned major maintenance activities ("Turnarounds") of our Chemical Business as described as the direct expensing method within Financial Accounting Standards Board ("FASB") Staff Position No. AUG AIR-1.

Executive Benefit Agreements - We have entered into benefit agreements with certain key executives. Costs associated with these individual benefit agreements are accrued when they become probable over the estimated remaining service period. Total costs accrued equal the present value of specified payments to be made after benefits become payable. In 1992, we entered into individual benefit agreements with certain key executives ("1992 Agreements") that provide for annual benefit payments for life (in addition to salary). The liability for these benefits under the 1992 Agreements is $1,040,000 and $979,000 as of December 31, 2007 and 2006, respectively, and is included in current and noncurrent accrued and other liabilities in the consolidated balance sheets.

In 1981, we entered into individual death benefit agreements with certain key executives. In addition, as part of the 1992 Agreements, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. In 2005, we entered into a death benefit agreement with our CEO. As of December 31, 2007, the liability for death benefits is $2.1 million ($1.4 million at December 31, 2006) which is included in current and noncurrent accrued and noncurrent liabilities in the consolidated balance sheets.

Environmental and Regulatory Compliance - The Chemical Business is subject to specific federal and state regulatory and environmental compliance laws and guidelines. We have developed policies and procedures related to environmental and regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. At December 31, 2007, liabilities totaling $0.4 million have been accrued relating to a consent administrative order ("CAO") covering the El Dorado Facility and a CAO covering our former Hallowell facility. These liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term based on results from our surface and groundwater monitoring and mitigation work plan. In addition, we will be required to make capital expenditures as it relates to the AirCAO.

Asset Retirement Obligations - We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces which we plan to maintain in an adequate condition to prevent leakage through our standard repair and maintenance activities. We do not believe the annual costs of the required monitoring and maintenance activities would be significant and we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made in accordance with FIN 47.

Income Taxes - We account for income taxes in accordance with SFAS 109 and we adopted FIN No. 48 – Accounting for Uncertainty in Income Taxes (“FIN 48”) on January 1, 2007. We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to tax net operating loss (“NOL”) carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

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

Contingencies - We accrue for contingent losses when such losses are probable and reasonably estimable. In addition, we recognize contingent gains when such gains are realized. We are a party to various litigation and other contingencies, the ultimate outcome of which is not presently known. Should the ultimate outcome of these contingencies be adverse, such outcome could create an event of default under ThermaClime's Working Capital Revolver Loan and the Secured Term Loan and could adversely impact our liquidity and capital resources.

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

Recognition of Insurance Recoveries - If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized.

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

Results of Operations

The following Results of Operations should be read in conjunction with our Consolidated Financial Statements for the years ended December 31, 2007, 2006 and 2005 and accompanying notes and the discussions above under “Overview” And “Liquidity and Capital Resources.”

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

	2007	2006	2005
		(In Thousands)	
Net sales:			
Climate Control	$ 286,365	$ 221,161	$ 156,859
Chemical	288,840	260,651	233,447
Other	11,202	10,140	6,809
	$ 586,407	$ 491,952	$ 397,115
Gross profit:			
Climate Control	$ 83,638	$ 65,496	$ 48,122
Chemical	44,946	22,023	16,314
Other	4,009	3,343	2,330
	$ 132,593	$ 90,862	$ 66,766
Operating income (loss):			
Climate Control	$ 34,194	$ 25,428	$ 14,097
Chemical	35,011	9,785	7,591
General corporate expense and other business operations, net	(10,194)	(8,074)	(6,835)
	59,011	27,139	14,853
Interest expense	(12,078)	(11,915)	(11,407)
Non-operating income, net:			
Climate Control	2	1	-
Chemical	109	311	362
Corporate and other business operations	1,153	312	1,199
Provision for income taxes	(2,540)	(901)	(118)
Equity in earnings of affiliate - Climate Control	877	821	745
Income from continuing operations	$ 46,534	$ 15,768	$ 5,634

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net Sales

The following table contains certain information about our net sales in different industry segments for 2007 and 2006:

	2007	2006	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Climate Control:				
Geothermal and water source heat pumps	$ 165,115	$ 134,210	$ 30,905	23.0 %
Hydronic fan coils	85,815	59,497	26,318	44.2 %
Other HVAC products	35,435	27,454	7,981	29.1 %
Total Climate Control	$ 286,365	$ 221,161	$ 65,204	29.5 %
Chemical:				
Agricultural products	$ 117,158	$ 89,735	$ 27,423	30.6 %
Industrial acids and other chemical products	95,754	95,208	546	0.6 %
Mining products	75,928	75,708	220	0.3 %
Total Chemical	$ 288,840	$ 260,651	$ 28,189	10.8 %
Other	$ 11,202	$ 10,140	$ 1,062	10.5 %
Total net sales	$ 586,407	$ 491,952	$ 94,455	19.2 %

Climate Control Business

- Net sales of our geothermal and water source heat pump products increased primarily as a result of increases in original equipment manufacturer (“OEM”), export and commercial shipments. In total, the number of geothermal and water source heat pump products shipments increased by approximately 10% in 2007 as compared to 2006. In addition, an increase of approximately 13% relates to the change in product mix and price increases. The price increases were instituted in response to rising raw material and component purchase prices. Due to the significant backlog of customer orders at the time the price increases were put into effect, the impact of customer price increases trail cost increases in raw material and component purchase prices. In 2007, the impact of price increases is estimated to be approximately 4%. We continue to maintain a market share leadership position based on data supplied by the Air-Conditioning and Refrigeration Institute;
- Net sales of our hydronic fan coils increased primarily due to a 16% increase in the number of units sold due to an increase in large customer orders as well as a 25% increase in average unit sales prices as the result of the change in product mix, lower discounting, and higher selling prices driven by raw material cost increases;
- Net sales of our other HVAC products increased primarily as the result of engineering and construction services due to work completed on construction contracts.

Chemical Business

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only nitric acid products. The volume of tons sold and the sales prices for the Chemical Business increased 3% and 7%, respectively, compared with 2006.

- Overall, volume at the El Dorado Facility remained essentially the same while sales prices increased 10%. However, our product mix shifted in 2007 from industrial acids products to agricultural products driven by increased agricultural demand. The increase in sales prices includes a 17% increase relating to our nitrogen fertilizer products.
- Overall volume at the Cherokee Facility increased 7% and sales prices increased 11%. The Cherokee Facility also experienced the same market-driven demand for nitrogen fertilizer products in 2007, which resulted in a 54% increase in volume and a 32% increase in sales prices relating to these products. Additionally, there were low demand and production curtailments experienced throughout the first quarter of 2006 as the result of reduction in orders from several key customers due to the high cost of natural gas caused by the effects of Hurricane Katrina.
- Volume increased 5% while sales prices remained essentially the same at the Baytown Facility.

Other - Net sales classified as "Other" consists of sales of industrial machinery and related components. The increase in net sales relates primarily to increased customer demand for our machine tool products.

Gross Profit

Gross profit by industry segment represents net sales less cost of sales. The following table contains certain information about our gross profit in different industry segments for 2007 and 2006:

	2007	2006	Change	Percentage Change
		(Dollars In Thousands)		
Gross profit:				
Climate Control	$ 83,638	$ 65,496	$ 18,142	27.7 %
Chemical	44,946	22,023	22,923	104.1 %
Other	4,009	3,343	666	19.9 %
	$ 132,593	$ 90,862	$ 41,731	45.9 %

Gross profit percentage (1):			
Climate Control	29.2 %	29.6 %	(0.4)%
Chemical	15.6 %	8.4 %	7.2 %
Other	35.8 %	33.0 %	2.8 %
Total	22.6 %	18.5 %	4.1 %

(1) As a percentage of net sales

The increase in gross profit in our Climate Control Business was a direct result of the increase in sales volume, change in product mix, and price increases as discussed above. Our gross profit percentage as a percentage of sales decreased by 0.4% primarily due to raw material costs increases being incurred ahead of customer price increases becoming effective as well as changes in product mix.

The increase in gross profit of our Chemical Business relates primarily to improved margins on agricultural products sold by the El Dorado and Cherokee Facilities. Comparing 2007 with 2006, there was little change in the cost of the El Dorado and Cherokee Facilities' primary feedstocks, ammonia and natural gas. As a result, the higher selling prices and volumes as discussed above are the primary reasons for the increase in the gross profit percentage.

During 2007 and 2006, we recorded the realization of losses on certain nitrogen-based inventories of approximately $0.4 million and $1.0 million, respectively. In addition, during 2007, we realized insurance recoveries of approximately $3.8 million relating to a business interruption claim associated with the Cherokee Facility. In 2006, we realized insurance recoveries of approximately $0.9 million relating to a business interruption claim associated with the El Dorado Facility. The above transactions contributed to an increase in gross profit for each respective period.

As discussed above under "Overview-Chemical Business," our Chemical Business uses precious metals as a catalyst in the manufacturing process. During 2007, we had accumulated precious metals in excess of our production requirements. Therefore we sold a portion of the excess metals. As a result, we recognized a gain of $2.0 million which increased gross profit compared to 2006. However, this increase in gross profit of $2.0 million was partially offset by a decrease of $1.8 million due primarily to the increase in precious metals expense of approximately $1.5 million compared to 2006 as the result of cost increases for these metals.

The increase in gross profit classified as "Other" (see discussion above) is due primarily to the increase in sales as discussed above.

Operating Income

Our chief operating decision makers use operating income by industry segment for purposes of making decisions which include resource allocations and performance evaluations. Operating income by industry segment represents gross profit by industry segment less SG&A incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our operating income for 2007 and 2006:

	2007	2006	Change
		(In Thousands)	
Operating income:			
Climate Control	$ 34,194	$ 25,428	$ 8,766
Chemical	35,011	9,785	25,226
General corporate expense and other business operations, net	(10,194)	(8,074)	(2,120)
	$ 59,011	$ 27,139	$ 31,872

Operating Income - Climate Control: The net increase in operating income of our Climate Control Business resulted primarily from the net increase of gross profit of $18.1 million as discussed above. This increase in operating income was partially offset primarily by increased personnel cost of $1.8 million as the result of increased number of personnel and group healthcare costs, increased commissions and warranty expenses of $1.6 million and $1.1 million, respectively, due to increased sales volume and distribution/product mix increased shipping and handling costs of $0.7 million due to increased sales volume and rising fuel costs and increased consulting fees of $0.5 million primarily due to efforts to promote governmental support in the geothermal market. In addition, our Climate Control Business recognized income of $1.2 million in 2006 relating to an arbitration award received relating to an arbitration case involving a subsidiary within the Climate Control Business.

Operating Income - Chemical: The net increase of our Chemical Business' operating income primarily relates to the net increase in gross profit of $22.9 million as discussed above. Also as discussed above under "Overview - Chemical Business", our Chemical Business recognized income of approximately $3.3 million relating to a litigation settlement during 2007.

General Corporate Expense and Other Business Operations, Net: The net increase of $2.1 million in our general corporate expense and other business operations, net relates primarily to an increase of professional fees of $1.3 million primarily as the result of costs incurred associated with the evaluation and audit of our internal controls and procedures and related documentation for Sarbanes-Oxley requirements and an increase of $1.0 million in personnel costs due, in part, to increased group health care costs which was partially offset by the increase of $0.7 million in gross profit classified as "Other" as discussed above.

Interest Expense - Interest expense was $12.1 million for 2007 compared to $11.9 million for 2006, an increase of $0.2 million. This net increase includes $2.0 million relating to the 2007 Debentures, $0.6 million relating to the Secured Term Loan and the $0.6 million change in the fair value of our interest rate caps. This increase was partially offset by a decrease of $1.3 million as the result of the conversions of the 2006 Debentures during 2006 and 2007, a decrease of $1.1 million primarily due the pay down of the Working Capital Revolver Loan during 2007, and a decrease of $0.6 million as the result of the acquisition of the 10.75% Senior Unsecured Notes during 2006.

Provision For Income Taxes - The provision for income taxes for 2007 was $2.5 million compared to $0.9 million for 2006. The increase of $1.6 million was primarily the result of an increase in the federal and state income taxes resulting from increased taxable income and additional prior year state income taxes recorded under FIN 48. This increase was partially offset by the benefit of deferred taxes from the reversal of valuation allowances discussed above under "Overview - 2007 Results".

Net Loss (Income) From Discontinued Operations - Net income from discontinued operations was $0.3 million for 2007 compared to a net loss from discontinued operations of $0.3 million for 2006. The loss incurred in 2006 relates primarily to provisions for our estimated costs to investigate and delineate a site in Hallowell, Kansas as a result of meetings with the KDHE during 2006. However, on September 12, 2007, the KDHE approved our proposal to perform surface and groundwater monitoring and to implement a mitigation work plan to acquire additional field data. As a result of receiving approval from the KDHE for our proposal, net income from discontinued operations for 2007 relates primarily to the reduction of our liability for the estimated costs associated with this remediation.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Sales

The following table contains certain information about our net sales in different industry segments for 2006 and 2005:

	2006	2005	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Climate Control:				
Geothermal and water source heat pumps	$ 134,210	$ 85,268	$ 48,942	57.4 %
Hydronic fan coils	59,497	53,564	5,933	11.1 %
Other HVAC products	27,454	18,027	9,427	52.3 %
Total Climate Control	$ 221,161	$ 156,859	$ 64,302	41.0 %
Chemical:				
Industrial acids and other chemical products	$ 95,208	$ 80,228	$ 14,980	18.7 %
Agricultural products	89,735	80,638	9,097	11.3 %
Mining products	75,708	72,581	3,127	4.3 %
Total Chemical	$ 260,651	$ 233,447	$ 27,204	11.7 %
Other	$ 10,140	$ 6,809	$ 3,331	48.9 %
Total net sales	$ 491,952	$ 397,115	$ 94,837	23.9 %

Climate Control Business

- Net sales of our geothermal and water source heat pump products increased primarily as a result of a 52% increase in the number of units sold in the commercial and residential markets due to customer demand representing an approximate 4% gain in market share based on data supplied by the ARI;
- Net sales of our hydronic fan coils increased primarily due to a 10% increase in overall average unit sales prices as the result of lowering discounting and higher selling prices driven by raw material cost increases;
- Net sales of our other HVAC products increased as the result of an increase in the number of larger custom air handlers sold primarily relating to three large projects.

Chemical Business

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. Overall, volume of tons sold for the Chemical Business increased 12% while sales prices remained consistent with 2005.

- Volume at the El Dorado Facility increased 14% primarily related to agricultural products as the result of the loss of production during the first half of 2005 as discussed below, to industrial acid and other chemical products due to spot sales opportunities, and to mining products relating to the growth of coal mining in the mining industry;
- Volume at the Baytown Facility increased 24% as the result of a closing of a chemical facility within our market and other various spot sales opportunities;
- Volume at the Cherokee Facility decreased 6% resulting from the suspension of production during the first half of January 2006 as the result of a reduction in orders from several key customers due to the increased natural gas costs and further production curtailments throughout the first quarter of 2006.

Other - Net sales classified as “Other” consists of sales of industrial machinery and related components. The increase in net sales relates primarily to increased customer demand for our machine tool products.

Gross Profit

Gross profit by industry segment represents net sales less cost of sales. The following table contains certain information about our gross profit in different industry segments for 2006 and 2005:

	2006	2005	Change	Percentage Change
		(Dollars In Thousands)		
Gross profit:				
Climate Control	$ 65,496	$ 48,122	$ 17,374	36.1 %
Chemical	22,023	16,314	5,709	35.0 %
Other	3,343	2,330	1,013	43.5 %
	$ 90,862	$ 66,766	$ 24,096	36.1 %

Gross profit percentage (1):			
Climate Control	29.6 %	30.7 %	(1.1)%
Chemical	8.4 %	7.0 %	1.4 %
Other	33.0 %	34.2 %	(1.2)%
Total	18.5 %	16.8 %	1.7 %

(1) As a percentage of net sales

The increase in gross profit in our Climate Control Business was a direct result of the increase in sales volume as discussed above. The decline in our gross profit percentage was primarily due to raw material costs increases being incurred ahead of customer price increases becoming effective.

The net increase in gross profit of our Chemical Business relates primarily to:

- The Cherokee Facility as the result of not incurring the disruptions at the plant caused by the rise in natural gas costs due to the hurricanes in the U.S. Gulf in 2005 and a decrease in electricity costs as a result of a negotiated reduction in utility rates in 2006;
- The Baytown Facility due primarily to the increase in sales volume as discussed above;
- The El Dorado Facility as the result of the increase in sales volume as discussed above.

As previously reported, beginning in October 2004 and continuing into June 2005, the Chemical Business' results were adversely affected as a result of the loss of production due to a mechanical failure of one of the four nitric acid plants at the El Dorado Facility. The plant was restored to normal production in June 2005. We recognized insurance recoveries of $0.9 million and $1.9 million under our business interruption insurance policy relating to this claim for 2006 and 2005, respectively, which is recorded as a reduction to cost of sales. The negative impact on gross profit resulting from the lost production was approximately $4.1 million in 2005.

The increase in gross profit classified as "Other" (see discussion above) is due primarily to the increase in sales as discussed above.

Operating Income

Our chief operating decision makers use operating income by industry segment for purposes of making decisions which include resource allocations and performance evaluations. Operating income by industry segment represents gross profit by industry segment less SG&A incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our operating income for 2006 and 2005:

	2006	2005	Change
		(In Thousands)	
Operating income:			
Climate Control	$ 25,428	$ 14,097	$ 11,331
Chemical	9,785	7,591	2,194
General corporate expense and other business operations, net	(8,074)	(6,835)	(1,239)
	$ 27,139	$ 14,853	$ 12,286

Operating Income - Climate Control: The net increase in operating income of our Climate Control Business resulted primarily from the net increase of gross profit of $17.4 million as discussed above, an arbitration award of $1.2 million received in 2006 relating to the arbitration case involving a subsidiary within the Climate Control Business, and a decrease in professional fees of $1.0 million primarily as the result of fees incurred during 2005 relating to this arbitration case. This increase in operating income was partially offset by increased shipping and handling costs of $3.9 million due to increased sales volume and rising fuel costs, increased commissions of $1.8 million due to increased sales volume and distribution mix and increased personnel cost of $1.6 million as the result of increased number of personnel and higher incentives, and increased warranty costs of $0.7 million due to the increased sales volume.

Operating Income - Chemical: The net increase of our Chemical Business' operating income primarily relates to the net increase in gross profit of $5.7 million as discussed above. This increase in operating income was partially offset by an increase in handling costs of $0.8 million due primarily to increased sales volume and an increase in professional fees of $0.4 million relating to legal costs associated with ammonium nitrate anti-dumping tariffs. In addition, we recognized gains of $1.6 million from certain property insurance claims in 2005.

General Corporate Expense and Other Business Operations, Net: The net increase in our general corporate expense and other business operations, net relates primarily to an increase of $0.6 million in personnel costs relating to increased group health care costs of $0.4 million and commissions of $0.3 million on the increased sales classified as "Other" as discussed above, an increase in professional fees of $0.6 million due, in part, for assistance in our evaluation of our internal controls and procedures and related documentation for Sarbanes-Oxley requirements, a litigation settlement of $0.3 million relating to an asserted financing fee, and a decrease in gains of $0.7 million from the sales of corporate assets. The increase was partially offset by the increase in gross profit classified as "Other" of $1.0 million and a refund of $0.4 million relating to insurance brokerage fees.

Interest Expense - Interest expense was $11.9 million for 2006 compared to $11.4 million for 2005, an increase of $0.5 million. This net increase in interest expense includes $1.1 million relating to the 2006 Debentures sold in March 2006 and $0.3 million of additional consideration paid in conjunction with the conversion of a portion of the 2006 Debentures during 2006 which was partially offset by a decrease of $0.8 million relating to the Notes which were purchased or redeemed during 2006.

Non-Operating Other Income, net - Our non-operating other income, net was $0.6 million for 2006 compared to $1.6 million for 2005. In 2005, we recognized net proceeds from life insurance policies of $1.2 million.

Provision For Income Taxes - Due to NOL carryforwards, provisions for income taxes consist of federal alternative minimum taxes and state income taxes for 2006 and federal alternative minimum taxes for 2005.

Net Loss From Discontinued Operations - Net loss from discontinued operations includes provisions of $0.2 million and $0.6 million for 2006 and 2005, respectively, for our share of estimated environmental remediation costs to investigate and delineate a site in Hallowell, Kansas as a result of meetings with the KDHE. There are no income tax benefits related to these expenses.

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 discussion concerning cash flows from our Climate Control and Chemical Businesses in "Liquidity and Capital Resources."

For 2007, net cash provided by continuing operating activities was $46.8 million, including net income (which includes insurance recoveries of $3.8 million under our business interruption insurance policy and a litigation settlement of $3.3 million), plus depreciation and amortization, deferred income taxes, and other adjustments offset by cash used by the following changes in assets and liabilities:

Accounts receivable increased a net $4.4 million including:

- an increase of $2.4 million relating to the Chemical Business as the result of increased sales at the Cherokee Facility as discussed above under “Results of Operations” and a portion of the business interruption insurance claim discussed above under “Overview – Chemical Business”,
- an increase of $0.7 million relating to group health insurance claims in excess of our self-insured limits,
- a net increase of $0.5 million relating to the Climate Control Business due primarily to increased sales of hydronic fan coils and other HVAC products relating to engineering and construction services as discussed above under “Results of Operations” which was partially offset by a decrease in the average number of days our receivable balances were outstanding relating to our heat pump product customers, and

- an increase of $0.6 million relating to the timing of payments received from our customers of industrial machinery.

Inventories increased a net $11.0 million including:

- a net increase of $5.3 million relating to the Climate Control Business primarily relating to heat pump and hydronic fan coil products due primarily to increased levels of raw materials and finished goods on hand as the result of the expansion of our facilities to meet customer demands and the increase in number of construction contracts in progress partially offset by a decrease in inventories held by our large custom air handler operation as a result of an increase in sales and a decrease in production during the fourth quarter of 2007,
- an increase of $3.9 million in the Chemical Business relating primarily to the Cherokee Facility as a result of a significant amount of inventory on hand which was not delivered to a customer until January 2008 and a reduction of inventory on hand at the end of 2006 due to a Turnaround performed in December 2006, and
- an increase of $1.8 million relating to our industrial machinery to meet customer demand.

Other supplies and prepaid items increased $4.9 million primarily due to an increase in the cost of precious metals and additional metals purchased and recovered net of the amount consumed in the manufacturing process and sold by our Chemical Business.

Accounts payable decreased $5.1 million primarily due to:

- a decrease of $3.9 million in our Chemical Business resulting primarily from the payment of invoices relating to the Baytown Facility's property taxes and scheduled lease billings and the payment of invoices relating to a Turnaround performed in December 2006 at the Cherokee Facility and
- a decrease of $1.5 million in our Climate Control Business resulting primarily from a decrease in the average number of days outstanding partially offset by an increase in purchases of raw materials to manufacture primarily hydronic fan coil and air handler products.

Customer deposits increased $6.6 million primarily due to:

- an increase of $7.8 million in our Chemical Business due to the increase in deposits received on sales commitments by the Cherokee and El Dorado Facilities partially offset by
- a decrease of $1.3 million in our Climate Control Business due primarily as the result of recognizing the sales of large custom air handlers associated with those deposits.

The decrease in deferred rent expense of $0.9 million is due to the scheduled lease payments in 2007 exceeding the rent expense recognized on a straight-line basis.

The increase in other current and noncurrent liabilities of $8.7 million includes:

- an increase of $4.0 million of accrued income and property taxes due primarily to the increase in income taxes resulting from increased taxable income, increase in uncertain tax positions under FIN 48, and taxes in additional state jurisdictions,

- an increase of $1.3 million of accrued insurance due primarily to changes in our insurance programs and as a result of an increase in group insurance claims as of December 31, 2007,
- an increase of $1.2 million of accrued payroll and related benefits primarily relating to the Climate Control Business as the result of increases in the number of personnel and compensation incentives,
- an increase of $1.0 million of deferred revenue on extended warranty contracts as the result of an increase in sales of our water source heat pump products, and
- and a net increase of $1.2 million due to other individually immaterial items.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities was $11.8 million for 2007, which included $14.8 million for capital expenditures of which $5.8 million are for the benefit of our Climate Control Business and $8.6 million are for our Chemical Business and the purchase of interest rate cap contracts for $0.6 million. These expenditures were partially offset by proceeds from restricted cash of $3.5 million, which was primarily used to pay down debt.

Cash Flow from Continuing Financing Activities

Net cash provided by continuing financing activities was $21.2 million, which primarily consisted of:

- net proceeds of $57.0 million from the 2007 Debentures as discussed above under "Liquidity and Capital Resources",
- proceeds of $50.0 million from the Secured Term Loan as discussed above under "Liquidity and Capital Resources",
- net proceeds of $2.4 million from other long-term debt primarily for working capital purposes,
- proceeds of $1.9 million from the exercise of stock options and a warrant,
- excess tax benefit of $1.7 million on stock options exercised, offset in part, by the
- payoff of the Senior Secured Loan of $50.0 million as discussed above under "Liquidity and Capital Resources",
- payments of $26.4 million on revolving debt facilities, net of proceeds, primarily from the use of proceeds from the 2007 Debentures,
- payments of $9.2 million on other long-term debt and debt issuance costs,
- dividend payments of $2.9 million on preferred stock,
- payments of $2.1 million on short-term financing and drafts payable, net of proceeds, and
- payments of $1.3 million to acquire non-redeemable preferred stock.

Off-Balance Sheet Arrangements

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

Cepolk Holding, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership") which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). At December 31, 2007, our investment was $3.4 million. For 2007, distributions received from this Partnership were $0.8 million and our equity in earnings was $0.9 million. As of December 31, 2007, the Partnership and general partner to the Partnership is indebted to a term lender ("Lender") of the Project with a term extending to December 2010 ("Loan"). CHI has pledged its limited partnership interest in the Partnership to the Lender as part of the Lender's collateral securing all obligations under the Loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. No liability has been established for this pledge since it was entered into prior to adoption of FIN 45. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Lender be required to perform under this pledge.

Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2007 are summarized in the following table.

	Payments Due in the Year Ending December 31,						
Contractual Obligations	Total	2008	2009	2010	2011	2012	Thereafter
				(In Thousands)			
Long-term debt:							
5.5% Convertible Senior Subordinated Notes	$ 60,000	$ -	$ -	$ -	$ -	$ 60,000	$ -
Secured Term Loan due 2012	50,000	-	-	-	-	50,000	-
Capital leases	1,230	514	236	253	165	62	-
Other	10,877	529	806	900	954	1,010	6,678
Total long-term debt	122,107	1,043	1,042	1,153	1,119	111,072	6,678
Interest payments on long-term debt (1)	38,828	8,063	7,988	7,909	7,828	5,536	1,504
Capital expenditures (2)	14,067	14,067	-	-	-		-
Operating leases:							
Baytown Facility lease	16,054	11,173	4,881	-	-		-
Other operating leases	12,127	3,351	2,859	1,962	1,310	1,004	1,641
Exchange-traded futures contracts	15,953	15,953	-	-	-	-	-
Accrued contractual manufacturing obligations	1,548	1,548	-	-	-	-	-
Purchase obligations	2,784	1,044	1,044	696	-	-	-
Contractual obligations included in noncurrent accrued and other liabilities	3,071	-	115	94	97	159	2,606
Total	$ 226,539	$ 56,242	$ 17,929	$ 11,814	$ 10,354	$ 117,771	$ 12,429

(1) The estimated interest payments relating to variable interest rate debt are based on the effective interest rates at December 31, 2007.

(2) Capital expenditures include only non-discretionary amounts in our 2008 capital expenditure budget.

Availability of Company's Loss Carry-Overs

For a discussion on our net operating loss carry-overs, see Note 12 of Notes to Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Forward Sales Commitments Risk

Periodically our Climate Control and Chemical Businesses enter into forward sales commitments of products for deliveries in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At December 31, 2007, we had no embedded losses associated with sales commitments with firm sales prices.

Interest Rate Risk

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

In 2005, we purchased two interest rate cap contracts for a cost of $590,000 to help minimize our interest rate risk exposure relating to the Working Capital Revolver Loan. These contracts set a maximum three-month LIBOR base rate of 4.59% on $30 million of debt and mature in March 2009. In April 2007, we purchased two interest rate cap contracts for a cost of $621,000 to help minimize our interest rate risk exposure associated with debt. These contracts set a maximum three-month LIBOR base rate of 5.35% on $50 million of debt and mature in April 2012. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis in accordance with SFAS No.133. At December 31, 2007, the market value of these contracts was $426,000.

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. Periodically, our Climate Control Business enters into exchange-traded futures for copper and our Chemical Business enters into exchange-traded futures for natural gas, which contracts are generally accounted for on a mark-to-market basis in accordance with SFAS 133. At December 31, 2007, our purchase commitments under these contracts were for 3,875,000 pounds of copper through December 2008 at a weighted-average cost of $3.02 per pound ($11.7 million) and a weighted-average market value of \$3.04 per pound (\$11.8 million). In addition, our Chemical Business had purchase commitments under these contracts for 530,000 MMBtu of natural gas through April 2008 at a weighted-average cost of \$7.98 per MMBtu (\$4.2 million) and a weighted-average market value of \$7.51 per MMBtu (\$4.0 million).

The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive financial instruments and our purchase commitments under exchange-traded futures contracts and related weighted-average contract costs by contract terms as of December 31, 2007.

	Years ending December 31, (Dollars In Thousands, Except For Per Pound And MMBtu)						
	2008	2009	2010	2011	2012	Thereafter	Total
Expected maturities of long-term debt (1):							
Variable rate debt	$ 155	$ -	$ -	$ -	$ 50,000	$ -	$ 50,155
Weighted-average interest rate	7.89%	7.90%	7.90%	7.90%	7.90%	-%	7.90%
Fixed rate debt	$ 888	$ 1,042	$ 1,153	$ 1,119	$ 61,072	$ 6,678	$ 71,952
Weighted-average interest rate	5.73%	5.71%	5.69%	5.66%	5.76%	6.81%	5.85%
Exchange-traded futures contracts:							
Copper:							
Total cost of contracts	$ 11,722						$ 11,722
Weighted-average cost per pound	$ 3.02						$ 3.02
Natural gas:							
Total cost of contracts	$ 4,231						$ 4,231
Weighted-average cost per MMBtu	$ 7.98						$ 7.98

(1) The variable and fixed rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2007.

Due to their short-term nature, the carrying values of financial instruments classified as cash, restricted cash, accounts receivable, accounts payable, short-term financing and drafts payable, and accrued and other liabilities approximated their estimated fair values. Carrying values for our interest rate cap contracts and exchange-traded futures contracts approximate their fair value since they are accounted for on a mark-to-market basis. Carrying values for variable rate borrowings are believed to approximate their fair value. Fair values for fixed rate borrowings, other than the 5.5% Senior Convertible Senior Subordinated Notes ("2007 Debentures") and the 7% Senior Convertible Senior Subordinated Notes ("2006 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. The estimated fair value of the 2007 and 2006 Debentures are based on the conversion rate and market price of our common stock at December 31, 2007 and 2006, respectively. The following table shows the estimated fair value and carrying value of our borrowings at:

	December 31, 2007		December 31, 2006	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Rate:				
Secured Term Loan	$ 50,000	$ 50,000	$ -	$ -
Working Capital Revolver Loan	-	-	26,048	26,048
Senior Secured Loan (1)	-	-	53,774	50,000
Other bank debt and equipment financing	155	155	2,517	2,517
Fixed Rate:				
5.5% Convertible Senior Subordinated Notes	61,632	60,000	-	-
Other bank debt and equipment financing	12,298	11,952	14,853	15,127
7% Convertible Senior Subordinated Notes	-	-	6,543	4,000
	$ 124,085	$ 122,107	$ 103,735	$ 97,692

(1) The Senior Secured Loan had a variable interest rate not to exceed 11% or 11.5% depending on ThermaClime's leverage ratio.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As previously reported, we had noted various significant deficiencies in our disclosure controls and procedures. At December 31, 2007, however, we identified one significant deficiency relating to controls over electronic spreadsheets. To mitigate this lack of controls over spreadsheets, we implemented additional review and approval procedures over these spreadsheets. In evaluating the effectiveness of our disclosure controls and procedures at December 31, 2007 as discussed below, management considered these mitigating controls and controls involving financial review procedures.

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, we have concluded, with the participation of our Principal Executive Officer and our Principal Financial Officer, that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2007, our internal control over financial reporting is effective based on those criteria.

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

Report of Independent Registered Public Accounting Firm

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

We have audited LSB Industries, Inc.’s internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LSB Industries, Inc.’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, LSB Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LSB Industries, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of LSB Industries, Inc. and our report dated March 13, 2008 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 13, 2008

ITEM 9B. OTHER INFORMATION

None.

SPECIAL NOTE REGARDING
FORWARD-LOOKING STATEMENTS

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

- our Climate Control Business has developed leadership positions in niche markets by offering extensive product lines, customized products and improved technologies,
- we have developed the most extensive line of water source heat pumps and hydronic fan coils in the United States,
- we have used geothermal technology in the climate control industry to create the most energy efficient climate control systems commercially available today,
- we are a leading provider of geothermal and water source heat pumps to the commercial construction and renovation markets in the United States,
- the market for commercial water source heat pumps will continue to grow due to the relative efficiency and long life of such systems as compared to other air conditioning and heating systems, as well as to the emergence of the replacement market for those systems,
- the longer life, lower cost to operate, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, will continue to increase demand for our geothermal products,
- our Climate Control Business is a leading provider of hydronic fan coils,
- the amount of capital expenditures relating to the Climate Control Business,
- obtaining raw materials for our Climate Control Business,
- the majority of raw material cost increases, if any, will be passed to our customers in the form of higher prices as product price increases are implemented and take effect and while we believe we will have sufficient materials, a shortage of raw materials could impact production of our Climate Control products,
- our Climate Control Business manufactures a broader line of geothermal and water source heat pump and fan coil products than any other manufacturer in the United States,
- we are competitive as to price, service, warranty and product performance in our Climate Control Business,
- our Climate Control Business will continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new markets,
- shipping substantially all of our backlog at December 31, 2007 within the next twelve months,
- increasing the sales and operating margins of all products, developing and introducing new and energy efficient products, and increasing production to meet customer demand in the Climate Control Business,

- our performance has been and will continue to be dependent upon the efforts of our principal executive officers and our future success will depend in large part on our continued ability to
- attract and retain highly skilled and qualified personnel,
- our NOL carryforwards and unrecognized tax benefits relating to NSOs to be utilized to reduce federal income tax payments for 2008,
- not paying dividends on our common stock in the foreseeable future,
- the concentration relating to receivable accounts of six customers at December 31, 2007 does not represent a significant credit risk due to the financial stability of these customers,
- important components of our strategy for competing in the commercial and institutional renovation and replacement markets include the breadth of our product line coupled with customization capability provided by a flexible manufacturing process,
- the annual United States market for water source heat pumps and hydronic fan coils to be approximately $589 million based on data supplied by the ARI,
- these investments have and will increase our capacity to produce and distribute our Climate Control products,
- the new products of our Climate Control Business have good long-term prospects,
- our Chemical Business has established leading regional market positions, which is a key element in the success of this business,
- sales prices of our agricultural products have only a moderate correlation to the anhydrous ammonia and natural gas feedstock costs and reflect market conditions for like and competing nitrogen sources, which can compromise our ability to recover our full cost to produce the product in this market,
- the lack of sufficient non-seasonal sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from reaching full performance potential,
- our primary efforts to improve the results of our Chemical Business include maintaining the current level of non-seasonal sales volumes with an emphasis on customers that will accept the commodity risk inherent with natural gas and anhydrous ammonia, while maintaining a strong presence in the agricultural sector,
- the El Dorado Facility produces a high performance ammonium nitrate fertilizer that, because of its uniform size, is easier to apply than many competing nitrogen-based fertilizer products,
- as of the date of this report, the recent world sulfur shortages have led to a significant increase in the cost of this raw material during the second half at 2007 and into 2008,
- our Chemical Business' strategy is to maximize production efficiency of the facilities, thereby lowering the fixed cost of each ton produced,
- our primary efforts to improve the results of our Chemical Business include maintaining the current level of non-seasonal sales volumes with an emphasis on customers that will accept the commodity risk inherent with natural gas and anhydrous ammonia, while maintaining a strong presence in the agricultural sector,
- certain capital expenditures required to expand capacity and bring the El Dorado Facility's sulfuric acid plant air emissions to lower limits,
- other capital expenditures for 2008 are discretionary and dependent upon an adequate amount of liquidity and/or obtaining acceptable funding,
- fully utilizing the regular NOL carryforwards in 2008 at which time we will begin recognizing and paying federal income taxes at regular corporate tax rates,

- the agricultural products are the only seasonal products,
- we are the largest domestic merchant marketer of concentrated and blended nitric acids,
- competition within the Chemical Business is primarily based on service, price, location of production and distribution sites, and product quality and performance,
- the amount of additional expenditures relating to the Air CAO,
- the annual costs of required monitoring and maintenance activities would not be significant relating to certain facilities in our Chemical Business,
- the estimated costs to activate the Pryor Facility,
- our Chemical Business to focus on growing our non-seasonal industrial customer base with the emphasis on customers that accept the risk inherent with raw material costs, while maintaining a strong presence in the seasonal agricultural sector,
- obtaining our requirements for raw materials in 2008,
- the amount of committed capital expenditures for 2008,
- new and proposed requirements to place additional security controls over ammonium nitrate and other nitrogen fertilizers will not materially affect the viability of ammonium nitrate as a valued product,
- under the terms of an agreement with a supplier, the El Dorado Facility purchasing a majority of its anhydrous ammonia requirements through at least December 31, 2008,
- ability to obtain anhydrous ammonia from other sources in the event of an interruption of service under our existing purchase agreement,
- using the Working Capital Revolver Loan to fund our working capital requirements,
- outcomes of various contingencies adversely impacting our liquidity and capital resources,
- meeting all required covenant tests for all quarters and the year ending in 2008, and
- environmental and health laws and enforcement policies thereunder could result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from our facilities or the use or disposal of certain of its chemical products.

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

- decline in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material increase in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending,
- additional releases (particularly air emissions) into the environment,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to pay or secure additional financing for planned capital expenditures,

- the cost for the purchase of anhydrous ammonia and natural gas,
- 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,
- adverse results in any of our pending litigation,
- inability to obtain necessary raw materials,
- other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report, and
- other factors described in “Risk Factors”.

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

General

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

The Company's By-laws provide that the Board of Directors, by resolution from time to time, may fix the number of directors that shall constitute the whole Board of Directors. The By-laws presently provide that the number of directors may consist of not less than 3 nor more than 13. The Board of Directors currently has set the number of directors at 13.

Directors

Raymond B. Ackerman, age 85. Mr. Ackerman first became a director in 1993. His term will expire in 2008. From 1952 until his retirement in 1992, Mr. Ackerman served as Chairman of the Board and President of Ackerman McQueen, Inc., the largest advertising and public relations firm headquartered in Oklahoma. He currently serves as Chairman Emeritus of the firm. He retired as a Rear Admiral in the United States Naval Reserve. He is a graduate of Oklahoma City University, and in 1996, was awarded an honorary doctorate from the school. He was elected to the Oklahoma Hall of Fame in 1993 and the Oklahoma Commerce and Industry Hall of Fame in 1998.

Robert C. Brown, M.D., age 76. Dr. Brown first became a director in 1969. His term will expire in 2009. Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. and President and Chief Executive Officer of ClaimLogic L.L.C. Dr. Brown received both his undergraduate and medical degrees from Tufts University after which he spent two years in the United States Navy as a doctor and over three years at the Mayo Clinic. Dr. Brown is also a Clinical Professor at University of Oklahoma Medical School.

Charles A. Burtch, age 72. Mr. Burtch first became a director in 1999. His term will expire in 2010. Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica's asset-based lending division for the western third of the United States. He retired in 1998 and has since been engaged as a private investor. Mr. Burtch is a graduate of Arizona State University.

Robert A. Butkin, age 55. Mr. Butkin first became a director in August 2007. His term will expire in 2010. Mr. Butkin is currently a Professor of Law at the University of Tulsa College of Law. He was Dean of the Tulsa College of Law from 2005 to 2007. Mr. Butkin also serves as President of BRJN Capital Corporation a private investment company. Mr. Butkin served as Assistant Attorney General for the State of Oklahoma from 1987 to 1993, and served from 1995 to 2005 as the State Treasurer of Oklahoma. He has served in various organizations, including holding the presidency of the Southern State Treasurers Association. He chaired the Banking, Collateral and Cash Management Committee for the National Association of State Treasurers. In addition, from 1981 to 1995, he served on the Board of Citizens Bank of Velma, Oklahoma, and he served as Chairman of the Board of that bank from 1991 to 1994. He attended and received a Bachelor of Arts degree from Yale College. He received his Juris Doctorate from the University of Pennsylvania Law School in Philadelphia in 1978.

Barry H. Golsen, J.D., age 57. Mr. Golsen first became a director in 1981. His term will expire in 2009. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994, and has been the President of our Climate Control Business for more than five years. Mr. Golsen also serves as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

Jack E. Golsen, age 79. Mr. Golsen first became a director in 1969. His term will expire in 2010. Mr. Golsen, founder of the Company, is our Chairman of the Board of Directors and Chief Executive Officer and has served in that capacity since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen is a Trustee of Oklahoma City University. During his career, he acquired or started the companies which formed the Company. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A. which was formerly owned by the Company.

David R. Goss, age 67. Mr. Goss first became a director in 1971. His term will expire in 2009. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University.

Bernard G. Ille, age 81. Mr. Ille first became a director in 1971. His term will expire in 2008. Mr. Ille served as President and Chief Executive Officer of United Founders Life from 1966 to 1988. He served as President and Chief Executive Officer of First Life Assurance Company from 1988, until it was acquired by another company in 1994. During his tenure as President of these two companies, he served as Chairman of the Oklahoma Guaranty Association for ten years and was President of the Oklahoma Association of Life Insurance Companies for two terms. He was a director of Landmark Land Company, Inc., which was the parent company of First Life. He is also a director for Quail Creek Bank, N.A. Mr. Ille is currently President of BML Consultants and a private investor. He is a graduate of the University of Oklahoma.

Donald W. Munson, age 75. Mr. Munson first became a director in 1997. His term will expire in 2008. From 1988, until his retirement in 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to 1998, he served as Executive Vice President of Lennox Industries' Division Operations, President of Lennox Canada and Managing Director of Lennox Industries' European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company located in Scotland, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. He is currently a consultant. Mr. Munson is a resident of England. He has degrees in mechanical engineering and business administration from the University of Minnesota.

Ronald V. Perry, age 58. Mr. Perry first became a director in August 2007. His term will expire in 2008. Mr. Perry currently serves as President of Prime Time Travel, which he founded in 1979. Mr. Perry has served in various charitable and civic organizations. Mr. Perry is also a past President of the Oklahoma City Food Bank and has served as President of the OKC Food Bank Board of Directors. In 2007, the mayor of Oklahoma City appointed Mr. Perry to serve as a commissioner on the Oklahoma City Convention and Visitors Bureau. Mr. Perry graduated from Oklahoma State University, with a Bachelor's degree in Business Administration.

Horace G. Rhodes, age 80. Mr. Rhodes first became a director in 1996. His term will expire in 2010. Mr. Rhodes is the Chairman of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such capacity and has practiced law for many years. From 1972 until 2001, he served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association. Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma.

Tony M. Shelby, age 66. Mr. Shelby first became a director in 1971. His term will expire in 2008. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than five years. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University.

John A. Shelley, age 57. Mr. Shelley first became a director in 2005. His term will expire in 2009. Mr. Shelley is the President and Chief Executive Officer of The Bank of Union ("Bank of Union") located in Oklahoma. He has held this position since 1997. Prior to 1997, Mr. Shelley held various senior level positions in financial institutions in Oklahoma including the position of President of Equity Bank for Savings, N.A., a savings and loan that was owned by the Company prior to 1994. Mr. Shelley is a graduate of the University of Oklahoma.

Directors Whose Term Expired in 2007

Grant J. Donovan, age 51. Mr. Donovan was a director from 2002 to August 2007. Mr. Donovan is President and founder of Galehead, Inc., a company specializing on the collections of accounts receivable in the international maritime trade business. Mr. Donovan received his MBA from Stanford University and his undergraduate degree in Civil Engineering from the University of Vermont. He currently is on the board of directors of EngenderHealth, an international aid organization (established over 50 years ago), focused on improving women's healthcare.

N. Allen Ford, age 65. Mr. Ford was a director from 2002 to August 2007. Mr. Ford joined the University of Kansas in 1976 where his teaching and research duties focus mainly on taxation. At the University of Kansas, he has won several teaching awards and is the Larry D. Horner/KPMG Peat Marwick Distinguished Professor of Accounting. He received his Ph.D. in Accounting from the University of Arkansas.

The terms of the $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 (" Series 2 Preferred") provided that if and so long as at least 140,000 shares of Series 2 Preferred were outstanding, whenever dividends on the Series 2 Preferred were in arrears and unpaid in an amount equal to at least six quarterly dividends:

- the number of members of the Board of Directors of the Company shall be increased by two effective as of the time of election of such directors;
- the Company shall, upon the written request of the record holder of 10% of the shares of Series 2 Preferred, call a special meeting of the Series 2 Preferred holders for the purpose of electing such two additional directors;
- the Series 2 Preferred holders have the exclusive right to vote for and elect such two additional directors; and
- the term of office for such additional directors will terminate immediately upon the termination of the right of the Series 2 Preferred holders to vote for such directors, subject to the requirements of Delaware law.

In March 2002, the holders of the Series 2 Preferred elected Mr. Allen Ford and Mr. Grant Donovan to serve as members of the Board of Directors pursuant to the terms of the Series 2 Preferred. On August 21, 2007, as a result of conversions of the Series 2 Preferred prior to the August 27, 2007 redemption date for the Series 2 Preferred, less than 140,000 shares of Series 2 Preferred remained outstanding, and Messrs. Donovan and Ford's terms as members of the Board of Directors automatically terminated on that date.

Family Relationships

Jack E. Golsen is the father of Barry H. Golsen and Steve J. Golsen and the brother-in-law of Dr. Robert C. Brown. Dr. Robert C. Brown is the uncle of Barry H. Golsen and Steve J. Golsen. David M. Shear is the nephew by marriage to Jack E. Golsen and son-in-law of Dr. Robert C. Brown. Steve J. Golsen is the Chief Operating Officer of our Climate Control Business. Heidi Brown Shear, Senior Vice President and General Counsel of the Company, is the daughter of Dr. Robert C. Brown and spouse of David M. Shear. As of December 31, 2007, we employed 1,788 persons, of which these 4 employees are relatives of Jack E. Golsen.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934, as amended (the "Exchange Act"), requires the Company's directors, officers, and beneficial owners of more than 10% of the Company's common stock to file with the Securities and Exchange Commission reports of holdings and changes in beneficial ownership of the Company's stock. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 2007, or written representations that no Form 5 was required to be filed, the Company believes that during 2007 all directors and officers of the Company and beneficial owners of more than 10% of the Company's common stock filed timely their required Forms 3, 4, or 5, except (a) Kent C. McCarthy, Jayhawk Institutional Partners, L.P., Jayhawk Capital Management LLC, Jack Golsen, Barry Golsen, Steve Golsen, SBL LLC, Tony Shelby, Grant Donovan, and Allen Ford each inadvertently filed one late Form 4 late to report the exchange of shares of $3.25 Convertible Exchangeable Class C Preferred, Series 2 Stock for shares of common stock pursuant to the Company's issuer tender offer completed on March 13, 2007, (b) David Goss inadvertently filed one late Form 4 to report one transaction, (c) each of Bernard Ille and Charles Burtch inadvertently filed one late Form 4 to report two transactions and (d) Raymond Ackerman filed a late Form 5 to report three gifts.

Code of Ethics

The Chief Executive Officer, the Chief Financial Officer, the principal accounting officer, and the controller of the Company and each of the our subsidiaries, or persons performing similar functions, are subject to our Code of Ethics.

We and each of our subsidiary companies have adopted an amended Statement of Policy Concerning Business Conduct applicable to our employees. Our Code of Ethics and Amended Statement of Policy Concerning Business Conduct are available on our website at http://www.lsb-okc.com. We will post any amendments to these documents, as well as any waivers that are required to be disclosed pursuant to the rules of either the Securities and Exchange Commission or the AMEX, on our website.

Audit Committee

We have has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Bernard Ille (Chairman), Charles Burtch, Horace Rhodes, and Ray Ackerman. The Board has determined that each member of the Audit Committee is independent, as defined in the listing standards of the AMEX as of the Company's fiscal year end. During 2007, the Audit Committee had nine meetings.

Audit Committee Financial Expert

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

Compensation and Stock Option Committee

The Compensation and Stock Option Committee (the "Compensation Committee") has three members and met two times during 2007. The Committee is comprised of non-employee, independent directors in accordance with the rules of the AMEX. The Board has adopted a Compensation and Stock Option Committee Charter which governs the responsibilities of the Compensation Committee. This charter is available on the Company's website at www.lsb-okc.com, and is also available from the Company upon request.

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

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

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

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

The Compensation Committee has authority under its charter to retain, approve fees for, and terminate advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. If an outside consultant is engaged, the Compensation Committee reviews the total fees paid to such outside consultant by the Company to ensure that the consultant maintains its objectivity and independence when rendering advice to the Compensation Committee. For 2007, no outside consultants were engaged by the Compensation Committee.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

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

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

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

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

Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program rewards the executive's achievements and contribution towards the Company achieving its long-term strategic goals. However, the Compensation Committee does not believe that executive compensation should be tied to specific numeric or formulaic financial goals or stock price achievement by the Company. The Compensation Committee recognizes that, given the volatility of the market in which we do business, our economic performance in any given time frame may not be an accurate measurement of our senior executive officer's performance. The Compensation Committee values both personal contribution and teamwork as factors to be rewarded. The Compensation Committee believes that it is important to align executives' interests with those of stockholders through the use of stock option incentive programs. The Compensation Committee evaluates both performance and compensation to ensure that we maintain our ability to attract and retain highly talented employees in key positions, and that compensation provided to key employees will remain competitive relative to our other senior executive officers. The Compensation Committee believes that executive compensation packages should include both cash and stock-based compensation, as well as other benefit programs to encourage senior executive officers to remain with the Company and have interests aligned with those of the Company. Based on the foregoing, the Committee bases it executive compensation program on the following criteria:

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

Setting Executive Compensation

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

Role of Executive Officers in Compensation Decisions

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

2007 Executive Compensation Components

For the fiscal year ended December 31, 2007, the principal components of compensation for the named executive officers were:

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

The Compensation Committee did not consider the new award of stock options as part of the 2007 compensation because there were a de minimus number of shares available for grants under the option plans in effect.

Base Salary

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

Base salaries are determined for the named executive officers in the discretion of the Compensation Committee based upon the recommendations of the Chief Executive Officer's assessment of the executive's compensation, both individually and relative to the other senior executive officers and based upon an assessment of the individual performance of the executive during the proceeding year. In determining the base salary for the Chief Executive Officer and the President, the Compensation Committee exercises its judgment based on its interactions with such senior executive officers and the Compensation Committee's assessment of such officers' contribution to the Company's performance and other leadership achievements.

Bonuses

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

Death Benefit and Salary Continuation Plans

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

Attributed costs of the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2007, are discussed in footnote (1) and included in column (i) of the "Summary Compensation Table."

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

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

Perquisites and Other Personal Benefits

The Company and the Compensation Committee believe that perquisites are necessary and appropriate parts of total compensation that contribute to our ability to attract and retain superior executives. Accordingly, the Company and the Compensation Committee provided a limited number of perquisites that are reasonable and consistent with our overall compensation program. The Compensation Committee periodically reviews the levels of perquisites provided to the named executive officers. We currently provide the named executive officers with the use of our automobiles, provide cell phones that are used primarily for business purposes, and pay the country club dues for certain of the executive officers. The executive officers are expected to use the country club in large part for business purposes.

Severance Agreements

We have entered into Change of Control Severance Agreements with certain key employees, including the named executive officers. The Severance Agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments under such agreements for the named executive officers is provided under the heading "Potential Payments Upon Termination or Change-In-Control."

Employment Agreement

We have no employment agreements with our named executive officers, except with Jack E. Golsen, our Chief Executive Officer. The terms of Mr. Golsen's employment agreement are described below under "Employment Agreement." We believe that Mr. Golsen's employment agreement promotes stability in our senior management and encourages Mr. Golsen to provide superior service to us. The current term of the Employment Agreement expires March 21, 2011.

Ownership Guidelines

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

Tax and Accounting Implications

Deductibility of Executive Compensation - As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct compensation of more than $1,000,000 that is paid to certain individuals. We believe that compensation paid to the named executive officers is fully deductible for federal income tax purposes. For 2007, there was no payment of compensation in excess of $1,000,000 for any named executive officer.

Accounting for Stock-Based Compensation – Beginning on January 1, 2006, the Company began accounting for stock-based payments, including its incentive and nonqualified stock options in accordance with the requirements of SFAS 123(R).

Compensation and Stock Option Committee Report

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

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

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

The following table summarizes the total compensation paid or earned by each of the named executive officers for the fiscal year ended December 31, 2007.

Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (1)	Total ($)
Jack E. Golsen, Chairman of the Board of Directors and Chief Executive Officer	2007	523,400	50,000	-	-	-	-	645,010	1,218,410
	2006	497,400	-	-		-	-	615,168	1,112,568
Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer	2007	255,000	90,000	-	-	-	-	22,773	367,773
	2006	245,000	40,000	-	-	-	-	22,428	307,428
Barry H. Golsen, Vice Chairman of the Board of Directors, President, and President of the Climate Control Business	2007	433,100	100,000	-	-	-	-	22,191	555,291
	2006	413,600	40,000	-	-	-	-	9,515	463,115
David R. Goss, Executive Vice President of Operations	2007	240,500	55,000	-	-	-	-	12,361	307,861
	2006	233,000	35,000	-	-	-	-	14,146	282,146
David M. Shear, Senior Vice President and General Counsel	2007	240,000	75,000	-	-	-	-	9,961	324,961
	2006	225,000	35,000	-	-	-	-	4,628	264,628

(1) As discussed below under “1981 Agreements” and “2005 Agreement,” the Company entered into individual death benefit agreements in 1981 and a death benefit agreement 2005. Reported compensation for the death benefit under these agreements is the greater of:

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

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

As discussed below under “1992 Agreements”, the Company entered into benefit agreements in 1992 which include a death benefit until the employee reaches age 65 or benefits for life commencing when the employee reaches age 65. Compensation for these benefits is the greater of:

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

The amounts set forth under “All Other Compensation” are comprised of compensation relating to these agreements and perquisites for 2007 and 2006, as follows:

2007:

	1981 Agreements	1992 Agreements	2005 Agreement	Other (1)	Total
Jack E. Golsen	$ 194,982	$ -	$ 444,047	$ $5,981	$ $645,010
Tony M. Shelby	$ 7,250	$ 8,201	$ -	$ $7,322	$ $22,773
Barry H. Golsen	$ 4,655	$ 2,745	$ -	$ $4,791	$ $22,191
David R. Goss	$ 8,510	$ 416	$ -	$ $3,435	$ $12,361
David M. Shear	$ -	$ 6,258	$ -	$ $3,703	$ $9,961

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

The Company did not grant plan-based awards to the named executive officers during 2007 or 2006.

Employment Agreement

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

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

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

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

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

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

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

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

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

1981 Agreements

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

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

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

1992 Agreements

During 1992, the Company entered into individual benefit agreements with certain key employees of the Company and its subsidiaries (including certain of the named executive officers) to provide compensation to such individuals in the event that they are employed by the Company or a subsidiary of the Company at age 65 (the "1992 Agreements"). As relating to the named executive officers, under the 1992 Agreements, the officer is eligible to receive a designated benefit ("Benefit") as set forth in the 1992 Agreements. The officer will receive the Benefit beginning at the age 65 for the remainder of the officer's life. If prior to attaining the age 65, the officer dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the officer will receive a monthly benefit ("Death Benefit") for a period of ten years. The 1992 Agreements provide that the Company may terminate the agreement as to any officer at any time and for any reason prior to the death of the officer. The Company has purchased insurance on the life of each officer covered under the 1992 Agreements. The Company is the owner and sole beneficiary of each insurance policy, and the proceeds are payable to the Company to provide a source of funds for the Company's obligations under the 1992 Agreements. Under the terms of the 1992 Agreements, if the officer becomes incapacitated prior to retirement or prior to reaching age 65, the officer may request the Company to cash-in any life insurance on the life of such officer purchased to fund the Company's obligations under the 1992 Agreements. Jack E. Golsen does not participate in the 1992 Agreements. The following table sets forth the amounts of annual benefits payable to the named executive officers under the 1992 Agreements and the net cash surrender value of the associated life insurance policies at December 31, 2007.

Name of Individual	Amount of Annual Benefit	Amount of Annual Death Benefit	Amount of Net Cash Surrender Value
Jack E. Golsen	N/A	N/A	N/A
Tony M. Shelby	$ 15,605	N/A	$ -
Barry H. Golsen	$ 17,480	$ 11,596	$ 25,885
David R. Goss	$ 17,403	N/A	$ 44,926
David M. Shear	$ 17,822	$ 7,957	$ -

2005 Agreement

During 2005, the Company entered into a death benefit agreement ("2005 Agreement") with Jack E. Golsen. This agreement replaced existing benefits that were payable to Mr. Golsen under a split dollar insurance policy purchased by the Company on Mr. Golsen's life in 1996 and a second policy purchased in 2002. The 2005 Agreement provides that, upon Mr. Golsen's death, the Company will pay to Mr. Golsen's family or designated beneficiary $2.5 million to be funded from the net proceeds received by the Company under certain life insurance policies on Mr. Golsen's life that were purchased and are owned by the Company. The life insurance policies provide an aggregate stated death benefit to the Company, as beneficiary, of $7 million. The 2005 Agreement requires that the Company is obligated to keep in existence no less than $2.5 million of the stated death benefit.

401(k) Plan

We maintain The LSB Industries, Inc. Savings Incentive Plan (the "401(k) Plan") for the employees (including the named executive officers) of the Company and its subsidiaries, excluding employees covered under union agreements and certain other employees. As relating to the named executive officers, the 401(k) Plan is funded by the officer's contributions. The Company and its subsidiaries make no contributions to the 401(k) Plan for any of the named executive officers. The amount that an officer may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the officer's income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the officer's compensation each pay period, in accordance with the officer's instructions, and pays the amount into the 401(k) Plan for the officer's benefit. The salary and bonus set forth in the Summary Compensation Table above include any amounts contributed during the 2007 and 2006 fiscal years pursuant to the 401(k) Plan by the named executive officers.

Outstanding Equity Awards At December 31, 2007

	Options Awards (1)				
(a)	(b)	(c)	(d)	(e)	(f)
Name	Number of Securities Underlying Unexercised Options (#) (2) Exercisable(2)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date(2)
Jack E. Golsen	-	-	-	-	-
Tony M. Shelby	100,000	-	-	1.25	7/8/2009
	15,000	-	-	2.73	11/29/2011
Barry H. Golsen	55,000	-	-	1.25	7/8/2009
	11,250	-	-	2.73	11/29/2011
David R. Goss	100,000	-	-	1.25	7/8/2009
	15,000	-	-	2.73	11/29/2011
David M. Shear	50,544	-	-	1.25	7/8/2009
	15,000	-	-	2.73	11/29/2011

(1) There were no unvested stock awards at December 31, 2007.

(2) Options expiring on July 8, 2009 were granted on July 8, 1999, and were fully vested on July 7, 2003. Options expiring on November 29, 2011, were granted on November 29, 2001 and were fully vested on November 28, 2005.

Options Exercised in 2007 (1)

	Option Awards	
(a)	(b)	(c)
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Jack E. Golsen	176,500	3,854,760
Tony M. Shelby	-	-
Barry H. Golsen	-	-
David R. Goss	-	-
David M. Shear	35,000	810,980

(1) There were no stock awards that vested in 2007

Severance Agreements

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

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

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

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

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

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

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

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

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

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

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

Potential Payments Upon Termination or Change-In-Control[1]

The following table reflects the amount that would have been payable to each of the named executive officers under the applicable severance agreement if the respective trigger event had occurred on December 31, 2007.

Severance Pay Trigger Event

Name and Executive Benefit and Payments Upon Separation	Voluntary Termination ($)	Involuntary Other Than For Cause Termination ($)	Involuntary For Cause Termination ($)	Involuntary Other Than For Cause Termination - Change of Control ($)	Voluntary For Good Reason Termination - Change of Control ($)	Disability/ Incapacitation ($)	Death ($)
Jack E. Golsen:							
Salary	-	1,701,050	-	1,521,866	1,521,866	3,318,356	-
Bonus	-	162,500	-	-	-	-	-
Death Benefits	-	-	-	-	-	-	4,250,000
Other	-	58,300	-	-	-	-	58,300
Tony M. Shelby:							
Salary	-	-	-	819,890	819,890	-	-
Death Benefits	-	-	-	-	-	-	350,000
Other	271,205	-	-	-	-	-	-
Barry H. Golsen:							
Salary	-	-	-	1,325,075	1,325,075	-	-
Death Benefits	-	-	-	-	-	-	415,962
David R. Goss:							
Salary	-	-	-	785,087	785,087	-	-
Death Benefits	-	-	-	-	-	-	350,000
Other	268,538	-	-	-	-	-	-
David M. Shear:							
Salary	-	-	-	728,023	728,023	-	-
Death Benefits	-	-	-	-	-	-	79,568

(1) This amount does not include the amount realizable under outstanding stock options granted to the named executive officers, all of which are fully vested. See "Outstanding Equity Awards at December 31, 2007."

Compensation of Directors

In 2007, we compensated our non-employee directors for their services as directors on our Board. Certain non-employee directors also served on the Board of Directors of our subsidiary, ThermaClime, without additional compensation. Directors who are employees of the Company receive no compensation for their services as directors.

The following table summarizes the compensation paid by us to our non-employee directors during the year end December 31, 2007. Messrs. Perry and Butkin became directors on August 16, 2007. Messrs. Donovan and Ford's service as directors terminated on August 21, 2007.

Director Compensation Table

(a)	(b)	(h)
Name	Fees Earned or Paid in Cash ($) (1)	Total ($)
Raymond B. Ackerman	37,500	37,500
Robert C. Brown, M.D.	37,500	37,500
Charles A. Burtch	37,000	37,000
Robert A. Butkin	20,378	20,378
Grant J. Donovan	12,000	12,000
N. Allen Ford	12,000	12,000
Bernard G. Ille	37,500	37,500
Donald W. Munson	37,500	37,500
Ronald V. Perry	20,378	20,378
Horace G. Rhodes	37,500	37,500
John A. Shelley	37,500	37,500

(1) This amount includes as to each director, an annual fee of $10,000 for services as a director ($3,753 each for Mr. Butkin and Mr. Perry who began serving in August 2007) and $500 for each Board meeting attended during 2007. This amount also includes the following fees earned during 2007:

- Mr. Ackerman received $25,000 for his services on the Audit Committee and Public Relations and Marketing Committee.
- Dr. Brown received $25,000 for his services on the Benefits and Programs Committee.
- Mr. Burtch received $25,000 for his services on the Audit Committee and Compensation and Stock Option Committee.
- Mr. Butkin received $15,625 for his services on the Business Development Committee.
- Mr. Ille received $25,000 for his services on the Audit Committee, Compensation and Stock Option Committee and Public Relations and Marketing Committee.
- Mr. Munson received $25,000 for his services on the Business Development Committee.
- Mr. Perry received $15,625 for his services on the Public Relations and Marketing Committee.
- Mr. Rhodes received $25,000 for his services on the Audit Committee and Compensation and Stock Option Committee.
- Mr. Shelley received $25,000 for his services on the Public Relations and Marketing Committee.

(2) There were no other equity or non-equity compensation awarded related to directorships.

Compensation Committee Interlocks and Insider Participation

The Compensation and Stock Option Committee has the authority to set the compensation of all of our officers. This Committee generally considers and approves the recommendations of the Chief Executive Officer. The Chief Executive Officer does not make a recommendation regarding his own salary, and does not make any recommendation as to the President's salary. The members of the Compensation and Stock Option Committee are the following non-employee directors: Charles A. Burtch, Bernard G. Ille and Horace G. Rhodes. Neither Mr. Burtch, Mr. Ille or Mr. Rhodes is, or ever has been, an officer or employee of the Company or any of its subsidiaries.

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

The following table sets forth the information as of December 31, 2007, with respect to our equity compensation plans.

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders (1)	935,404	$ 4.56	303,000
Equity compensation plans not approved by stockholders (2)	438,500	$ 1.78	-
Total	1,373,904	$ 3.67	303,000

(1) Stock Options Receiving Stockholders' Approval in 2007 As previously reported, on June 19, 2006, the Compensation and Stock Option Committee granted non-qualified stock options for the purchase of up to 450,000 shares of common stock (the "Options") to certain Climate Control Business employees which were subject to shareholders' approval. These Options were approved by our shareholders on June 14, 2007. The option exercise price of the Options is $8.01 per share, which is based on the market value of our common stock on the date the Options were granted. The Options vest over a ten-year period at a rate of 10% per year, and expire on September 16, 2016 with certain restrictions. Under SFAS 123(R), the fair value for the Options was estimated, using an option pricing model, as of the date we received shareholders' approval which occurred during our 2007 annual shareholders' meeting on June 14, 2007. Under SFAS 123(R) for accounting purposes, the grant date and service inception date is June 14, 2007.

As previously reported, the total fair value for the Options was estimated to be approximately $6.9 million, or $15.39 per share, using a Black-Scholes-Merton option pricing model. As of June 14, 2007, we began amortizing the total estimated fair value of the Options to SG&A which will continue through June 2016 (the remaining vesting period). As a result, we incurred stock-based compensation expense of $0.4 million for 2007.

(2) Non-Stockholder Approved Plans From time to time, the Compensation Committee and/or the Board of Directors has approved the grants of certain nonqualified stock options as the Board has determined to be in our best interest to compensate directors, officers, or employees for service to the Company. Unless otherwise indicated below, the price of each such option is equal to the market value of our common stock at the date of grant and each option expires ten years from the grant date. All outstanding options under these plans were exercisable at December 31, 2007.

The equity compensation plans, which have not been approved by the stockholders, are the following:

- Effective December 1, 2002, we granted nonqualified options to purchase up to an aggregate 112,000 shares of common stock to former employees of two former subsidiaries. These options were part of the employees' severance compensation arising from the sale of the former subsidiaries' assets. Each recipient of a grant received options for the same number of shares and having the same exercise price as under the recipient's vested incentive stock options which expired upon the sale. Each nonqualified option was exercisable as of the date of grant and has a term of ten years from the original date of grant. As of December 31, 2007, 3,000 shares are issuable at an exercise price of $4.188 per share and expire April 22, 2008.

- On November 7, 2002, we granted to an employee of the Company a nonqualified stock option to acquire 50,000 shares of common stock in consideration of services rendered to the Company. As of December 31, 2007, 10,000 shares are issuable at an exercise price of $2.62 per share.

- On November 29, 2001, we granted to employees of the Company nonqualified stock options to acquire 102,500 shares of common stock in consideration of services to the Company. As of December 31, 2007, 22,500 shares are issuable at an exercise price of $2.73 per share.

- On July 20, 2000, we granted nonqualified options to a former employee of the Company to acquire 185,000 shares of common stock in consideration of services to the Company. As of December 31, 2007, 100,000 shares are issuable under the following options: 60,000 shares at $1.375 and 40,000 shares at $1.25. These options were for the same number of shares and the same exercise prices as under the stock options held by the former employee prior to leaving the Company. These options were fully vested at the date of grant and expire nine years from the date of grant.

- On July 8, 1999, in consideration of services to the Company, we granted nonqualified stock options to acquire 371,500 shares of common stock at an exercise price of $1.25 per share to Jack E. Golsen (176,500 shares), Barry H. Golsen (55,000 shares) and Steven J. Golsen (35,000 shares), David R. Goss (35,000 shares), Tony M. Shelby (35,000 shares), and David M. Shear (35,000 shares) and also granted to certain other employees nonqualified stock options to acquire a total of 165,000 shares of common stock at an exercise price of $1.25 per share in consideration of services to the Company. As of December 31, 2007, 245,000 shares are issuable.

- On April 22, 1998, we granted to certain employees nonqualified stock options to acquire shares of common stock at an exercise price of $4.188 per share in consideration of services to the Company. As of December 31, 2007, 58,000 shares are issuable under outstanding options under these agreements.

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information as of February 29, 2008, regarding the ownership of our voting common stock and voting preferred stock by each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that we know to be beneficial owner of more than 5% of our voting common stock and voting preferred stock. A person is deemed to be the beneficial owner of shares of the Company which he or she could acquire within 60 days of February 29, 2008.

Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially owned (1)		Percent of Class+
Jack E. Golsen and certain members of his family (2)	Common Voting Preferred	4,428,909 1,020,000	(3) (4) (5)	20.0% 99.9%
O'Shaughnessy Asset Management, LLC	Common	1,105,253		5.2%
Winslow Management Company LLC	Common	1,085,599		5.1%

+ Because of the requirements of the SEC as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown for an individual may include shares also considered beneficially owned by others. Any shares of stock which a person does not own, but which he or she has the right to acquire within 60 days of February 29, 2008 are deemed to be outstanding for the purpose of computing the percentage of outstanding stock of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

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

(2) Includes Jack E. Golsen ("J. Golsen") and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen ("B. Golsen") (a director, Vice Chairman of the Board of Directors, and President of the Company and its climate control business); son, Steven J. Golsen ("S. Golsen") (executive officer of several subsidiaries of the Company), Golsen Family LLC ("LLC") which is wholly-owned by J. Golsen (45.92% owner), Sylvia H. Golsen (45.92% owner), B. Golsen (2.72% owner), S. Golsen (2.72% owner), and Linda F. Rappaport (2.72% owner and daughter of J. Golsen ("L. Rappaport")), and SBL Corporation ("SBL") which is wholly-owned by the LLC (49% owner), B. Golsen (17% owner), S. Golsen (17% owner), and L. Rappaport (17% owner). J Golsen and Sylvia H. Golsen are the managers of the LLC and share voting and dispositive power over the shares beneficially owned by the LLC. J. Golsen and B. Golsen as the only directors and officers of SBL share the voting and dispositive power of the shares beneficially owned by SBL and its wholly owned subsidiary, Golsen Petroleum Corp ("GPC"). See "Description of Capital Stock." The address of Jack E. Golsen, Sylvia H. Golsen, and Barry H. Golsen is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th Street, Oklahoma City, Oklahoma 73179. SBL's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107

(3) Includes (a) the following shares over which J. Golsen has the sole voting and dispositive power: (i) 4,000 shares that he has the right to acquire upon conversion of a promissory note; (ii) 263,320 shares of common stock owned of record by certain trusts for the benefit of B. Golsen, S. Golsen and L. Rappaport over which J. Golsen is the trustee of each of these trusts; and (iii) 198,006 shares held in certain trusts for the grandchildren and great grandchildren of J. Golsen and Sylvia H. Golsen over which J. Golsen is the trustee; (b) 667,276 shares owned of record by the LLC and 133,333 shares that the LLC has the right to acquire upon the conversion of 4,000 shares of the Series B Preferred owned of record by the LLC; (c) 241,639 shares over which B. Golsen has the sole voting and dispositive power, 533 shares owned of record by B. Golsen's wife, over which he shares the voting and dispositive power, and 66,250 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (d) 228,915 shares over which S. Golsen has the sole voting and dispositive power and 46,250 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (e) 1,512,099 shares owned of record by SBL, 400,000 shares that SBL has the right to acquire upon conversion of 12,000 shares of Series B Preferred owned of record by SBL, and 250,000 shares that SBL has to right to acquire upon conversion of 1,000,000 shares of the Series D Preferred owned of record by SBL and (f) 283,955 shares owned of record by GPC, which is a wholly-owned subsidiary of SBL, and 133,333 shares that GPC has the right to acquire upon conversion of 4,000 shares of Series B Preferred owned of record by GPC. See "Certain Relationships and Related Transactions".

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

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

Security Ownership of Management

The following table sets forth certain information obtained from our directors and our directors and executive officers as a group as to their beneficial ownership of our voting common stock and voting preferred stock as of February 29, 2008.

Name of Beneficial Owner	Title of Class	Amount of Shares Beneficially Owned (1)		Percent of Class+
Raymond B. Ackerman	Common	16,450	(2)	*
Robert C. Brown, M.D.	Common	130,329	(3)	*
Charles A. Burtch	Common	9,000	(4)	*
Robert A. Butkin(5)	Common	400	(5)	*
Barry H. Golsen	Common	3,688,418	(6)	16.7 %
	Voting Preferred	1,020,000	(7)	99.9 %
Jack E. Golsen	Common	3,845,322	(7)	17.5 %
	Voting Preferred	1,020,000	(7)	99.9 %
David R. Goss	Common	251,594	(8)	1.2 %
Bernard G. Ille	Common	45,000	(9)	*
Jim D. Jones	Common	150,252	(10)	*
Donald W. Munson	Common	6,740	(11)	*
Ronald V. Perry (12)	Common	-		-
Horace G. Rhodes	Common	16,000	(13)	*
David M. Shear	Common	105,581	(14)	*
Tony M. Shelby	Common	245,810	(15)	1.2 %
John A. Shelley	Common	-		-
Directors and Executive Officers as a group number (15 persons)	Common	5,130,900	(16)	22.8 %
	Voting Preferred	1,020,000		99.9 %

* Less than 1%.
+ See footnote “+” to the table under “Security Ownership of Certain Beneficial Owners.”

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

(2) This amount includes 1,450 shares held by Mr. Ackerman’s trust over which Mr. Ackerman possesses sole voting and dispositive power and 15,000 shares that Mr. Ackerman may acquire pursuant to currently exercisable non-qualified stock options.

(3) The amount includes (a) 59,516 shares are held in a joint account owned by a trust, of which Dr. Brown’s wife is the trustee, and by a trust, of which Dr. Brown is the trustee. As trustees, Dr. Brown and his wife share voting and dispositive power over these shares, (b) 50,727 shares owned by Robert C. Brown, M.D in a corporation wholly-owed by Dr. Brown and (c) 20,086 shares held by the Robert C. Brown, M.D Inc. Employee Profit Savings Plan, of which Dr. Brown serves as the trustee. Dr. Brown has sole voting and dispositive power over the shares described in (b) and (c). The amount shown does not include shares owned directly, or through trusts, by the children of Dr. Brown and the son-in-law of Dr. Brown, David M. Shear, all of which Dr. Brown disclaims beneficial ownership.

(4) These shares may be acquired by Mr. Burtch pursuant to currently exercisable non-qualified stock options.

(5) These shares are held in certain trusts over which Mr. Butkin has voting and dispositive power. Mr. Butkin was appointed to our board of directors on August 16, 2007.

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

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

(8) Mr. Goss has the sole voting and dispositive power over these shares, which include 600 shares held in a trust of which Mr. Goss is trustee and 115,000 shares that Mr. Goss has the right to acquire pursuant to currently exercisable stock options granted under our stock option plans.

(9) The amount includes (a) 25,000 shares of common stock, including 15,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille has the sole voting and dispositive power, and (b) 20,000 shares owned of record by Mr. Ille’s wife, voting and dispositive power of which are shared by Mr. Ille and his wife.

(10) Mr. Jones and his wife share voting and dispositive power over these shares which include 115,000 shares that Mr. Jones has the right to acquire pursuant to currently exercisable stock options granted under our stock option plans.

(11) Mr. Munson has the sole voting and dispositive power over these shares.

(12) Mr. Perry was appointed to our board of directors on August 16, 2007.

(13) Mr. Rhodes has sole voting and dispositive power over these shares, which include 15,000 shares that may be acquired by Mr. Rhodes pursuant to currently exercisable non-qualified stock options.

(14) These shares are held in a joint account owned Mr. Shear's revocable trust of which Mr. Shear is the trustee and by Mr. Shear's spouse's revocable trust of which his spouse is the trustee. As trustees, Mr. Shear and his wife share voting and dispositive power over these shares.
This amount does not include, and Mr. Shear disclaims beneficial ownership of, the shares beneficially owned by Mr. Shear's wife, which consist of 22,988 shares, the beneficial ownership of which is disclaimed by her, that are held by trusts of which she is the trustee.

(15) Mr. Shelby has the sole voting and dispositive power over these shares, which include 115,000 shares that Mr. Shelby has the right to acquire pursuant to currently exercisable stock options granted under our stock option plans.

(16) The shares of common stock include 465,250 shares of common stock that executive officers and directors have the right to acquire within 60 days under our stock option plans and 920,666 shares of common stock that executive officers, directors, or entities controlled by our executive officers and directors, have the right to acquire within 60 days under other convertible securities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policy as to Related Party Transaction

Pursuant to the Audit Committee Charter, adopted in 2003, our Audit Committee is to review any related party transactions involving any of our directors and executive officers. The following related party transactions were reviewed by the Audit Committee or the Board of Directors as a whole.

Related Party Transactions

Jayhawk

Jayhawk Capital Management, L.L.C., and certain of its affiliates (collectively, the "Jayhawk Group"), a former significant shareholder and affiliate, were participants to various investment transactions in certain issues of the Company's debt and equity securities during the past several years, which both increased and decreased their ownership interest in the Company. During August 2007, the two directors appointed by the holders of our Series 2 Preferred were no longer eligible to serve on our board and as of December 31, 2007, the Jayhawk Group had decreased its ownership in our debt and equity securities to the level whereby they are no longer considered a related party. However, the Jayhawk Group was a participant in the following transactions related to our debt and equity securities during the period it was considered a related party:

During 2006, a member of the Jayhawk Group purchased $1,000,000 principal amount of the 2006 Debentures. In April 2007, the Jayhawk Group converted all of such 2006 Debentures into 141,040 shares of our common stock, at the conversion rate of 141.04 shares per $1,000 principal amount of 2006 Debentures (representing a conversion price of $7.09 per share pursuant to the Indenture covering the 2006 Debentures). During 2007, we paid the Jayhawk Group $70,000 of which $46,000 relates to interest earned on the 2006 Debentures and $24,000 relates to additional consideration paid to convert the 2006 Debentures.

On March 25, 2003, the Jayhawk Group purchased from us in a private placement pursuant to Rule 506 of Regulation D under the Securities Act, 450,000 shares of common stock and a warrant for the purchase of up to 112,500 shares of common stock at an exercise price of $3.49 per share. In connection with such sale, we entered into a Registration Rights Agreement with the Jayhawk Group, dated March 23, 2003. During 2007, the Jayhawk Group exercised the warrant and purchased 112,500 shares of our common stock at the exercise price of $3.49 per share. The aggregate 562,500 shares of common stock were registered for resale under the Form S-1 Statement, No. 333-145721, declared effective by the SEC on November 19, 2007.

During November 2006, we entered into an agreement (the “Jayhawk Agreement”) with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed, that if we made an exchange or tender offer for the Series 2 Preferred, to tender 180,450 shares of the 346,662 shares of Series 2 Preferred owned by the Jayhawk Group upon certain conditions being met. The Jayhawk Agreement further provided that the Golsen Group would exchange or tender 26,467 shares of Series 2 Preferred beneficially owned by them, as a condition to the Jayhawk Group’s tender of 180,450 of its shares of Series 2 Preferred. Pursuant to the Jayhawk Agreement and the terms of our exchange tender offer, during March 2007, the Jayhawk Group and members of the Golsen Group tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock in our tender offer. As a result, we effectively settled the dividends in arrears totaling approximately $4.96 million, with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

We received a letter, dated May 23, 2007, from a law firm representing a stockholder of ours demanding that we investigate potential short-swing profit liability under Section 16(b) of the Exchange Act of the Jayhawk Group. The stockholder alleges that the surrender by the Jayhawk Group of 180,450 shares of our Series 2 Preferred in our issuer exchange tender offer in March 2007 was a sale which was subject to Section 16 and matchable against prior purchases of Series 2 Preferred by the Jayhawk Group. The Jayhawk Group advised us that they do not believe that they are liable for short-swing profits under Section 16(b). The provisions of Section 16(b) provide that if we do not file a lawsuit against the Jayhawk Group in connection with these Section 16(b) allegations within 60 days from the date of the stockholder’s notice to us, then the stockholder may pursue a Section 16(b) short-swing profit claim on our behalf. After completion of the investigation of this matter by our outside corporate/securities counsel, we attempted to settle this matter with the Jayhawk Group, but were unable to reach a resolution satisfactory to all parties. On October 9, 2007, the law firm representing the stockholder initiated a lawsuit against the Jayhawk Group pursing a Section 16(b) short-swing profit claim on our behalf up to $819,000. During the first quarter of 2008, the parties have agreed to settle this claim by a payment to us by the Jayhawk Group of $180,000, of which we will receive approximately $125,000 after attorneys' fees. This settlement is subject to a definitive settlement agreement.

The redemption of all of our outstanding Series 2 Preferred was completed on August 27, 2007. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. The Certificate of Designations for the Series 2 Preferred provided, and it is our position, that the holders of Series 2 Preferred that elected to convert shares of Series 2 Preferred into our common stock prior to the scheduled redemption date were not entitled to receive payment of any dividends in arrears on the shares so converted. As a result, holders that elected to convert shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted. On or about August 16, 2007, the Jayhawk Group elected to convert the 155,012 shares of Series 2 Preferred held by it, and we issued to the Jayhawk Group 671,046 shares of our common stock as a result of such conversion.

The Company has been advised by the Jayhawk Group, in connection with the Jayhawk Group's conversion of its holdings of Series 2 Preferred, the Jayhawk Group may bring legal proceedings against us for all dividends in arrears on the Series 2 Preferred that the Jayhawk Group converted after receiving a notice of redemption. The 155,012 shares of Series 2 Preferred converted by the Jayhawk Group after we issued the notice of redemption for the Series 2 Preferred would have been entitled to receive approximately $4.0 million of dividends in arrears on the August 27, 2007 redemption date, if such shares were outstanding on the redemption date and had not been converted and into common stock.

As a holder of Series 2 Preferred, the Jayhawk Group participated in the nomination and election of two individuals to serve on our board of directors in accordance with the terms of the Series 2 Preferred. As the result of the exchanges, conversions and redemption of the Series 2 Preferred during 2007, resulting in less than 140,000 shares of Series 2 Preferred being outstanding, the right of the holders of Series 2 Preferred to nominate and elect two individuals to serve on our board of directors terminated pursuant to the terms of the Series 2 Preferred. Therefore the two independent directors elected by the holders of our Series 2 Preferred no longer serve as directors on our board of directors and the Jayhawk Group is no longer considered an affiliate of ours.

Golsen Group

In connection with the completion of our March 2007 tender offer for our outstanding shares of our Series 2 Preferred, members of the Golsen Group tendered 26,467 shares of Series 2 Preferred in exchange for our issuance to them of 195,855 shares of our common stock. As a result, we effectively settled approximately $0.63 million in dividends in arrears on the shares of Series 2 Preferred tendered. The tender by the Golsen Group was a condition to Jayhawk's Agreement to tender shares of Series 2 Preferred in the tender offer. See discussion above under "Jayhawk."

After our exchange tender offer for our Series 2 Preferred, the Golsen Group held 23,083 shares of Series 2 Preferred. Pursuant to our redemption of the remaining outstanding Series 2 Preferred during August 2007, the Golsen Group redeemed 23,083 shares of Series 2 Preferred and received the cash redemption amount of approximately $1.76 million pursuant to the terms f our redemption of all of our outstanding Series 2 Preferred. The redemption price was $50.00 per share of Series 2 Preferred, plus $26.25 per share in dividends in arrears pro-rata to the date of redemption. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. Holders that converted shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted.

During 2007, certain subsidiaries of the Company remodeled their offices and paid $13,000 for the replacement of carpet and flooring to a company ("Designer Rugs") owned by Linda Golsen Rappaport, the daughter of Jack E. Golsen, our Chairman and Chief Executive Officer, and sister of Barry H. Golsen, our President.

The Golsen Group pays us approximately $6,000 each year for the use of approximately 600 square feet of office space in our corporate offices.

Steve Golsen, Chief Operating Officer of our Climate Control Business, 2007 compensation was approximately $389,000, which included $150,000 bonus and $6,000 automobile allowance. Heidi Brown Shear, Vice President and Managing Counsel to the Company, 2007 compensation was approximately $130,000, which included $25,000 bonus and $3,900 automobile allowance. In addition, Heidi Brown Shear realized approximately $215,000 value in 2007 from the exercise of non-qualified stock options. Steve Golsen is the son of Jack Golsen and the brother to Barry Golsen. Heidi Brown Shear is the daughter of Robert C. Brown, a Director, and spouse of David Shear, Senior Vice President and General Counsel of the Company. As of December 31, 2007, we employed 1,788 persons, of which 4 are relatives of Jack Golsen.

Cash Dividends

As discussed above, during 2007, we paid cash dividends to the Golsen Group of approximately $606,000 related to 23,083 shares of Series 2 Preferred redeemed.

In September 2007, we paid the dividends in arrears on our outstanding preferred stock utilizing a portion of the net proceeds of the sale of the 2007 Debentures and working capital, including approximately $2,250,000 of dividends in arrears on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

Northwest

Northwest Internal Medicine Associates ("Northwest"), a division of Plaza Medical Group, P.C., has an agreement with the Company to perform medical examinations of the management and supervisory personnel of the Company and its subsidiaries. Each year, we pay Northwest $2,000 a month to perform such examinations, under the agreement. Dr. Robert C. Brown (a director of the Company) is Vice President and Treasurer of Plaza Medical Group, P.C.

Quail Creek Bank

Bernard Ille, a member of our board of directors, is a director of Quail Creek Bank, N.A. (the "Bank"). The Bank was a lender to one of our subsidiaries. During 2007, the subsidiary made interest and principal payments on outstanding debt owed to the Bank in the respective amount of $.1 million and $3.3 million in 2007. At December 31, 2006, the subsidiary's loan payable to the Bank was approximately $3.3 million, (none at December 31, 2007) with an annual interest rate of 8.25%. The loan was secured by certain of the subsidiary's property, plant and equipment. This loan was paid in full in June 2007 utilizing a portion of the net proceeds of our sale of the 2007 Debentures.

The Audit Committee of our Board of Directors or our Board of Directors reviewed each of the above noted transactions prior to the completion of the transaction discussed, except that neither the Audit Committee or the Board of Directors reviewed the compensation of Steve Golsen or Heidi Brown Shear. Steve Golsen is not an officer or director of the Company and Heidi Brown Shear's compensation was approved by the Compensation Committee of our Board of Directors.

Board Independence

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2007 and 2006, for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for those fiscal years, and for review of documents filed with the SEC for those fiscal years were approximately $1,635,057and $914,100, respectively.

Audit-Related Fees

Ernst & Young LLP billed the Company $95,000and $223,540 during 2007 and 2006, respectively, for audit-related services, which included benefit plan audit and accounting consultations which included assistance with our internal control documentation, the issuance of the 2006 and 2007 Debentures, and the exchange tender offer during 2007.

Tax Fees

Ernst & Young LLP billed $249,887 and $136,795 during 2007 and 2006, respectively, for tax services to the Company, and included tax return review and preparation and tax consultations and planning.

All Other Fees

The Company did not engage its accountants to provide any other services for the fiscal years ended December 31, 2007 and 2006.

Engagement of the Independent Registered Public Accounting Firm

The Audit Committee is responsible for approving all engagements with Ernst & Young LLP to perform audit or non-audit services for us prior to us engaging Ernst & Young LLP to provide those services. All of the services under the headings Audit Related, Tax Services, and All Other Fees were approved by the Audit Committee in accordance with paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X of the Exchange Act. The Audit Committee of the Company's Board of Directors has considered whether Ernst & Young LLP's provision of the services described above for the fiscal years ended December 31, 2007 and 2006 is compatible with maintaining its independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

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

(a) (2) Financial Statement Schedules

The Company has included the following schedules in this report:

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

(a)(3) Exhibits

3(i).1	Restated Certificate of Incorporation, as amended, which the Company hereby incorporates by reference from Exhibit 3(i).1 to the Company’s Form S-1 Registration Statement, file no. 333-145721, effective November 11, 2007.
3(i).2	Restated Bylaws, dated December 19, 2007, which the Company hereby incorporates by reference from Exhibit 3.2 to the Company’s Form 8-K, filed December 20, 2007.
4.1	Specimen Certificate for the Company's Non-cumulative Preferred Stock, having a par value of $100 per share which the Company incorporates by reference from Exhibit 4.1 to the company’s Form 10-K for the fiscal year ended December 31, 2005.
4.2	Specimen Certificate for the Company's Series B Preferred Stock, having a par value of $100 per share, which the Company hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848.
4.3	Specimen of Certificate of Series D 6% Cumulative, Convertible Class C Preferred Stock which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.
4.4	Specimen Certificate for the Company's Common Stock, which the Company incorporates by reference from Exhibit 4.4 to the Company's Registration Statement No. 33-61640.
4.5	Renewed Rights Agreement, dated January 6, 1999 between the Company and Bank One, N.A., which the Company hereby incorporates by reference from Exhibit No. 1 to the Company's Form 8-A Registration Statement, dated January 27, 1999.
4.6	Redemption Notice, dated July 12, 2007, for the LSB Industries, Inc.’s $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 which the Company hereby incorporates by reference from Exhibit 99.1 to the Company’s Form 8-K, dated July 11, 2007.
4.7	Amended and Restated Loan and Security Agreement by and among LSB Industries, Inc., ThermaClime, Inc. and each of its subsidiaries that are Signatories, the lenders and Wells Fargo Foothill, Inc. which the Company hereby incorporates by reference from Exhibit 4.2 to the Company’s Form 10-Q for the fiscal quarter ended September 30, 2007.
4.8	Loan Agreement, dated September 15, 2004 between ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., Orix Capital Markets, L.L.C. and LSB Industries, Inc. (“Loan Agreement”) which the Company hereby incorporates by reference from Exhibit 4.1 to the Company’s Form 8-K, dated September 16, 2004. The Loan Agreement lists numerous Exhibits and Schedules that are attached thereto, which will be provided to the Commission upon the commission’s request.

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

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

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

4.12 Indenture, dated March 3, 2006, by and among the Company and UMB Bank, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K, dated March 14, 2006.

4.13 Registration Rights Agreement, dated March 3, 2006, by and among the Company and the Purchasers set fourth in the signature pages which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K, dated March 14, 2006.

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

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

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

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

4.18 Registration Rights Agreement, dated March 25, 2003 among LSB Industries, Inc., Kent C. McCarthy, Jayhawk Capital management, L.L.C., Jayhawk Investments, L.P. and Jayhawk Institutional Partners, L.P., which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Form 10-K for the fiscal year ended December 31, 2002.

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

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

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

10.4 First Amendment to Non-Qualified Stock Option Agreement, dated March 2, 1994 and Second Amendment to Stock Option Agreement, dated April 3, 1995 each between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995. See SEC file number 001-07677.

10.5 Non-Qualified Stock Option Agreement, dated April 22, 1998 between the Company and Robert C. Brown, M.D., which the Company hereby incorporates by reference from Exhibit 10.43 to the Company’s Form 10-K for the fiscal year ended December 31, 1998. The Company entered into substantially identical agreements with Bernard G. Ille, Raymond B. Ackerman, Horace G. Rhodes, and Donald W. Munson. The Company will provide copies of these agreements to the Commission upon request. See SEC file number 001-07677.

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

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

10.8 Nonqualified Stock Option Agreement, dated November 7, 2002 between the Company and John J. Bailey Jr, which the Company hereby incorporates by reference from Exhibit 55 to the Company's Form 10-K/A Amendment No.1 for the fiscal year ended December 31, 2002.

10.9 Nonqualified Stock Option Agreement, dated November 29, 2001 between the Company and Dan Ellis, which the Company hereby incorporates by reference from Exhibit 10.56 to the Company's Form 10-K/A Amendment No.1 for the fiscal year ended December 31, 2002.

10.10 Nonqualified Stock Option Agreement, dated July 20, 2000 between the Company and Claude Rappaport for the purchase of 80,000 shares of common stock, which the Company hereby incorporates by reference from Exhibit 10.57 to the Company's Form 10-K/A Amendment No.1 for the fiscal year ended December 31, 2002. Substantially similar nonqualified stock option agreements were entered into with Mr. Rappaport (40,000 shares at an exercise price of $1.25 per share, expiring on July 20, 2009), (5,000 shares at an exercise price of $5.362 per share, expiring on July 20, 2007), and (60,000 shares at an exercise price of $1.375 per share, expiring on July 20, 2009), copies of which will be provided to the Commission upon request.

10.11 Nonqualified Stock Option Agreement, dated July 8, 1999 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.58 to the Company's Form 10-K/A Amendment No.1 for the fiscal year ended December 31, 2002. Substantially similar nonqualified stock options were granted to Barry H. Golsen (55,000 shares), Steven J. Golsen (35,000 shares), David R. Goss (35,000 shares), Tony M. Shelby (35,000 shares), David M. Shear (35,000 shares), Jim D. Jones (35,000 shares), and four other employees (130,000 shares), copies of which will be provided to the Commission upon request.

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

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

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

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

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

10.17 Baytown Nitric Acid Project and Supply Agreement dated June 27, 1997 by and among El Dorado Nitrogen Company, El Dorado Chemical Company and Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997 GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.** See SEC file number 001-07677.

10.18 First Amendment to Baytown Nitric Acid Project and Supply Agreement, dated February 1, 1999 between El Dorado Nitrogen Company and Bayer Corporation, which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 1998. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #7927, DATED JUNE 9, 1999 GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.** See SEC file number 001-07677.

10.19 Service Agreement, dated June 27, 1997 between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.** See SEC file number 001-07677.

10.20 Ground Lease dated June 27, 1997 between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997 GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.** See SEC file number 001-07677.

10.21 Participation Agreement, dated as of June 27, 1997 among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing Corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landes Bank, New York Branch, as a Construction Lender and the Note Purchaser, and Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997 GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.** See SEC file number 001-07677.

10.22 Lease Agreement, dated as of June 27, 1997 between Boatmen's Trust Company of Texas as Owner Trustee and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. See SEC file number 001-07677.

10.23 Security Agreement and Collateral Assignment of Construction Documents, dated as of June 27, 1997 made by El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. See SEC file number 001-07677.

10.24 Security Agreement and Collateral Assignment of Facility Documents, dated as of June 27, 1997 made by El Dorado Nitrogen Company and consented to by Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. See SEC file number 001-07677.

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

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

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

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

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

10.30 First Amendment to Amended and Restated Lease Agreement, dated April 1, 2007, between Raptor Master, L.L.C. and Climate Master, Inc.

10.31 Stock Purchase Agreement, dated September 30, 2001 by and between Summit Machinery Company and SBL Corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company' Form 10-Q for the fiscal quarter ended September 30, 2001.

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

10.33 AN Supply Agreement, dated November 1, 2001 between Orica USA, Inc. and El Dorado Company, which the Company hereby incorporates by reference from Exhibit 99.2 to the Company's Form 8-K dated December 28, 2001. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF 12179, DATED MAY 24, 2006, AND CF 19661 DATED MARCH 23, 2007, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

10.34 Second Amendment to AN Supply Agreement, executed August 24, 2006, to be effective as of January 1, 2006, between Orica USA, Inc. and El Dorado Company which the Company hereby incorporates by reference from Exhibit 10.1 to the Company’s Form 10-Q for the fiscal quarter ended September 30, 2006. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A COMMISSION ORDER CF 19661, DATED MARCH 23, 2007, GRANTING REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.35 Agreement, dated August 1, 2007, between El Dorado Chemical Company and United Steelworkers of America International Union AFL-CIO and its Local 13-434.

10.36 Agreement, dated October 17, 2007, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224.

10.37 Agreement, dated November 12, 2007, between United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local No. 00417 and Cherokee Nitrogen Company.

10.38 Warrant, dated May 24, 2002 granted by the Company to a Lender for the right to purchase up to 132,508 shares of the Company's common stock at an exercise price of $0.10 per share, which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated May 24, 2002. Four substantially similar Warrants, dated May 24, 2002 for the purchase of an aggregate additional 463,077 shares at an exercise price of $0.10 were issued. Copies of these Warrants will be provided to the Commission upon request.

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

10.40 Anhydrous Ammonia Sales Agreement, dated effective January 3, 2005 between Koch Nitrogen Company and El Dorado Chemical Company which the Company hereby incorporates by reference from Exhibit 10.41 to the Company’s Form 10-K for the year ended December 31, 2004. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF# 26082, DATED NOVEMBER 16, 2007, GRANTING CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.**

10.41 First Amendment to Anhydrous Ammonia Sales Agreement, dated effective August 29, 2005, between Koch Nitrogen Company and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.42 to the Company's Form 10-K for the fiscal year ended December 31, 2005, filed March 31, 2006. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF# 18274, DATED MARCH 23, 2007, AND CF# 20082 DATED NOVEMBER 16, 2007, GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

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

10.43 Second Amendment to Anhydrous Ammonia Sales Agreement, dated November 3, 2006, between Koch Nitrogen Company and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.41 to the Company’s Form 10-K for the fiscal year ended December 31, 2006.. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF# 20082, DATED NOVEMBER 16, 2007, GRANTING CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT, AS AMENDED.**

10.44 Warrant Agreement, dated March 25, 2003 between LSB Industries, Inc. and Jayhawk Institutional Partners, L.P., which the Company hereby incorporates by reference from Exhibit 10.51 to the Company's Form 10-K for the fiscal year ended December 31, 2002.

10.45 Subscription Agreement, dated March 25, 2003 by and between LSB Industries, Inc. and Jayhawk Institutional Partners, L.P., which the Company hereby incorporates by reference from Exhibit 10.50 to the Company's Form 10-K for the fiscal year ended December 31, 2002.

10.46 Second Amendment and Extension of Stock Purchase Option, effective July 1, 2004, between LSB Holdings, Inc., an Oklahoma corporation and Dr. Hauri AG, a Swiss corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2004.

10.47 Purchase Agreement, dated March 3, 2006, by and among the Company and the investors identified on the Schedule of Purchasers which the Company hereby incorporates by reference from Exhibit 99.1 to the Company's Form 8-K, dated March 14, 2006.

10.48 Exchange Agreement, dated October 6, 2006, between LSB Industries, Inc., Paul Denby, Trustee of the Paul Denby Revocable Trust, U.A.D. 10/12/93, The Paul J. Denby IRA, Denby Enterprises, Inc., Tracy Denby, and Paul Denby which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2006. Substantially similar Exchange Agreements (each having the same exchange rate) were entered with the following individuals or entities on the dates indicated for the exchange of the number of shares of LSB's Series 2 Preferred noted: October 6, 2006 - James W. Sight (35,428 shares of Series 2 Preferred), Paul Denby, Trustee of the Paul Denby Revocable Trust, U.A.D. 10/12/93 (25,000 shares of Series 2 Preferred), The Paul J. Denby IRA (11,000 shares of Series 2 Preferred), Denby Enterprises, Inc. (4,000 shares of Series 2 Preferred), Tracy Denby (1,000 shares of Series 2 Preferred); October 12, 2006 - Harold Seidel (10,000 shares of Series 2 Preferred); October 11, 2006 -Brent Cohen (4,000 shares of Series 2 Preferred), Brian J. Denby and Mary Denby (1,200 shares of Series 2 Preferred), Brian J. Denby, Trustee, Money Purchase Pension Plan (5,200 shares of Series 2 Preferred), Brian Denby, Inc. Profit Sharing Plan (600 shares of Series 2 Preferred); October 25, 2006 - William M. and Laurie Stern (400 shares of Series 2 Preferred), William M. Stern Revocable Living Trust, UTD July 9, 1992 (1,570 shares of Series 2 Preferred), the William M. Stern IRA (2,000 shares of Series 2 Preferred), and William M. Stern, Custodian for David Stern (1,300 shares of Series 2 Preferred), John Cregan (500 shares of Series 2 Preferred), and Frances Berger (1,350 shares of Series 2 Preferred). Copies of the foregoing Exchange Agreements will be provided to the Commission upon request.

10.49 Purchase Agreement, dated June 28, 2007, by and among the Company and the investors identified on the Schedule of Purchasers attached thereto which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 8-K, dated June 28, 2007.

10.50 Agreement, dated November 10, 2006 by and among LSB Industries, Inc., Kent C. McCarthy, Jayhawk Capital Management, L.L.C., Jayhawk Institutional Partners, L.P. and Jayhawk Investments, L.P., which the Company hereby incorporates by reference from Exhibit 99d1 to the Company's Schedule TO-I, filed February 9, 2007.

14.1 Code of Ethics for CEO and Senior Financial Officers of Subsidiaries of LSB Industries, Inc., which the Company hereby incorporates by reference from Exhibit 14.1 to the Company's Form 10-K for the fiscal year ended December 31, 2003.

21.1 Subsidiaries of the Company.

23.1 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of Jack E. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.

31.2 Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.

32.1 Certification of Jack E. Golsen, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.

32.2 Certification of Tony M. Shelby, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.

Signatures

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

LSB INDUSTRIES, INC.

Dated: March 13, 2008	By: /s/ Jack E. Golsen Jack E. Golsen Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
Dated: March 13, 2008	By: /s/ Tony M. Shelby Tony M. Shelby Executive Vice President of Finance and Chief Financial Officer (Principal Financial Officer)
Dated: March 13, 2008	By: /s/ Jim D. Jones Jim D. Jones Senior Vice President, Corporate Controller and Treasurer (Principal Accounting Officer)

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

Dated: March 13, 2008	By: /s/ Jack E. Golsen Jack E. Golsen, Director
Dated: March 13, 2008	By: /s/ Tony M. Shelby Tony M. Shelby, Director
Dated: March 13, 2008	By: /s/ Barry H. Golsen Barry H. Golsen, Director
Dated: March 13, 2008	By: /s/ David R. Goss David R. Goss, Director
Dated: March 13, 2008	By: /s/ Raymond B. Ackerman Raymond B. Ackerman, Director
Dated: March 13, 2008	By: /s/ Robert C. Brown MD Robert C. Brown MD, Director
Dated: March 13, 2008	By: /s/ Charles A. Burtch Charles A. Burtch, Director
Dated: March 13, 2008	By: /s/ Robert A. Butkin Robert A. Butkin, Director
Dated: March 13, 2008	By: /s/Bernard G. Ille Bernard G. Ille, Director
Dated: March 13, 2008	By: /s/ Donald W. Munson Donald W. Munson, Director
Dated: March 13, 2008	By: /s/ Ronald V. Perry Ronald V. Perry, Director
Dated: March 13, 2008	By: /s/ Horace G. Rhodes Horace G. Rhodes, Director
Dated: March 13, 2008	By: /s/ John A. Shelley John A. Shelley, Director

LSB Industries, Inc.

Consolidated Financial Statements
And Schedules for Inclusion in Form 10-K
For the Fiscal Year ended December 31, 2007

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LSB Industries, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008 expressed an unqualified opinion thereon.

As discussed in Notes 2, 12 and 14 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 123 (Revised), "Share-Based Payment," and in 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 13, 2008

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ **58,224**	$ 2,255
Restricted cash	**203**	2,479
Accounts receivable, net	**70,577**	67,571
Inventories	**56,876**	45,449
Supplies, prepaid items and other:		
Prepaid insurance	**3,350**	3,443
Precious metals	**10,935**	6,406
Supplies	**3,849**	3,424
Other	**1,464**	1,468
Total supplies, prepaid items and other	**19,598**	14,741
Deferred income taxes	**10,030**	-
Total current assets	**215,508**	132,495
Property, plant and equipment, net	**79,692**	76,404
Other assets:		
Noncurrent restricted cash	**-**	1,202
Debt issuance and other debt-related costs, net	**4,639**	2,221
Investment in affiliate	**3,426**	3,314
Goodwill	**1,724**	1,724
Other, net	**2,565**	2,567
Total other assets	**12,354**	11,028
	$ **307,554**	$ 219,927

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LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 2007	December 31, 2006
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 39,060**	$ 42,870
Short-term financing and drafts payable	**919**	2,986
Accrued and other liabilities	**38,942**	26,816
Current portion of long-term debt	**1,043**	11,579
Total current liabilities	**79,964**	84,251
Long-term debt	**121,064**	86,113
Noncurrent accrued and other liabilities:		
Deferred income taxes	**5,330**	-
Other	**6,913**	5,929
	12,243	5,929
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	**2,000**	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 517,402 shares issued at December 31, 2006	**-**	25,870
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, 24,466,506 shares issued (20,215,339 at December 31, 2006)	**2,447**	2,022
Capital in excess of par value	**123,336**	79,838
Accumulated other comprehensive loss	**(411)**	(701)
Accumulated deficit	**(16,437)**	(47,962)
	111,935	62,067
Less treasury stock, at cost:		
Series 2 preferred, 18,300 shares at December 31, 2006	**-**	797
Common stock, 3,448,518 shares (3,447,754 at December 31, 2006)	**17,652**	17,636
Total stockholders' equity	**94,283**	43,634
	$ 307,554	$ 219,927

See accompanying notes.

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LSB Industries, Inc.

Consolidated Statements of Income

	Year ended December 31, 2007	2006	2005
	(In Thousands, Except Per Share Amounts)		
Net sales	**$ 586,407**	$ 491,952	$ 397,115
Cost of sales	**453,814**	401,090	330,349
Gross profit	**132,593**	90,862	66,766
Selling, general and administrative expense	**75,033**	64,134	53,453
Provisions for losses on accounts receivable	**858**	426	810
Other expense	**1,186**	722	332
Other income	**(3,495)**	(1,559)	(2,682)
Operating income	**59,011**	27,139	14,853
Interest expense	**12,078**	11,915	11,407
Non-operating other income, net	**(1,264)**	(624)	(1,561)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	**48,197**	15,848	5,007
Provisions for income taxes	**2,540**	901	118
Equity in earnings of affiliate	**(877)**	(821)	(745)
Income from continuing operations	**46,534**	15,768	5,634
Net loss (income) from discontinued operations	**(348)**	253	644
Net income	**46,882**	15,515	4,990
Dividends, dividend requirements and stock dividends on preferred stock	**5,608**	2,630	2,283
Net income applicable to common stock	**$ 41,274**	$ 12,885	$ 2,707
Income (loss) per common share:			
Basic:			
Income from continuing operations	**$ 2.09**	$ .92	$ .25
Net income (loss) from discontinued operations	**.02**	(.02)	(.05)
Net income	**$ 2.11**	$ .90	$ .20
Diluted:			
Income from continuing operations	**$ 1.82**	$ .77	$ .22
Net income (loss) from discontinued operations	**.02**	(.01)	(.04)
Net income	**$ 1.84**	$ .76	$ .18

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock - Preferred	Treasury Stock - Common	Total
					(In Thousands)				
Balance at December 31, 2004	16,401	$ 34,177	$ 1,640	$ 57,352	$ (1,280)	$ (65,323)	$ (200)	$ (16,451)	$ 9,915
Net income						4,990			4,990
Amortization of cash flow hedge					290				290
Total comprehensive income									5,280
Exercise of stock warrants	586		59	(59)					-
Exercise of stock options	89		8	240					248
Acquisition of 13,300 shares of non-redeemable preferred stock							(597)		(597)
Conversion of 156 shares of redeemable preferred stock to common stock	6		1	14					15
Balance at December 31, 2005	17,082	34,177	1,708	57,547	(990)	(60,333)	(797)	(16,451)	14,861
Net income						15,515			15,515
Amortization of cash flow hedge					289				289
Total comprehensive income									15,804
Dividends paid on preferred stock						(262)			(262)
Conversion of debentures to common stock	1,977		198	12,812					13,010
Exercise of stock options	374		38	1,445				(1,185)	298
Exchange of 104,548 shares of non-redeemable preferred stock for 773,655 shares of common stock	774	(5,227)	77	8,032		(2,882)			-
Acquisition of 1,600 shares of non-redeemable preferred stock		(80)		(15)					(95)
Conversion of 188 shares of redeemable preferred stock to common stock	8		1	17					18
Balance at December 31, 2006	20,215	28,870	2,022	79,838	(701)	(47,962)	(797)	(17,636)	43,634

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock - Preferred	Treasury Stock - Common	Total
Net income						$ 46,882			$ 46,882
Amortization of cash flow hedge					290				290
Total comprehensive income									47,172
Dividends paid on preferred stock						(2,934)			(2,934)
Cumulative effect adjustment in accordance with FIN 48						(120)			(120)
Stock-based compensation				421					421
Conversion of debentures to common stock	565		57	3,681					3,738
Exercise of stock options	582		58	1,480				(16)	1,522
Exercise of warrant	113		12	381					393
Income tax benefit from exercise of stock options				1,740					1,740
Exchange of 305,807 shares of non-redeemable preferred stock for 2,262,965 shares of common stock	2,263	(15,290)	226	27,367		(12,303)			-
Conversion of 167,475 shares of non-redeemable preferred stock for 724,993 shares of common stock	725	(8,374)	72	8,301					(1)
Redemption of 25,820 shares of non-redeemable preferred stock		(1,291)							(1,291)
Cancellation of 18,300 shares of non-redeemable preferred stock (1)		(915)		118			797		-
Conversion of 98 shares of redeemable preferred stock to common stock	4			9					9
Balance at December 31, 2007	24,467	$ 3,000	$ 2,447	$ 123,336	$ (411)	$ (16,437)	$ -	$ (17,652)	$ 94,283

See accompanying notes.

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

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31, 2007	2006	2005
		(In Thousands)	
Cash flows from continuing operating activities			
Net income	**$ 46,882**	$ 15,515	$ 4,990
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Net loss (income) from discontinued operations	**(348)**	253	644
Deferred income taxes	**(4,700)**	-	-
Loss (gains) on sales and disposals of property and equipment	**378**	(12)	(714)
Gain on property insurance recoveries	**-**	-	(1,618)
Depreciation of property, plant and equipment	**12,271**	11,381	10,875
Amortization	**2,082**	1,168	1,151
Stock-based compensation	**421**	-	-
Provisions for losses on accounts receivable	**858**	426	810
Provisions for (realization of) losses on inventory	**(384)**	(711)	239
Provisions for impairment on long-lived assets	**250**	286	237
Provision for (realization of) losses on firm sales commitments	**(328)**	328	-
Equity in earnings of affiliate	**(877)**	(821)	(745)
Distributions received from affiliate	**765**	875	488
Changes in fair value of interest rate caps	**580**	44	162
Other	**-**	-	59
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):			
Accounts receivable	**(4,392)**	(18,066)	(8,664)
Inventories	**(11,044)**	(7,287)	(8,888)
Other supplies and prepaid items	**(4,857)**	(1,871)	798
Accounts payable	**(5,110)**	11,183	3,990
Customer deposits	**6,587**	1,011	(1,494)
Deferred rent expense	**(931)**	122	6,047
Other current and noncurrent liabilities	**8,696**	3,868	2,608
Net cash provided by continuing operating activities	**46,799**	17,692	10,975
Cash flows from continuing investing activities			
Capital expenditures	**(14,808)**	(14,701)	(15,315)
Proceeds from property insurance recoveries	**-**	-	2,888
Proceeds from sales of property and equipment	**271**	147	2,355
Proceeds from (deposits of) current and noncurrent restricted cash	**3,478**	(3,504)	(19)
Purchase of interest rate cap contracts	**(621)**	-	(590)
Other assets	**(168)**	(363)	107
Net cash used by continuing investing activities	**(11,848)**	(18,421)	(10,574)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	Year ended December 31, 2007	2006	2005
		(In Thousands)	
Cash flows from continuing financing activities			
Proceeds from revolving debt facilities	**$ 529,766**	$ 460,335	$ 363,671
Payments on revolving debt facilities, including fees	**(556,173)**	(466,445)	(359,226)
Proceeds from 5.5% convertible debentures, net of fees	**56,985**	-	-
Proceeds from Secured Term Loan	**50,000**	-	-
Proceeds from 7% convertible debentures, net of fees	**-**	16,876	-
Proceeds from other long-term debt, net of fees	**2,424**	8,218	3,584
Payments on Senior Secured Loan	**(50,000)**	-	-
Acquisition of 10.75% Senior Unsecured Notes	**-**	(13,300)	-
Payments on other long-term debt	**(7,781)**	(6,853)	(3,267)
Payments of debt issuance costs	**(1,403)**	(356)	(225)
Proceeds from short-term financing and drafts payable	**1,456**	3,984	5,061
Payments on short-term financing and drafts payable	**(3,523)**	(3,788)	(5,978)
Proceeds from exercise of stock options	**1,522**	298	248
Proceeds from exercise of warrant	**393**	-	-
Excess income tax benefit on stock options exercised	**1,740**	-	-
Dividends paid on preferred stock	**(2,934)**	(262)	-
Acquisition of non-redeemable preferred stock	**(1,292)**	(95)	(597)
Net cash provided (used) by continuing financing activities	**21,180**	(1,388)	3,271
Cash flows of discontinued operations:			
Operating cash flows	**(162)**	(281)	(39)
Net increase (decrease) in cash and cash equivalents	**55,969**	(2,398)	3,633
Cash and cash equivalents at beginning of year	**2,255**	4,653	1,020
Cash and cash equivalents at end of year	**$ 58,224**	$ 2,255	$ 4,653
Supplemental cash flow information:			
Cash payments for:			
Interest on long-term debt and other	**$ 9,162**	$ 11,084	$ 10,291
Income taxes, net of refunds	**$ 1,646**	$ 445	$ -
Noncash investing and financing activities:			
Receivable from sale of property and equipment	**$ -**	$ 182	$ -
Debt issuance costs	**$ 3,026**	$ 1,190	$ -
Accounts payable and other long-term debt associated with purchases of property, plant and equipment	**$ 1,937**	$ 149	$ 1,036
Debt issuance costs associated with 7% convertible debentures converted to common stock	**$ 266**	$ 998	$ -
7% convertible debentures converted to common stock	**$ 4,000**	$ 14,000	$ -
Series 2 preferred stock converted to common stock of which $12,303,000 and $2,882,000 was charged to accumulated deficit in 2007 and 2006, respectively	**$ 27,593**	$ 8,109	$ -

See accompanying notes.

LSB Industries, Inc.

Notes to Consolidated Financial Statements

1. Basis of Presentation

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

2. Summary of Significant Accounting Policies

Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles ("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.

During 2007, we had the following changes in accounting estimates:

- as discussed in Note 12, we reversed the valuation allowance on our deferred tax balances which resulted in recognition of a deferred tax benefit of $4,700,000 which is included in our provision for income taxs and
- the recognition of $1,005,000 of additional state income taxes included in our provision for income taxes as discussed in Note 12 – Income Taxes.

The net effect of these changes in accounting estimates increased income from continuing operations and net income by $3,695,000 for 2007. In addition, these changes in accounting estimates increased basic and diluted net income per share by $0.19 and $0.16, respectively, for 2007.

Cash and Cash Equivalents - Short-term investments, which consist of highly liquid investments with original maturities of three months or less, are considered cash equivalents. We primarily utilize a cash management system with a series of separate accounts consisting of several "zero-balance" disbursement accounts for funding of payroll and accounts payable. As a result of our cash management system, checks issued, but not presented to the banks for payment, may create negative book cash balances. At December 31, 2006, outstanding checks in excess of related book cash balances (negative book cash balances) of $5,849,000 were included in current portion of long-term debt because these accounts were funded primarily by our Working Capital Revolver Loan.

Current and Noncurrent Restricted Cash - Restricted cash consists of cash balances that are legally restricted or designated by the Company for specific purposes. At December 31, 2007, we had restricted cash of $203,000 primarily to fund an unrealized loss on exchange-traded

2. Summary of Significant Accounting Policies (continued)

futures contracts. At December 31, 2006, we had restricted cash totaling $3,681,000 of which $1,202,000 is classified as noncurrent since it was used for capital expenditures in the Climate Control Business. A portion of the current restricted cash was used for working capital while the remaining balance was to fund an unrealized loss on exchange-traded futures contracts.

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

Inventories - Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At December 31, 2007 and 2006, we had inventory reserves for certain slow-moving inventory items (primarily Climate Control products) and inventory reserves for certain nitrogen-based inventories provided by our Chemical Business because cost exceeded the net realizable value.

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

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

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If assets to be held and used are considered to be impaired, the impairment to be recognized is the amount by which the carrying amounts of the assets exceed the fair values of the assets as measured by the present value of future net cash flows expected to be generated by the assets or their appraised value. Assets to be disposed of are reported at the lower of the carrying amounts

2. Summary of Significant Accounting Policies (continued)

of the assets or fair values less costs to sell. At December 31, 2007, we had no long-lived assets that met the criteria presented in Statement of Financial Accounting Standards ("SFAS") 144 to be classified as assets held for sale.

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

Debt Issuance and Other Debt-Related Costs - Debt issuance and other debt-related costs are amortized over the term of the associated debt instrument except for the cost of interest rate caps. Interest rate cap contracts that are free-standing derivatives are accounted for on a mark-to-market basis in accordance with SFAS 133.

Goodwill - Goodwill is reviewed for impairment at least annually in accordance with SFAS 142. As of December 31, 2007 and 2006, goodwill was $1,724,000 of which $103,000 and $1,621,000 relates to business acquisitions in prior periods in the Climate Control and Chemical Businesses, respectively.

Accrued Insurance Liabilities - We are self-insured up to certain limits for group health, workers' compensation and general liability claims. Above these limits, we have commercial insurance coverage for our contractual exposure on group health claims and statutory limits under workers' compensation obligations. We also carry excess umbrella insurance of $50 million for most general liability risks excluding environmental risks. We have a separate $30 million insurance policy covering pollution liability at our El Dorado and Cherokee Facilities. Our accrued insurance liabilities are based on estimates of claims, which include the incurred claims amounts plus estimates of future claims development calculated by applying our historical claims development factors to our incurred claims amounts. We also consider the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims and other insurance-related costs. Accrued insurance liabilities are included in accrued and other liabilities. It is possible that the actual development of claims could exceed our estimates. Amounts recoverable from our insurance carriers over the self-insured limits are included in accounts receivable.

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

Generally, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start-up, whichever is shorter, and to ninety days for spare parts. The warranty provides that most equipment is required to be returned to the factory or an authorized

2. Summary of Significant Accounting Policies (continued)

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, to certain system components, and local laws.

Our accounting policy and methodology for warranty arrangements is to periodically measure and recognize the expense and liability for such warranty obligations using a percentage of net sales, based upon our historical warranty costs. It is possible that future warranty costs could exceed our estimates.

Changes in our product warranty obligation are as follows**:**

	Balance at Beginning of Year	Additions-Charged to Costs and Expenses	Deductions-Costs Incurred	Balance at End of Year
		(In Thousands)		
2007	**$ 1,251**	**$ 3,325**	**$ 2,632**	**$ 1,944**
2006	$ 861	$ 2,199	$ 1,809	$ 1,251
2005	$ 897	$ 1,491	$ 1,527	$ 861

Plant Turnaround Costs - We expense the costs as they are incurred relating to planned major maintenance activities ("Turnarounds") of our Chemical Business as described as the direct expensing method within Financial Accounting Standards Board ("FASB") Staff Position No. AUG AIR-1.

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

Income Taxes - We account for income taxes in accordance with SFAS 109 and we adopted FIN No. 48 – Accounting for Uncertainty in Income Taxes ("FIN 48") on January 1, 2007. We recognize deferred tax assets and liabilities for the expected future tax consequences attributable to tax net operating loss ("NOL") carryforwards, tax credit carryforwards, and differences between the financial statement carrying amounts and the tax basis of our assets and liabilities. We establish valuation allowances if we believe it is more-likely-than-not that some or all of deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using

2. Summary of Significant Accounting Policies (continued)

enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We do not recognize a tax benefit unless we conclude that it is more likely than not that the benefit will be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, we recognize a tax benefit measured at the largest amount of the tax benefit that, in our judgment, is greater than 50% likely to be realized. We record interest related to unrecognized tax positions in interest expense and penalties in operating other expense.

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

Contingencies - We accrue for contingent losses when such losses are probable and reasonably estimable. In addition, we recognize contingent gains when such gains are realized. Our Chemical Business is subject to specific federal and state regulatory and environmental compliance laws and guidelines. We have developed policies and procedures related to environmental and regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. Loss contingency liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term.

Asset Retirement Obligations - We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces which we plan to maintain in an adequate condition to prevent leakage through our standard repair and maintenance activities. We do not believe the annual costs of the required monitoring and maintenance activities would be significant and we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made in accordance of FASB Interpretation (“FIN”) 47.

Stock Options - Effective January 1, 2006, we adopted SFAS 123(R) using the modified prospective method. Since all outstanding stock options were fully vested at December 31, 2005, the adoption of SFAS 123(R) did not impact our consolidated financial statements. During 2005, we accounted for those plans under the recognition and measurement principles of APB Opinion No. 25 (“APB 25”) and related interpretations. Under APB 25, stock-based compensation cost was not reflected in our results of operations, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

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2. Summary of Significant Accounting Policies (continued)

We issue new shares of common stock upon the exercise of stock options. See "Non-Qualified Stock Option Plans" within Note 14 - Stockholders' Equity for discussion of non-qualified stock options granted in 2006 but were subject to shareholders' approval which approval was received in 2007.

The following table illustrates the effect on net income applicable to common stock and net income per share if we had applied the fair value recognition provisions of SFAS 123(R) to stock-based compensation during 2005. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2005: risk-free interest rates of 4.64%; a dividend yield of 0; volatility factors of the expected market price of our common stock of .75; and a weighted average expected life of the options of 7.36 years.

For purposes of pro forma disclosures, the estimated fair value of the qualified and non-qualified stock options was amortized to expense over the options' vesting period. Since our board of directors in 2005 approved the acceleration of the vesting schedule of both qualified and non-qualified stock options that were unvested at December 31, 2005, the remaining portion (unvested) of the pro forma stock-based compensation expense prior to the acceleration is included in the deduction amount below.

	Year ended December 31, 2005 (In Thousands, Except Per Share Amounts)
Net income applicable to common stock, as reported	$ 2,707
Less total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(530)
Pro forma net income applicable to common stock	$ 2,177
Net income per share:	
Basic-as reported	$ .20
Basic-pro forma	$ .16
Diluted-as reported	$ .18
Diluted-pro forma	$ .15

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

2. Summary of Significant Accounting Policies (continued)

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.

Cost of Sales - Cost of sales includes materials, labor and overhead costs to manufacture the products sold plus inbound freight, purchasing and receiving costs, inspection costs, internal transfer costs and warehousing costs (excluding certain handling costs directly related to loading product being shipped to customers in our Chemical Business which are included in selling, general and administrative expense). In addition, recoveries and gains from precious metals (Chemical Business), sales of material scrap (Climate Control Business), and business interruption insurance claims are reductions to cost of sales.

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

Shipping and Handling Costs - For the Chemical Business in 2007, 2006 and 2005, shipping costs of $15,209,000, $17,448,000 and $10,564,000, respectively, are included in net sales as these costs relate to amounts billed to our customers. In addition, in 2007, 2006, and 2005, handling costs of $5,249,000, $4,950,000 and $4,177,000, respectively, are included in SG&A as discussed above under "Selling, General and Administrative Expense." For the Climate Control Business, shipping and handling costs of $11,057,000, $10,326,000 and $6,396,000 are included in SG&A for 2007, 2006 and 2005, respectively.

Advertising Costs - Costs in connection with advertising and promotion of our products are expensed as incurred. Such costs amounted to $1,791,000 in 2007, $1,233,000 in 2006 and $1,402,000 in 2005.

Derivatives, Hedges and Financial Instruments - We account for derivatives in accordance with SFAS 133, which requires the recognition of derivatives in the balance sheet and the measurement of these instruments 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.

In 1997, we entered into an interest rate forward agreement to effectively fix the interest rate of a long-term lease commitment (not for trading purposes). In 1999, we executed a long-term lease agreement (initial lease term of ten years) and terminated the forward agreement at a net cost of

2. Summary of Significant Accounting Policies (continued)

$2.8 million. We historically accounted for this cash flow hedge under the deferral method (as an adjustment of the initial term lease rentals). Upon adoption of SFAS 133 in 2001, the remaining deferred cost amount was reclassified from other assets to accumulated other comprehensive loss and is being amortized to operations over the term of the lease arrangement. At December 31, 2007 and 2006, accumulated other comprehensive loss consisted of the remaining deferred cost of $411,000 and $701,000, respectively. The amounts amortized were $290,000, $289,000 and $290,000 for 2007, 2006 and 2005, respectively, and are included in SG&A. There were no income tax benefits allocated to these expenses. For 2008, we currently expect approximately $290,000 to be amortized to operations.

In March 2005, we purchased two interest rate cap contracts for a cost of $590,000. In April 2007, we purchased two interest rate cap contracts for a cost of $621,000. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis in accordance with SFAS 133. At December 31, 2007, and 2006, the market values of these contracts were $426,000 and $385,000, respectively, and are included in other assets in the accompanying consolidated balance sheets. The changes in the value of these contracts are included in interest expense. For 2005 and 2007, cash used to purchase these interest rate cap contracts are included in cash used by continuing investing activities in the accompanying consolidated statements of cash flows.

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and natural gas used by our Chemical Business. As part of our raw material price risk management, we periodically enter into exchange-traded futures contracts for these materials, which contracts are generally accounted for on a mark-to-market basis in accordance with SFAS 133. At December 31, 2007 and 2006, the unrealized losses on the futures contracts were $172,000 and $408,000, respectively, and are included in accrued and other liabilities in the accompanying consolidated balance sheets. The unrealized losses are classified as current liabilities as the term of these contracts are for periods of twelve months or less. For 2007 and 2006, we incurred losses of $1,317,000 and $1,516,000, respectively, on such contracts. For 2005, we recognized gains of $931,000. These losses and gains are included in cost of sales. In addition, the cash flows relating to these contracts are included in cash flows from continuing operating activities.

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

2. Summary of Significant Accounting Policies (continued)

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

During 2007,

- we sold $60 million of the 5.5% Convertible Senior Subordinated Notes due 2012 (the "2007 Debentures");
- the remaining $4,000,000 of the 7% Convertible Senior Subordinated Debentures due 2011 (the "2006 Debentures") was converted into 564,789 shares of common stock;
- we issued 2,262,965 shares of common stock for 305,807 shares of our Series 2 $3.25 convertible, exchangeable Class C preferred stock ("Series 2 Preferred") that were tendered pursuant to a tender offer;
- we redeemed 25,820 shares of our Series 2 Preferred and issued 724,993 shares of common stock for 167,475 shares of our Series 2 Preferred;
- we received shareholders' approval in granting 450,000 shares of non-qualified stock options on June 14, 2007;
- we issued 582,000 and 112,500 shares of our common stock as the result of the exercise of stock options and a warrant, respectively;
- we paid cash dividends of approximately $678,000 on the shares of Series 2 Preferred which we redeemed as discussed above; and
- we paid cash dividends on the Series B 12% cumulative, convertible preferred stock ("Series B Preferred"), Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") and noncumulative redeemable preferred stock ("Noncumulative Preferred") totaling approximately $1,890,000, $360,000 and $6,000, respectively.

During 2006,

- we sold $18 million of the 2006 Debentures;
- $14 million of the 2006 Debentures was converted into 1,977,499 shares our common stock;
- we issued 374,400 shares of our common stock as the result of the exercise of stock options;
- 104,548 shares of our Series 2 Preferred was exchanged for 773,655 shares of our common stock; and
- we paid partial cash dividends totaling approximately $262,000 on certain preferred stock.

During 2005,

- we issued 586,140 shares of our common stock as the result of the exercise of warrants (under a cashless exercise provision) held by lenders of loans under a financing agreement;
- we issued 88,900 shares of our common stock as a result of the exercise of stock options;
- we granted 61,500 shares of qualified stock options; and
- we acquired 13,300 shares of our Series 2 Preferred.

2. Summary of Significant Accounting Policies (continued)

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

	2007	2006	2005
	(Dollars In Thousands, Except Per Share Amounts)		
Numerator:			
Net income	**$ 46,882**	$ 15,515	$ 4,990
Dividends and dividend requirements on Series B Preferred	**(240)**	(240)	(240)
Dividend requirements on shares of Series 2 Preferred which did not exchange pursuant to tender offer or redemption in 2007 or exchange agreements in 2006	**(272)**	(547)	(566)
Dividends and dividend requirements on shares of Series 2 Preferred which were redeemed in 2007	**(59)**	(84)	(84)
Dividend requirements and stock dividend on shares of Series 2 Preferred pursuant to tender offer in 2007 (1)	**(4,971)**	(993)	(993)
Dividend requirements and stock dividend on shares of Series 2 Preferred pursuant to exchange agreements in 2006 (2)	-	(705)	(340)
Dividends and dividend requirements on Series D Preferred	**(60)**	(60)	(60)
Dividends on Noncumulative Preferred	**(6)**	(1)	-
Total dividends, dividend requirements and stock dividends on preferred stock	**(5,608)**	(2,630)	(2,283)
Numerator for basic net income per share - net income applicable to common stock	**41,274**	12,885	2,707
Dividends and dividend requirements on preferred stock assumed to be converted, if dilutive	**637**	1,925	-
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	**1,276**	1,083	-
Numerator for diluted net income per common share	**$ 43,187**	$ 15,893	$ 2,707
Denominator:			
Denominator for basic net income per common share - weighted-average shares	**19,579,664**	14,331,963	13,617,418
Effect of dilutive securities:			
Convertible preferred stock	**1,478,012**	3,112,483	38,390
Convertible notes payable	**1,200,044**	2,100,325	4,000
Stock options	**1,160,100**	1,261,661	1,195,320
Warrants	**77,824**	65,227	51,583
Dilutive potential common shares	**3,915,980**	6,539,696	1,289,293
Denominator for dilutive net income per common share – adjusted weighted-average shares and assumed conversions	**23,495,644**	20,871,659	14,906,711
Basic net income per common share	**$ 2.11**	$ .90	$ .20
Diluted net income per common share	**$ 1.84**	$ .76	$ .18

2. Summary of Significant Accounting Policies (continued)

(1) As discussed in Note 15 - Non-Redeemable Preferred Stock, in February 2007 we began a tender offer to exchange shares of our common stock for up to 309,807 of the 499,102 outstanding shares of the Series 2 Preferred. The tender offer expired on March 12, 2007 and our board of directors accepted the shares tendered on March 13, 2007. Because the exchanges under the tender offer were pursuant to terms other than the original terms, the transactions were considered extinguishments of the preferred stock. In addition, the transactions qualified as induced conversions under SFAS 84. In accordance with Emerging Issues Task Force ("EITF") Topic No. D-42, the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms was subtracted from net income in computing net income per share. Because our Series 2 Preferred are cumulative and the dividend requirements have been included in computing net income per share in previous periods and as an element of the exchange transactions, we effectively settled the dividends in arrears, the amount subtracted from net income in 2007 represents the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms less the dividends in arrears as March 13, 2007.

(2) As discussed in Note 15 - Non-Redeemable Preferred Stock, during October 2006, we entered into several separate individually negotiated agreements ("Exchange Agreements") with certain holders of our Series 2 Preferred. Because the exchanges were pursuant to terms other than the original terms, the transactions were considered extinguishments of the preferred stock. In addition, the transactions qualified as induced conversions under SFAS 84. In accordance with EITF Topic No. D-42, the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms was subtracted from net income in computing net income per share. Because our Series 2 Preferred are cumulative and the dividend requirements have been included in computing net income per share in previous years and as an element of the exchange transactions, we effectively settled the dividends in arrears, the amount subtracted from net income in 2006 represents the excess of the fair value of the common stock issued over the fair value of the securities issuable pursuant to the original conversion terms less the dividends in arrears as of the date of the Exchange Agreements plus the 2006 dividend requirements prior to the date of the Exchange Agreements.

2. Summary of Significant Accounting Policies (continued)

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:

	2007	2006	2005
Series B Preferred	-	-	666,666
Series 2 Preferred not pursuant to tender offer in 2007 or exchange agreements in 2006	-	-	853,309
Series 2 Preferred pursuant to tender offer in 2007 (1)	**261,090**	-	1,323,839
Series 2 Preferred pursuant to exchange agreements in 2006 (1)	-	348,366	452,588
Series D Preferred	-	-	250,000
Stock options	**240,068**	-	-
	501,158	348,366	3,546,402

(1) In accordance with EITF Topic No. D-53, the shares associated with the tender offer in 2007 and the exchange agreements in 2006 were considered separately from other convertible shares of securities in computing net income per common share for 2007 and 2006, respectively.

Recently Issued Accounting Pronouncements - In July 2006, the FASB issued FIN No. 48 - Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 requires that realization of an uncertain income tax position must be "more likely than not" (i.e. greater than 50% likelihood) the position will be sustained upon examination by taxing authorities before it can be recognized in the financial statements. Further, FIN 48 prescribes the amount to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. FIN 48 also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits. On January 1, 2007, we adopted FIN 48. See Note 12 - Income Taxes for the impact on our consolidated financial statements as the result of implementing FIN 48.

In September 2006, the FASB issued SFAS No. 157 - Fair Value Measurements ("SFAS 157"). SFAS 157 is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. SFAS 157 provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and input used in valuations. SFAS 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure and requirements of SFAS 157 are effective for the Company in the first quarter of 2008 and we currently do not expect a significant impact from adopting SFAS 157.

2. Summary of Significant Accounting Policies (continued)

In February 2007, the FASB issued SFAS No. 159 - The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for the Company beginning in the first quarter of 2008 and we currently do not expect a significant impact from adopting SFAS 159.

3. Accounts Receivable

	December 31, 2007	December 31, 2006
	(In Thousands)	
Trade receivables	**$ 68,234**	$ 68,165
Insurance claims	**2,469**	219
Other	**1,182**	1,456
	71,885	69,840
Allowance for doubtful accounts	**(1,308)**	(2,269)
	$ 70,577	$ 67,571

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas, however, six customers account for approximately 26% of our total net receivables at December 31, 2007. We do not believe this concentration in these six customers represents a significant credit risk due to the financial stability of these customers.

4. Inventories

	Finished Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
December 31, 2007:				
Climate Control products	**$ 9,025**	**$ 3,569**	**$ 19,412**	**$ 32,006**
Chemical products	**15,409**	**-**	**5,718**	**21,127**
Industrial machinery and components	**3,743**	**-**	**-**	**3,743**
	$ 28,177	**$ 3,569**	**$ 25,130**	**$ 56,876**
December 31, 2006:				
Climate Control products	$ 6,910	$ 3,205	$ 16,631	$ 26,746
Chemical products	11,443	-	5,361	16,804
Industrial machinery and components	1,899	-	-	1,899
	$ 20,252	$ 3,205	$ 21,992	$ 45,449

4. Inventories (continued)

At December 31, 2007 and 2006, inventory reserves for certain slow-moving inventory items (primarily Climate Control products) were $460,000 and $829,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were $13,000 and $426,000 at December 31, 2007 and 2006, respectively, because cost exceeded the net realizable value.

Changes in our inventory reserves are as follows:

	Balance at Beginning of Year	Additions-Provision for (realization of) losses	Deductions-Write-offs/ disposals	Balance at End of Year
		(In Thousands)		
2007	**$ 1,255**	**$ (384)**	**$ 398**	**$ 473**
2006	$ 2,423	$ (711)	$ 457	$ 1,255
2005	$ 2,185	$ 239	$ 1	$ 2,423

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

5. Precious Metals

Precious metals are used as a catalyst in the Chemical Business manufacturing process. As of December 31, 2007 and 2006, precious metals were $10,935,000 and $6,406,000, respectively, and are included in supplies, prepaid items and other in the accompanying consolidated balance sheets. For 2007, 2006 and 2005, the amounts expensed for precious metals were approximately $6,352,000, $4,823,000 and $3,100,000, respectively. These precious metals expenses are included in cost of sales in the accompanying consolidated statements of income. Occasionally, during major maintenance and/or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which had accumulated over time within our manufacturing equipment. For 2007, 2006 and 2005, we recognized recoveries of precious metals at historical FIFO costs of approximately $1,783,000, $2,082,000 and $1,615,000, respectively. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals. We recognized gains of $2,011,000 for 2007 (none in 2006 and 2005) from the sale of excess precious metals. These recoveries and gains are reductions to cost of sales.

6. Property, Plant and Equipment

	Useful lives in years	December 31, 2007	2006
		(In Thousands)	
Machinery, equipment and automotive	**3-25**	**$ 151,633**	$ 141,362
Buildings and improvements	**3-30**	**27,510**	25,867
Furniture, fixtures and store equipment	**3-10**	**7,458**	7,182
Assets under capital leases	**3-12**	**1,907**	1,056
Construction in progress	**N/A**	**6,648**	7,077
Capital spare parts	**N/A**	**1,662**	2,123
Land	**N/A**	**2,194**	2,194
		199,012	186,861
Less accumulated depreciation		**119,320**	110,457
		$ 79,692	$ 76,404

Machinery, equipment and automotive primarily includes the categories of property and equipment and estimated useful lives as follows: chemical processing plants and plant infrastructure (15-25 years); production, fabrication, and assembly equipment (7-15 years); certain processing plant components (3-10 years); and trucks, automobiles, trailers, and other rolling stock (3-7 years). At December 31, 2007 and 2006, assets under capital leases consist of $1,907,000 and $961,000 of machinery, equipment and automotive, respectively, and $95,000 of furniture, fixtures and store equipment at December 31, 2006. Accumulated depreciation for assets under capital leases were $244,000 and $118,000 at December 31, 2007 and 2006, respectively.

7. Debt Issuance and Other Debt-Related Costs, net

Debt issuance and other debt-related costs, which are included in other assets in the accompanying consolidated balance sheets, include debt issuance costs of $4,213,000 and $1,836,000, net of accumulated amortization of $2,368,000 and $3,681,000 as of December 31, 2007 and 2006, respectively.

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

7. Debt Issuance and Other Debt-Related Costs, net (continued)

In 2006, we incurred debt issuance costs of $1,480,000 relating to the 2006 Debentures. During 2006, a portion of the 2006 Debentures were converted into our common stock. As a result of the conversions, approximately $998,000 of the debt issuance costs, net of amortization, associated with the 2006 Debentures was charged against capital in excess of par value.

Also see discussion in “Derivatives, Hedges and Financial Instruments” of Note 2 concerning our interest rate cap contracts.

8. Investment in Affiliate

Cepolk Holding, Inc. (“CHI”), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership (“Partnership”) which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana (“Project”). At December 31, 2007 and 2006, our investment was $3,426,000 and $3,314,000, respectively. As of December 31, 2007, the Partnership and general partner to the Partnership is indebted to a term lender (“Lender”) of the Project. CHI has pledged its limited partnership interest in the Partnership to the Lender as part of the Lender’s collateral securing all obligations under the loan. This guarantee and pledge is limited to CHI’s limited partnership interest and does not expose CHI or the Company to liability in excess of CHI’s limited partnership interest. No liability has been established for this pledge since it was entered into prior to adoption of FIN 45. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Lender be required to perform under this pledge.

9. Current and Noncurrent Accrued and Other Liabilities

	December 31, 2007	December 31, 2006
	(In Thousands)	
Customer deposits	**$ 9,525**	$ 2,938
Accrued payroll and benefits	**5,362**	4,170
Deferred income taxes	**5,330**	-
Accrued income and property taxes	**5,247**	1,217
Deferred rent expense	**4,300**	5,231
Deferred revenue on extended warranty contracts	**3,387**	2,426
Accrued insurance	**2,975**	1,646
Accrued commissions	**2,256**	2,565
Accrued death benefits	**2,051**	1,446
Accrued warranty costs	**1,944**	1,251
Accrued contractual manufacturing obligations	**1,548**	1,801
Accrued precious metals costs	**1,359**	1,068
Accrued interest	**1,056**	422
Accrued executive benefits	**1,040**	979
Accrued environmental remediation costs	**411**	1,432
Other	**3,394**	4,153
	51,185	32,745
Less noncurrent portion	**12,243**	5,929
Current portion of accrued and other liabilities	**$ 38,942**	$ 26,816

10. Redeemable Preferred Stock

At December 31, 2007 and 2006, we had 585 shares and 683 shares, respectively, outstanding of Noncumulative Preferred. Each share of Noncumulative Preferred, $100 par value, is convertible into 40 shares of our common stock at the option of the holder at any time and entitles the holder to one vote. The Noncumulative Preferred is redeemable at par at the option of the holder or the Company. The Noncumulative Preferred provides for a noncumulative annual dividend of 10%, payable when and as declared. During 2007 and 2006, our board of directors declared and we paid dividends totaling $6,000 ($10.00 per share) and $1,000 ($1.24 per share), respectively, on the then outstanding Noncumulative Preferred. At December 31, 2007 and 2006, the Noncumulative Preferred was $56,000 and $65,000, respectively, and is classified as accrued and other liabilities in the accompanying consolidated balance sheets.

11. Long-Term Debt

	December 31, 2007	2006
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	**$ -**	26,048
5.5% Convertible Senior Subordinated Notes due 2012 (B)	**60,000**	-
Secured Term Loan due 2012 (C)	**50,000**	-
Senior Secured Loan (D)	-	50,000
7% Convertible Senior Subordinated Notes (E)	-	4,000
Other, with current interest rates of 4.25% to 9.36%, most of which is secured by machinery, equipment and real estate (F)	**12,107**	17,644
	122,107	97,692
Less current portion of long-term debt	**1,043**	11,579
Long-term debt due after one year	**$ 121,064**	$ 86,113

(A) ThermaClime and its subsidiaries (the "Borrowers") are parties to a $50 million revolving credit facility (the "Working Capital Revolver Loan") that provides for advances based on specified percentages of eligible accounts receivable and inventories for ThermaClime, and its subsidiaries. In November 2007, in connection with the Secured Term Loan (discussed below under (C)), the Working Capital Revolver Loan was amended. This amendment included, among other things, the release of the lenders' second position security liens to the assets which collateralize the Secured Term Loan, an interest rate reduction of .25% and a revised maturity date of April 13, 2012. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .50% or LIBOR plus 1.75%. The interest rate at December 31, 2007 was 6.45%. Interest is paid monthly. The facility provides for up to $8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. As a result of using a portion of the proceeds from the 2007 Debentures (discussed below under (B)) to pay down the Working Capital Revolver Loan, amounts available for additional borrowing under the Working Capital Revolver Loan at December 31, 2007 were $49.2 million. Under the Working Capital Revolver Loan, as amended, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .375% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

In March 2005, we purchased two interest rate cap contracts which set a maximum three-month LIBOR base rate of 4.59% on $30 million and mature on March 29, 2009.

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding due and payable in full, if any. The Working Capital Revolver Loan is secured by the assets of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries ("EDNC") but excluding the assets securing the Secured Term Loan discussed in (C) below and certain distribution-related assets of EDC. EDNC is neither a borrower nor guarantor of the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately $183 million at December 31, 2007.

11. Long-Term Debt (continued)

A prepayment premium of $1,000,000 is due to the lender should the Borrowers elect to prepay the facility prior to April 13, 2008. This premium is reduced to $500,000 during the following twelve-month period ending April 12, 2009 and is reduced to $250,000 during the following twelve-month period ending April 12, 2010 and is eliminated thereafter.

The Working Capital Revolver Loan, as amended, requires ThermaClime to meet certain financial covenants measured quarterly. ThermaClime was in compliance with those covenants during 2007. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers' (which does not include the Company) ability, without consent of the lender, 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.

In connection with the redemption of ThermaClime's 10.75% Senior Unsecured Notes ("the Notes") in July 2006 as discussed in (E) below, the lenders of the Working Capital Revolver Loan and the Senior Secured Loan provided consents to permit ThermaClime to borrow $6.4 million from the Company for the purpose of redeeming the Notes.

(B) On June 28, 2007, we entered into a purchase agreement with each of twenty two qualified institutional buyers ("QIBs"), pursuant to which we sold $60 million aggregate principal amount of the 2007 Debentures in a private placement to the QIBs pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Act"), afforded by Section 4(2) of the Act and Regulation D promulgated under the Act. The 2007 Debentures are eligible for resale by the investors under Rule144A under the Act. We received net proceeds of approximately $57 million, after discounts and commissions. In connection with the closing, we entered into an indenture (the "Indenture") with UMB Bank, as trustee (the "Trustee"), governing the 2007 Debentures. The Trustee receives customary compensation from us for such services.

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

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

11. Long-Term Debt (continued)

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

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

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

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

We have currently invested a portion of the net proceeds in money market investments and have used a portion of the net proceeds to redeem our outstanding shares of Series 2 Preferred; to repay certain outstanding mortgages and equipment loans; to pay dividends in arrears on our outstanding shares of Series B Preferred and Series D Preferred, all of which were owned by an affiliate; and the balance to initially reduce the outstanding borrowings under the Working Capital Revolver Loan. See Note 21 - Related Party Transactions for a discussion of amounts paid to affiliates and former affiliates in connection with the redemption and the dividends. In addition, we intend to use the remaining portion of the net proceeds for certain discretionary capital expenditures and general working capital purposes.

11. Long-Term Debt (continued)

In connection with using a portion of the net proceeds of the 2007 Debentures to initially reduce the outstanding borrowings under the Working Capital Revolver Loan, ThermaClime entered into a $25 million demand promissory note ("Demand Note") with the Company. In addition, the Company, ThermaClime, and certain of its subsidiaries entered into a subordination agreement with the lender of the Senior Secured Loan which, among other things, states that the Demand Note is unsecured and subordinated to the Senior Secured Loan and allows for payments on the Demand Note by ThermaClime to the Company provided there is no potential default or event of default, as defined in the Senior Secured Loan.

In conjunction with the 2007 Debentures, we entered into a Registration Rights Agreement (the "5.5% Registration Rights Agreement") with the QIBs. The term of the 5.5% Registration Rights Agreement ends on the earlier of the date that all registrable securities, as defined in the agreement, have ceased to be registrable securities and July 1, 2010.

In connection with the 5.5% Registration Rights Agreement, we were required to file, and did file, a registration statement ("5.5% Registration Statement"), which registration statement was declared effective by the Securities and Exchange Commission ("SEC") on November 19, 2007.

We are obligated to update the 5.5% Registration Statement by filing a post-effective amendment. The filing of a post-effective amendment is required upon the filing of a Form 10-K or upon a "fundamental change" in the information described in the 5.5% Registration Statement. Pursuant to the terms of the 5.5% Registration Rights Agreement, the deadline for filing a post-effective amendment is determined by the event that triggers the obligation to file the post-effective amendment, as follows:

- within 10 business days after filing a Form 10-K with the SEC;
- within 10 business days after filing such report or reports disclosing a fundamental change to the SEC.

We are required to use commercially reasonable efforts to cause the post-effective amendment to be declared effective as promptly as is practicable, but in any event, no later than 60 days (90 days if the post-effective amendment is reviewed by the SEC) after such post-effective amendment is required to be filed. If, in spite of our commercially reasonable efforts, a post-effective amendment is not declared effective within the number of days required, the liquidated damages will accrue under the 5.5% Rights Agreement as described below, beginning on the first day after the post-effective amendment is required to be effective. However, we are permitted to suspend the availability of the 5.5% Registration Statement or prospectus for purposes of updating the information therein (a "Deferral Period") without incurring or accruing any liquidated damages, unless the Deferral Period exceeds (a) 30 days in any 90 day period, or (b) 90 days in any 12 month period, in which case, beginning on the first day following the last permissible day of the Deferral Period, liquidated damages at the rates of 0.25% and 0.5% shall apply, as described below, until the termination of the Deferral Period.

11. Long-Term Debt (continued)

If the post-effective amendment to the 5.5% Registration Statement is not declared effective by the appropriate time period described above, the following liquidated damages, shall accrue for each day thereafter until the 5.5% Registration Statement is declared effective:

- 0.25% – Damages shall accrue at an annual percentage rate equal to 0.25% of the aggregate principal amount of each debenture, from the first day of the accrual period up to and including the 90th day (approximately $411 per day or a total of $36,900 at the end of 90 days); and

- 0.5% – Damages shall accrue at an annual percentage rate equal to 0.5% of the aggregate principal amount of each debenture, from and after the 91st day of the accrual period (approximately $822 per day), until the 5.5% Registration Statement is declared effective. The 5.5% Registration Rights Agreement provides no limitation to the maximum amount of liquidation damages. The 5.5% Registration Rights Agreement does not require us to issue shares of our equity securities relating to liquidated damages.

Liquidated damages are payable with respect to debentures that are outstanding as of the beginning of a liquidated damages accrual period. If a debenture has been converted into common stock prior to the beginning of a liquidated damages accrual period, no liquidated damages are payable with respect to the common stock issued upon such conversion.

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

The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%. The interest rate at December 31, 2007 was 7.90%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity.

The Secured Term Loan is secured by the real property and equipment located at our El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $48 million at December 31, 2007.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At December 31, 2007, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately $60 million. The Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio and a maximum leverage ratio, both measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the year ended December 31, 2007.

11. Long-Term Debt (continued)

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

A prepayment premium equal to 1% of the principal amount prepaid is due to the lender should the borrowers elect to prepay on or prior to November 6, 2009. This premium is reduced to 0.5% during the following twelve-month period and is eliminated thereafter.

(D) In September 2004, ThermaClime and certain of its subsidiaries completed a $50 million term loan ("Senior Secured Loan") with a certain lender. The Senior Secured Loan accrued interest at the applicable LIBOR rate, as defined, plus an applicable LIBOR margin, as defined or, at the election of the borrowers, the alternative base rate, as defined, plus an applicable base rate margin, as defined, with the annual interest rate not to exceed 11% or 11.5% depending on the leverage ratio. For 2007, the effective interest rate was 11%. In November 2007, the Senior Secured Loan was repaid with the proceeds from the Secured Term Loan discussed above under (C).

(E) On March 14, 2006, we completed a private placement to six QIBs pursuant to which we sold $18 million aggregate principal amount of the 2006 Debentures. We used a placement agent for this transaction which we paid a fee of 6% of the aggregate gross proceeds received in the financing. Other offering expenses in connection with the transaction were $.4 million. As a result, the total debt issuance costs related to this transaction were $1.5 million. The 2006 Debentures are no longer outstanding. As of April 30, 2007, all of the outstanding 2006 Debentures were converted into our common stock, plus, in certain cases, payment of additional consideration relating to offers received from holders and accepted by us as discussed below.

During 2006, $14 million of the 2006 Debentures were converted into 1,977,499 shares of our common stock at the conversion price of $7.08 per share. Several of the conversions related to offers received from holders and accepted by us which included the stated conversion price of $7.08 per share plus an additional consideration totaling $277,000 which was paid to these holders. Because these offers met the criteria within SFAS 84-Induced Conversions of Convertible Debt, the additional consideration of $277,000 was expensed and is included in interest expense in our consolidated statement of income. During 2007, the remaining $4 million of the 2006 Debentures (which includes $1 million that was held by Jayhawk Capital Management and other Jayhawk entities, through their manager, Kent McCarthy (the "Jayhawk Group"), were converted into 564,789 shares of our common stock at the average conversion price of $7.082 per share.

Approximately $13.6 million of the net proceeds have been used to purchase or redeem all of the outstanding Notes held by unrelated third parties and Jayhawk at ThermaClime's carrying value (which includes $1 million that was held by Jayhawk) including accrued interest of $.3 million. The remaining balance was used for the purchase of other higher interest rate debt and for general corporate purposes.

11. Long-Term Debt (continued)

The 2006 Debentures were convertible by holders, in whole or in part, into shares of the Company's common stock prior to their maturity on March 1, 2011. Holders of 2006 Debentures electing to convert all or any portion of a 2006 Debenture would obtain the following conversion rate per $1,000 principal amount of 2006 Debentures during the dates indicated:

	Shares Per $1,000 Principal Amount	Conversion Price Per Share
Prior to September 1, 2006	125.00	$ 8.00
September 1, 2006 – February 28, 2007	141.25	$ 7.08
March 1, 2007 - August 31, 2007	141.04	$ 7.09
September 1, 2007 - February 29, 2008	137.27	$ 7.28
March 1, 2008 - August 31, 2008	133.32	$ 7.50
September 1, 2008 - February 28, 2009	129.23	$ 7.74
March 1, 2009 - March 1, 2011	125.00	$ 8.00

The conversion price was subject to anti-dilution provisions designed to maintain the value of the 2006 Debentures in the event we had taken certain actions with respect to our common stock, as described below, that effect all of the holders of our common stock equally and that could have a dilutive effect on the value of the conversion rights of the holders of the 2006 Debentures or that confer a benefit upon our current stockholders not otherwise available to the holders of the 2006 Debentures. In this regard, the 2006 Debentures provided that the conversion rate of the 2006 Debentures would be adjusted upon the occurrence of any of the following events:

(a) the payment or issuance of common stock as a dividend or distribution on our common stock;

(b) the issuance to all holders of common stock of rights, warrants or options to purchase our common stock (other than pursuant to our preferred share rights plan) for a period expiring within 45 days of the record date for such distribution at a price less than the average of the closing sale price for the 10 trading days preceding the declaration date for such distribution; provided that the conversion price will be readjusted to the extent that such rights, warrants or options are not exercised;

(c) subdivisions, splits or combinations of our common stock;

(d) distributions to the holders of our common stock of a portion of our assets (including shares of capital stock or assets of a subsidiary) or debt or other securities issued by us or certain rights to purchase our securities (excluding dividends or distributions covered by clauses (a) or (b) above or our preferred share rights plan); provided, however, that if we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sale prices of those securities for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such distribution on the NASDAQ National Market or such other national or regional exchange or market on which the securities are then listed or quoted;

11. Long-Term Debt (continued)

(e) tender or exchange offer made by the Company or any subsidiary for all or any portion of the common stock and such shall require the payment to stockholders of consideration per share of common stock having a fair market value that exceeds the last reported closing sale price;

(f) the Company, by dividend or otherwise, makes a distribution in cash to all holders of its common stock; and

(g) the tender or exchange offer made by a person other than the Company or a subsidiary for more than 50% of the Company's common stock and shall involve a payment by such person of consideration per share of common stock having a fair market value (as determined by the Company's board of directors, whose determination is conclusive) that exceeds the closing price of a share of common stock and as of the offer expiration time the Company's board of directors is not recommending rejection of the offer.

The Indenture provides that the conversion rate of the 2006 Debentures is subject to adjustment upon the occurrence of any of seven different events as described above. The first four of these events [subparagraphs (a)-(d)] are standard anti-dilution events as described in paragraph 8 of EITF 05-2. The last three events [subparagraphs (e), (f) and (g)] are not considered standard anti-dilution provisions as discussed in paragraph 8 of EITF 05-2; however, these events triggering an anti-dilution conversion rate adjustment were within the control of the Company. For those that are not also an event of equity restructuring as defined in SFAS 123(R), they were evaluated as contingent beneficial conversion features ("BCF"). We planned to recognize a BCF if and when a triggering event occurred, until then it was accounted for as a contingent event and no accounting was warranted. None of the conversion rate adjustments occurred during the term of the debt (all of the debt was converted during 2006 and 2007 as discussed above), thus there is no requirement to account for the contingent BCF.

To the extent that we had a rights plan in effect upon conversion of the 2006 Debentures into common stock, holders of 2006 Debentures would have received, in addition to the common stock, the rights under the rights plan unless the rights have separated from the common stock at the time of conversion, in which case the conversion rate will be adjusted as if we distributed to the holders of our common stock, a portion of our assets, or debt or other securities or rights as set forth under clause (d) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

Our board of directors had reserved the right to increase the conversion rate if our board of directors determines (a) that an increase would be in our best interests or (b) it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock or rights distribution.

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11. Long-Term Debt (continued)

(F) Amounts include capital lease obligations of $1,230,000 and $767,000 at December 31, 2007 and 2006, respectively.

Maturities of long-term debt for each of the five years after December 31, 2007 are as follows (in thousands):

2008	$ 1,043
2009	1,042
2010	1,153
2011	1,119
2012	111,072
Thereafter	6,678
	$ 122,107

12. Income Taxes

Provisions (benefits) for income taxes are as follows:

	2007	2006	2005
		(In Thousands)	
Current:			
Federal	$ 5,260	$ 312	$
State	1,980	589	118
Total Current	$ 7,240	$ 901	$ 118
Deferred:			
Federal	$ (4,095)	$ -	$ -
State	(605)	-	-
Total Deferred	$ (4,700)	$ -	$ -
Provisions for income taxes	$ 2,540	$ 901	$ 118

The current provision for federal income taxes of $5,260,000 for 2007 includes regular federal income tax and alternative minimum income tax (“AMT”). The current provision of state income taxes of $1,980,000 for 2007 includes the provision for 2007 state income taxes, as well as $1,047,000 for uncertain state income tax positions recognized in accordance with FIN 48 as discussed below.

12. Income Taxes (continued)

The 2007 benefit for deferred taxes of $4,700,000 results from the reversal of valuation allowance on deferred tax assets, the benefit of AMT credits, and other temporary differences. At December 31, 2006, we had regular NOL carryforwards of approximately $49.9 million. We account for income taxes under the provisions of SFAS 109 which requires recognition of future tax benefits (NOL carryforwards and other temporary differences) subject to a valuation allowance if it is determined that it is more-likely-than-not that such asset will not be realized. In determining whether it is more-likely-than-not that we will not realize such tax asset, SFAS 109 requires that all negative and positive evidence be considered (with more weight given to evidence that is “objective and verifiable”) in making the determination. Prior to 2007, we had valuation allowances in place against the net deferred tax assets arising from the NOL carryforwards and other temporary differences. Prior to 2007, management considered certain negative evidence in determining that it was “more-likely-than-not” that the net deferred tax assets would not be utilized in the foreseeable future, thus a valuation allowance was required. The negative evidence considered primarily included our history of losses, both as to amount and trend and uncertainties surrounding our ability to generate sufficient taxable income to utilize these NOL carryforwards.

As the result of improving financial results during 2007 including some unusual transactions (settlement of pending litigation and insurance recovery of business interruption claim) and our expectation of generating taxable income in the future, we determined in the third quarter that there was sufficient objective and verifiable evidence to conclude that it was more-likely-than-not that we would be able to realize the net deferred tax assets. As a result, we reversed the valuation allowances as a benefit for income taxes and recognized deferred tax assets and deferred tax liabilities. At December 31, 2007, we had net current deferred tax assets of $10.0 million and net non-current deferred tax liabilities of $5.3 million.

Due to regular tax NOL carryforwards, the only current tax expense for 2006 and 2005 was for federal AMT and state income taxes as shown above.

At December 31, 2007, we have federal NOL carryforwards of approximately $2.9 million that begin expiring in 2026 and state tax NOL carryforwards of approximately $28.9 million that begin expiring in 2024. We anticipate fully utilizing the federal NOL carryforwards in 2008 at which time we will begin paying federal income taxes at regular corporate tax rates.

When non-qualified stock options (“NSOs”) are exercised, the grantor of the options is permitted to deduct the spread between the fair market value and the exercise price of the NSOs as compensation expense in determining taxable income. Under SFAS 109, income tax benefits related to stock-based compensation deductions in excess of the compensation expense recorded for financial reporting purposes are not recognized in earnings as a reduction of income tax expense for financial reporting purposes. As a result, during 2007, the stock-based compensation deduction recognized in our income tax return will exceed the stock-based compensation expense recognized in earnings. The excess tax benefit realized (i.e., the resulting reduction in the current tax liability) related to the excess stock-based compensation tax deduction of

12. Income Taxes (continued)

$1,740,000 is accounted for as an increase in capital in excess of par value rather than a decrease in the provision for income taxes.

SFAS 123(R) specifies that if the grantor of NSOs will not currently reduce its tax liability from the excess tax benefit deduction taken at the time of the taxable event (option exercised) because it has a NOL carryforward that is increased by the excess tax benefit, then the tax benefit should not be recognized until the deduction actually reduces current taxes payable. As of December 31, 2007, we have approximately $2,325,000 in unrecognized federal and state tax benefits resulting from the exercise of NSOs since the effective date of SFAS 123(R) on January 1, 2006. We estimate that a significant portion of this benefit will be realized in 2008 when our current tax liability is reduced by these items.

12. Income Taxes (continued)

Temporary differences and carryforwards which gave rise to deferred tax assets and liabilities at December 31, 2007 and 2006 include:

	2007	2006
	(In Thousands)	
Deferred tax assets		
Amounts not deductible for tax purposes:		
Allowance for doubtful accounts	**$ 906**	$ 1,286
Asset impairment	**902**	769
Inventory reserves	**204**	646
Deferred compensation	**2,700**	2,123
Other accrued liabilities	**2,439**	1,928
Uncertain income tax positions	**655**	-
Other	**512**	607
Capitalization of certain costs as inventory for tax purposes	**900**	881
Net operating loss carryforwards	**779**	19,236
Alternative minimum tax credit carryforwards	**3,911**	1,288
Total deferred tax assets	**13,908**	28,764
Less valuation allowance on deferred tax assets	**-**	18,932
Net deferred tax assets	**$ 13,908**	$ 9,832
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	**$ 7,273**	$ 8,017
Excess of book gain over tax gain resulting from sale of land	**541**	403
Investment in unconsolidated affiliate	**1,394**	1,412
Total deferred tax liabilities	**$ 9,208**	$ 9,832
Net deferred tax assets	**$ 4,700**	$ -
Consolidated balance sheet classification:		
Net current deferred tax assets	**$ 10,030**	$ -
Net non-current deferred tax liabilities	**(5,330)**	-
Net deferred tax assets	**$ 4,700**	$ -
Net deferred tax assets by tax jurisdiction:		
Federal	**$ 3,921**	$ -
State	**779**	-
Net deferred tax assets	**$ 4,700**	$ -

12. Income Taxes (continued)

Detailed below are the differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to “Income from continuing operations before provision for income taxes” for the year ended December 31:

	2007	2006	2005
		(In Thousands)	
Provision for income taxes at federal statutory rate	**$ 17,176**	$ 5,834	$ 2,058
Changes in the valuation allowance related to deferred tax assets	**(18,476)**	(5,950)	(1,743)
Effect of discontinued operations and other	**403**	58	(249)
Federal alternative minimum tax	-	312	118
State current and deferred income taxes	**1,939**	383	-
Provision for uncertain tax positions	**1,047**	-	-
Permanent differences	**451**	264	(66)
Provision for income taxes	**$ 2,540**	$ 901	$ 118

On January 1, 2007, we adopted FIN 48, which requires that realization of an uncertain income tax position must be “more likely than not” (i.e., greater than 50% likelihood) that the position will be sustained upon examination by taxing authorities before it can be recognized in the financial statements. Further, FIN 48 prescribes the amount to be recorded in the financial statements as the amount most likely to be realized assuming a review by tax authorities having all relevant information and applying current conventions. FIN 48 also clarifies the financial statement classification of tax-related penalties and interest and sets forth new disclosures regarding unrecognized tax benefits.

We believe that we do not have any material uncertain tax positions that meet the FIN 48 more likely than not recognition criteria other than the failure to file state income tax returns in some jurisdictions where we or some of our subsidiaries may have a filing responsibility (i.e, nexus). As of December 31, 2006 we had a $300,000 accrued for an uncertain tax position related to state income taxes. As a result of the implementation of FIN 48, we recognized a $120,000 increase in the liability for uncertain tax positions related to state income taxes, which was accounted for as an increase to the January 1, 2007 accumulated deficit balance. In 2007, we commissioned a nexus study by an independent public accounting firm to determine if we and our subsidiaries had any activities that would create nexus and to calculate the potential additional state income tax liability in accordance with FIN 48. As a result of this nexus study, we recognized additional current state income tax expense of $1,047,000 in 2007, partially offset by a deferred tax benefit of $536,000 from additional state NOL carryforwards. In addition to the FIN 48 liability recorded as a result of the nexus study, we reclassified $150,000 of state income tax from the current payable account to the FIN 48 liability. This reclassification related to state tax liabilities that we had accrued during 2006, but did not become uncertain until 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

12. Income Taxes (continued)

Balance at January 1, 2007	$	**420**
Additions based on tax positions related to the current year		**192**
Additions based on tax positions of prior years		**1,031**
Reductions for tax positions of prior years		**(26)**
Settlements		**-**
Balance at December 31, 2007	$	**1,617**

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

We recognize interest accrued related to unrecognized tax benefits in interest expense and penalties as other expense. During the year ended December 31, 2007, we recognized $253,000 in interest and penalties associated with unrecognized tax benefits (none in 2006 or 2005). We had approximately $315,000 and $30,000 for the payment of interest and penalties accrued at December 31, 2007 and 2006, respectively.

We plan to negotiate voluntary disclosure agreements and file prior year tax returns with various taxing authorities in 2008. Therefore, we anticipate that the total amounts of unrecognized tax benefits will decrease by approximately $1.4 million by December 31, 2008 as a result of state tax payments made as part of the voluntary disclosure agreement process.

We and certain of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The federal tax returns for 1994 through 2003 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. With few exceptions, the 2004-2007 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

13. Commitments and Contingencies

Capital and Operating Leases - We and our subsidiaries lease certain property, plant and equipment under capital leases and non-cancelable operating leases in accordance with SFAS 13. Leased assets meeting capital lease criteria have been capitalized and the present value of the related lease payments is included in long-term debt. Future minimum payments on leases, including the Baytown Facility lease ("Baytown Lease") discussed below, with initial or remaining terms of one year or more at December 31, 2007, are as follows (in thousands):

	Capital Leases	Operating Leases: Baytown Lease	Operating Leases: Others	Total
2008	$ 599	$ 11,173	$ 3,351	$ 15,123
2009	285	4,881	2,859	8,025
2010	282	-	1,962	2,244
2011	176	-	1,310	1,486
2012	64	-	1,004	1,068
Thereafter	-	-	1,641	1,641
Total minimum lease payments	1,406	$ 16,054	$ 12,127	$ 29,587
Less amounts representing interest	176			
Present value of minimum lease payments included in long-term debt	$ 1,230			

Rent expense under all operating lease agreements, including month-to-month leases, was $13,793,000 in 2007, $12,587,000 in 2006 and $12,205,000 in 2005. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts.

Baytown Facility - Our wholly owned subsidiary, EDNC operates a nitric acid plant (the "Baytown Facility") at a Baytown, Texas chemical facility in accordance with a series of agreements with Bayer Corporation ("Bayer") (collectively, the "Bayer Agreement"). Under the terms of the Bayer Agreement, EDNC is leasing the Baytown Facility pursuant to a leveraged lease (the "Baytown Lease") from an unrelated third party with an initial lease term of ten years. Upon expiration of the initial ten-year term in 2009, the Bayer Agreement may be renewed for up to six renewal terms of five years each; however, prior to each renewal period, either party to the Bayer Agreement may opt against renewal. The total amount of future minimum payments due under the Baytown Lease is being charged to rent expense on the straight-line method over the initial ten-year term of the lease. The difference between rent expense recorded and the amount paid is charged to deferred rent expense which is included in accrued and other liabilities in the accompanying consolidated balance sheets. The Company and its subsidiaries have not provided a residual value guarantee on the value of the equipment related to the Baytown Lease and Bayer has the unilateral right to determine if the fixed-price purchase option is exercised in 2009. If Bayer decides to exercise the purchase option, they must also fund it. EDNC's ability to perform on its lease commitments is contingent upon Bayer's performance under the Bayer Agreement. One of our subsidiaries has guaranteed the performance of EDNC's obligations under the Bayer Agreement. Discussions with Bayer have begun regarding a renewal in 2009.

13. Commitments and Contingencies (continued)

Purchase and Sales Commitments - Under an agreement, as amended, with its principal supplier of anhydrous ammonia, the El Dorado Chemical Company ("EDC") will purchase a majority of its anhydrous ammonia requirements using a market price-based formula plus transportation to the chemical production facility located in El Dorado, Arkansas (the "El Dorado Facility") through at least December 31, 2008.

In 1995, EDC entered into a product supply agreement with a third party whereby EDC is required to make monthly facility fee and other payments which aggregate $87,000. In return for this payment, EDC is entitled to certain quantities of compressed oxygen produced by the third party. Except in circumstances as defined by the agreement, the monthly payment is payable regardless of the quantity of compressed oxygen used by EDC. The initial term of this agreement is through August 2010. If the agreement is not terminated as of the end of the initial term, the agreement automatically renews for a 5-year term and on a year-by-year basis thereafter. EDC can currently terminate the agreement without cause at a cost of approximately $1.4 million. Based on EDC's estimate of compressed oxygen demands of the plant, the cost of the oxygen under this agreement is expected to be favorable compared to floating market prices. Purchases under this agreement aggregated $1,078,000, $1,052,000 and $1,035,000 in 2007, 2006, and 2005, respectively.

At December 31, 2007, our Climate Control Business had purchase commitments under exchange-traded futures for 3,875,000 pounds of copper through December 2008 at a weighted average cost of $3.02 per pound and a weighted average market value of $3.04 per pound. At December 31, 2007, our Chemical Business had purchase commitments under exchange-traded futures for 530,000 MMBtu of natural gas through April 2008 at a weighted average cost of $7.98 per MMBtu and a weighted average market value of $7.51 per MMBtu.

At December 31, 2007, we also had standby letters of credit outstanding of $.8 million of which $.2 million related to our Climate Control Business.

At December 31, 2007, we had deposits from customers of $9.5 million for forward sales commitments including $8.7 million relating to our Chemical Business and $.6 million relating to our Climate Control Business.

In 2001, EDC entered into a long-term cost-plus industrial grade ammonium nitrate supply agreement ("Supply Agreement") with a third party. Under the Supply Agreement, as amended, EDC will supply from the El Dorado Facility approximately 210,000 tons of industrial grade ammonium nitrate per year, which is approximately 92% of the plant's manufacturing capacity for that product, for a term through 2010.

Employment and Severance Agreements - We have employment and severance agreements with several of our officers. The agreements provide for annual base salaries, bonuses and other benefits commonly found in such agreements. In the event of termination of employment due to a change in control (as defined in the agreements), the agreements provide for payments aggregating $9.0 million at December 31, 2007.

13. Commitments and Contingencies (continued)

Legal Matters - Following is a summary of certain legal matters involving the Company.

A. Environmental Matters

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

We are required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated in accordance with FIN 47. We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces which we plan to maintain in an adequate condition to prevent leakage through our standard repair and maintenance activities. Since we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

1. Discharge Water Matters

The El Dorado Facility within our Chemical Business generates process wastewater. The process water discharge and storm-water run off are governed by a state National Pollutant Discharge Elimination System ("NPDES") water discharge permit issued by the Arkansas Department of Environmental Quality ("ADEQ"), which permit is to be renewed every five years. The ADEQ issued to the El Dorado Facility a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility's June 2007 limits, the El Dorado Facility has significantly reduced the contaminant levels of its wastewater.

13. Commitments and Contingencies (continued)

The El Dorado Facility has demonstrated its ability to comply with the more restrictive permit limits, and the rules which support the more restrictive dissolved minerals rules have been revised to authorize a permit modification to adopt achievable dissolved minerals permit limits. The ADEQ has agreed to issue a consent administrative order to authorize the El Dorado Facility to continue operations without incurring permit violations pending the modification of the permit to implement the revised rule and to dispose of the El Dorado Facility's wastewater into the creek adjacent to the El Dorado Facility. A draft of the proposed consent administrative order has been prepared by the ADEQ and submitted to the El Dorado Facility for review. We are currently reviewing the proposed consent administrative order.

To meet the June 2007 permit limits, the El Dorado Facility has conducted a study of the creek adjacent to the El Dorado Facility to determine whether a permit modification allowing for the discharge into the creek is appropriate. On September 22, 2006, the Arkansas Pollution Control and Ecology Commission approved the results of the study that showed that the proposed permit modification is appropriate and the proposal to allow the El Dorado Facility to dispose of its wastewater into the creek. A public hearing was held on the matter on November 13, 2006 with minimal opposition. As a result, the El Dorado Facility has been discharging its wastewater into the creek.

In addition, the El Dorado Facility has entered into a consent administrative order ("CAO") that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. A new CAO to address the shallow groundwater contamination became effective on November 16, 2006 and requires the evaluation of the current conditions and remediation based upon a risk assessment. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. As an interim measure, the El Dorado Facility has installed two recovery wells to recycle groundwater and to recover nitrates. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2007.

2. Air Matters

Under the terms of a consent administrative order relating to air matters ("AirCAO"), which became effective in February 2004, resolving certain air regulatory alleged violations associated with the El Dorado Facility's sulfuric acid plant and certain other alleged air emission violations, the El Dorado Facility is required to implement additional air emission controls at the El Dorado Facility no later than February 2010. We currently estimate the remaining environmental compliance related expenditures to be approximately $5.6 million, which has been committed for 2008.

13. Commitments and Contingencies (continued)

In December 2006, the El Dorado Facility entered into a new CAO ("2006 CAO") with the ADEQ to resolve a problem with ammonia emissions from certain nitric acid units. The catalyst suppliers had represented the volume of ammonia emissions anticipated. The representation was the basis for the permitted emission limit, but the representation of the catalyst suppliers was not accurate. Under the 2006 CAO, the ADEQ allowed the El Dorado Facility to re-evaluate the catalyst performance and required the El Dorado Facility to submit a permit modification with the appropriate ammonia limits. The permit modification was submitted to ADEQ on June 11, 2007, and is currently under review. Until the permit is modified, the 2006 CAO authorizes the El Dorado Facility to continue to operate certain nitric acid units (even though the El Dorado Facility is in non-compliance with the permitted emission limit for ammonia), provided that during this period of time, the El Dorado Facility monitors and reports the ammonia on a monthly basis.

3. Other Environmental Matters

In April 2002, Slurry Explosive Corporation ("Slurry"), later renamed Chemex I Corp., a subsidiary within our Chemical Business, entered into a Consent Administrative Order ("Slurry Consent Order") with the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The Slurry Consent Order addressed the release of contaminants from the facility into the soils and groundwater and surface water at the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent strip pit is used for fishing. Under the terms of the Slurry Consent Order, Slurry is required to, among other things, submit an environmental assessment work plan to the KDHE for review and approval, and agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility.

In December 2002, Slurry and Universal Tech Corporation ("UTeC"), both subsidiaries within our Chemical Business, sold substantially all of their operating assets 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, UTeC leased the real property to the buyer under a triple net long-term lease agreement. However, Slurry retained the obligation to be responsible for, and perform the activities under, the Slurry Consent Order. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor ("Chevron"), the prior owner of the Hallowell Facility has agreed, within certain limitations, to pay and has been paying one-half of the costs incurred under the Slurry Consent Order subject to reallocation.

As a result of meetings with the KDHE, we recorded a provision of $644,000 for our share of these additional estimated costs for 2005. In addition, during 2006, additional costs were estimated due to requirements by the KDHE to further investigate and delineate the site. As a result, for 2006, we recorded provisions totaling $203,000 for our share of these estimated additional costs. Based on additional modeling of the site, Slurry and Chevron are pursuing a

13. Commitments and Contingencies (continued)

course with the KDHE of long-term surface and ground water monitoring to track the natural decline in contamination, instead of the soil excavation proposed previously. On September 12, 2007, the KDHE approved our proposal to perform two years of surface and groundwater monitoring and to implement a Mitigation Work Plan to acquire additional field data in order to more accurately characterize the nature and extent of contaminant migration off-site. The two-year monitoring program will terminate in February 2009. As a result of receiving approval from the KDHE for our proposal, we recognized a reduction in our share of the estimated costs associated with this remediation by $377,000 in 2007. This reduction is included in the net income from discontinued operations of $348,000 for 2007 (in accordance with SFAS 144).

At December 31, 2007, the total estimated liability (which is included in current and noncurrent accrued and other liabilities) in connection with this remediation matter is approximately $378,000 and Chevron's share for these costs (which is included in accounts receivable and other assets) is approximately $194,000. These amounts are not discounted to their present value. It is reasonably possible that a change in estimate of our liability and receivable will occur in the near term.

B. Other Pending, Threatened or Settled Litigation

1. Climate Control Business

Wetherell v. Climate Master, a proposed class action filed by Donna Wetherell, individually and as a class action representative, Plaintiff, and Climate Master, Inc., Defendant, in the Circuit Court of the First Judicial Circuit, Johnson County, Illinois on September 14, 2007 alleges that certain evaporator coils sold by one of our subsidiaries in the Climate Control Business, Climate Master, Inc. ("Climate Master") in the state of Illinois from 1990 to approximately 2003 were defective. The complaint requests certification as a class action for the State of Illinois, which request has not yet been heard by the court. The plaintiff asserts claims based upon negligence, strict liability, breach of implied warranties, and the Illinois Consumer Fraud and Deceptive Business Practices Act. Climate Master has timely filed its pleadings to remove this action to federal court. Climate Master has also filed its answer denying the plaintiff's claims and asserting several affirmative defenses. Climate Master's insurers have been placed on notice of this matter. Currently the Company is unable to determine the amount of damages or the likelihood of any losses resulting from this claim. In addition, the Company intends to vigorously defend Climate Master in connection with this matter. Therefore, no liability has been established at December 31, 2007.

2. Chemical Business

In 2005, EDC sued the general partners of Dresser Rand Company, Ingersoll-Rand Company and DR Holdings Corp., and an individual employee of Dresser Rand Company, in connection with its faulty repair of a hot gas expander of one of EDC's nitric acid plants. As a result of defects in the repair, on October 8, 2004, the hot gas expander failed, leading to a fire at the

13. Commitments and Contingencies (continued)

nitric acid plant. The lawsuit was styled El Dorado Chemical Company, et al v. Ingersoll-Rand Company (NJ), et al. in the Union County Arkansas Circuit Court. A trial was held in October 2006 resulting in a jury verdict awarding EDC approximately $9.8 million in damages. The Defendants filed a Notice to Appeal and filed a $10.7 million bond. EDC will pay attorneys fees equal to approximately 32% of any recovery. We will recognize the jury award if and when realized.

3. Other

Zeller Pension Plan

In February 2000, the Company's board of directors authorized management to proceed with the sale of the automotive products business, since the automotive products business was no longer a "core business" of the Company. In May 2000, the Company sold substantially all of its assets in its automotive products business. After the authorization by the board, but prior to the sale, the automotive products business purchased the assets and assumed certain liabilities of Zeller Corporation ("Zeller"). The liabilities of Zeller assumed by the automotive products business included Zeller's pension plan, which is not a multi-employer pension plan. In June 2003, the principal owner ("Owner") of the buyer of the automotive products business was contacted by a representative of the Pension Benefit Guaranty Corporation ("PBGC") regarding the plan. The Owner was informed by the PBGC of a possible under-funding of the plan and a possible takeover of the plan by the PBGC. The PBGC previously advised the Company that the PBGC may consider the Company potentially liable for the under-funding of the Zeller Plan in the event that the plan is taken over by the PBGC and alleged that the under-funding is approximately $600,000. Our ERISA counsel has advised us that, based on certain assumptions and representations made by us to them, they believe that the possibility of an unfavorable non-appealable verdict against us in a lawsuit if the PBGC attempts to hold us liable for under-funding of the Zeller Plan is remote.

MEI Drafts

Masinexportimport Foreign Trade Company ("MEI") has given notice to the Company and Summit Machine Tool Manufacturing Corp. ("Summit"), a subsidiary of the Company, alleging that it was owed $1,533,000 in connection with MEI's attempted collection of ten non-negotiable bank drafts payable to the order of MEI. The bank drafts were issued by Aerobit Ltd. ("Aerobit"), a non-U.S. company, which at the time of issuance of the bank drafts, was a subsidiary of the Company. Each of the bank drafts has a face value of $153,300, for an aggregate principal face value of $1,533,000. The bank drafts were issued in September 1992, and had a maturity date of December 31, 2001. Each bank draft was endorsed by LSB Corp., which at the time of endorsement, was a subsidiary of the Company.

On October 22, 1990, a settlement agreement between the Company, Summit, and MEI (the "Settlement Agreement"), was entered into, and in connection with the Settlement Agreement, Summit issued to MEI obligations totaling $1,533,000. On May 16, 1992, the Settlement

13. Commitments and Contingencies (continued)

Agreement was rescinded by the Company, Summit, and MEI at the request of MEI, and replaced with an agreement purportedly substantially similar to the Settlement Agreement between MEI and Aerobit, pursuant to which MEI agreed to replace the original $1,533,000 of Summit's obligations with Aerobit bank drafts totaling $1,533,000, endorsed by LSB Corp. Aerobit previously advised us that MEI has not fulfilled the requirements under the bank drafts for payment thereof. All of the Company's ownership interest in LSB Corp. was sold to an unrelated third party in September 2002. Further, all of the Company's interest in Aerobit was sold to a separate unrelated third party, in a transaction completed on or before November 2002. Accordingly, neither Aerobit, which was the issuer of the bank drafts, nor LSB Corp., which was the endorser of the bank drafts, are currently subsidiaries of the Company.

During 2007, Cromus, alleged to be a Romanian company and an assignee of MEI, filed a lawsuit against us and two of our subsidiaries, Summit Machine Tool Manufacturing Corp. ("Summit") and Hercules Energy Mfg. Corp., Jack Golsen, our CEO, Mike Tepper, an officer of our company, Bank of America Corporation and others in the New York Supreme Court, in the case styled Cromus, as the assignee of MEI vs. Summit, Index No. 114890107 (NY Sup. Ct., NY Co. The complaint seeks $1,533,000 plus interest from 1990, $1,000,000 for failure to purchase certain equipment and $1,000,000 in punitive damages. We intend to contest this matter vigorously. As of December 31, 2007, no liability has been established relating to these alleged damages.

The Jayhawk Group

As discussed in Note 15 - Non-Redeemable Preferred Stock, during July 2007, we mailed to all holders of record of our Series 2 Preferred a notice of redemption of all of the outstanding shares of Series 2 Preferred. The redemption of our Series 2 Preferred was completed on August 27, 2007, the redemption date. The terms of the Series 2 Preferred required that for each share of Series 2 Preferred so redeemed, we would pay, in cash, a redemption price equal to $50.00 plus $26.25 representing dividends in arrears thereon pro-rata to the date of redemption. There were 193,295 shares of Series 2 Preferred outstanding, net of treasury stock, as of the date the notice of redemption was mailed. Pursuant to the terms of the Series 2 Preferred, the holders of the Series 2 Preferred could convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. If a holder of the Series 2 Preferred elected to convert his, her or its shares into our common stock pursuant to its terms, the Certificate of Designations for the Series 2 Preferred provided, and it is our position, that the holder that so converts would not be entitled to receive payment of any dividends in arrears on the shares so converted. The Jayhawk Group, a former affiliate of ours, converted 155,012 shares of Series 2 Preferred into 671,046 shares of common stock. The Jayhawk Group has advised us that it may bring legal action against us for all dividends in arrears (approximately $4 million) on the shares of Series 2 Preferred that it converted after receipt of the notice of redemption. The Company believes the likelihood that the Jayhawk Group may recover the dividends in arrears is not probable. Therefore, no liability has been established at December 31, 2007. See discussion under Note 22 – Subsequent Events.

13. Commitments and Contingencies (continued)

We received a letter dated May 23, 2007 from a law firm representing a stockholder of ours demanding that we investigate potential short-swing profit liability under Section 16(b) of the Exchange Act of the Jayhawk Group. The stockholder alleges that the surrender by the Jayhawk Group of 180,450 shares of our Series 2 Preferred in our issuer exchange tender offer in March 2007 was a sale which was subject to Section 16 and matchable against prior purchases of Series 2 Preferred by the Jayhawk Group. The Jayhawk Group advised us that they do not believe that they are liable for short-swing profits under Section 16(b). The provisions of Section 16(b) provide that if we do not file a lawsuit against the Jayhawk Group in connection with these Section 16(b) allegations within 60 days from the date of the stockholder's notice to us, then the stockholder may pursue a Section 16(b) short-swing profit claim on our behalf. We engaged our outside corporate/securities counsel to investigate this matter. After completion of this investigation, we attempted to settle the matter with the Jayhawk Group but were unable to reach a resolution satisfactory to all parties. On October 9, 2007, the law firm representing the stockholder initiated a lawsuit against the Jayhawk Group pursuing a Section 16(b) short-swing profit claim on our behalf up to approximately $819,000. See Note 22 - Subsequent Events.

Securities and Exchange Commission Inquiry

The SEC made an informal inquiry to the Company by letter dated August 15, 2006. The inquiry relates to the restatement of the Company's consolidated financial statements for the year ended December 31, 2004 and accounting matters relating to the change in inventory accounting from LIFO to FIFO. The Company has responded to the inquiry. At the present time, the informal inquiry is not a pending proceeding nor does it rise to the level of a government investigation. Until further communication and clarification with the SEC, if any, the Company is unable to determine:

- if the inquiry will ever rise to the level of an investigation or proceeding, or
- the materiality to the Company's financial position with respect to enforcement actions, if any, the SEC may have available to it.

Other Claims and Legal Actions

We are also involved in various other claims and legal actions which in the opinion of management, after consultation with legal counsel, if determined adversely to us, would not have a material effect on our business, financial condition or results of operations.

14. Stockholders' Equity

Qualified Stock Option Plans - At December 31, 2007, we have a 1993 Stock Option and Incentive Plan ("1993 Plan") and a 1998 Stock Option Plan ("1998 Plan"). The 1993 Plan has expired, and accordingly, no additional options may be granted from this plan. Options granted prior to the expiration of this plan continue to remain valid thereafter in accordance with their terms. Under the 1998 Plan, we are authorized to grant options to purchase up to 1,000,000

14. Stockholders' Equity (continued)

shares of our common stock to our key employees. Effective December 31, 2005, our board of directors approved the acceleration of the vesting schedule of 61,500 shares of qualified stock options which would have been fully vested on November 17, 2009. Based on FIN 44, since the modification to the vesting schedule did not renew or increase the life of these stock options, a remeasurement of the stock options was not required and no stock-based compensation was recognized in 2005. At December 31, 2007, there are 8,000 options available to be granted. At December 31, 2007, there were 26,500 options outstanding related to the 1993 Plan and 429,904 options outstanding relating to the 1998 Plan all of which were exercisable. The exercise price of options granted under these plans was equal to the market value of our common stock at the date of grant. For participants who own 10% or more of our common stock at the date of grant, the exercise price is 110% of the market value at the date of grant and the options lapse after five years from the date of grant.

The following information relates to our qualified stock option plans:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	525,304	$ 1.97
Granted	-	$ -
Exercised	(68,900)	$ 3.54
Cancelled, forfeited or expired	-	$ -
Outstanding at end of year	456,404	$ 1.73
Exercisable at end of year	456,404	$ 1.73

	2007	2006	2005
Weighted-average fair value of options granted during year	N/A	N/A	$ 3.78
Total intrinsic value of options exercised during the year	$ 1,108,000	$ 1,886,000	$ 333,000
Total fair value of options vested during the year	$ -	$ -	$ 362,000

14. Stockholders' Equity (continued)

The following table summarizes information about qualified stock options outstanding and exercisable at December 31, 2007:

	Stock Options Outstanding and Exercisable			
Exercise Prices	Shares Outstanding and Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Intrinsic Value of Shares Outstanding and Exercisable
$ 1.25	342,304	1.58	$ 1.25	$ 9,232,000
$ 2.73	93,000	3.92	$ 2.73	2,370,000
$ 5.10	21,100	7.92	$ 5.10	488,000
$ 1.25 - $ 5.10	456,404	2.35	$ 1.73	$ 12,090,000

Non-Qualified Stock Option Plans - Our board of directors approved the grants of non-qualified stock options to our outside directors, our Chief Executive Officer, Chief Financial Officer and certain key employees, included in the tables below. The option prices are generally based on the market value of our common stock at the dates of grants. On June 19, 2006, the Compensation and Stock Option Committee of our board of directors granted 450,000 shares of non-qualified stock options (the "Options") to certain Climate Control Business employees which were subject to shareholders' approval. The option price of the Options is $8.01 per share which is based on the market value of our common stock at the date the board of directors granted the shares (June 19, 2006). The Options vest over a ten-year period at a rate of 10% per year and expire on September 16, 2016 with certain restrictions. Under SFAS 123(R), the fair value for the Options was estimated, using an option pricing model, as of the date we received shareholders' approval which occurred during our 2007 annual shareholders' meeting on June 14, 2007. Under SFAS 123(R) for accounting purposes, the grant date and service inception date is June 14, 2007.

The total fair value for the Options was estimated to be $6,924,000, or $15.39 per share, using a Black-Scholes-Merton option pricing model with the following assumptions:

- risk-free interest rate of 5.16% based on an U.S. Treasury zero-coupon issue with a term approximating the estimated expected life as of the grant date;
- a dividend yield of 0 based on historical data;
- volatility factors of the expected market price of our common stock of 24.7% based on historical volatility of our common stock since it has been traded on the American Stock Exchange, and;
- a weighted average expected life of the options of 5.76 years based on the historical exercise behavior of these employees.

14. Stockholders' Equity (continued)

As of June 14, 2007, we began amortizing the total estimated fair value of the Options to SG&A, which will continue through June 18, 2016 (a weighted-average vesting period of 8.46 years). As a result, we incurred stock-based compensation expense of $421,000 for 2007. At December 31, 2007, the total stock-based compensation expense not yet recognized is $6,503,000 relating to the non-vested Options.

Effective December 31, 2005, our board of directors approved the acceleration of the vesting schedule of 30,000 shares of non-qualified stock options which would have been fully vested on April 22, 2008 and 15,000 shares of non-qualified stock options which would have been fully vested on November 7, 2006. Based on FIN 44, since this modification to the vesting schedule did not renew or increase the life of these stock options, a remeasurement of the stock options was not required and no stock-based compensation was recognized in 2005.

We have an Outside Directors Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of our board of directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of options that may be issued under the Outside Director Plan is 400,000 of which 295,000 are available to be granted at December 31, 2007. At December 31, 2007, there are 54,000 options outstanding related to the Outside Director Plan.

14. Stockholders' Equity (continued)

The following information relates to our non-qualified stock option plans:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	980,600	$ 1.98
Granted	450,000	$ 8.01
Exercised	(513,100)	$ 2.52
Surrendered, forfeited, or expired	-	$ -
Outstanding at end of year	917,500	$ 4.64
Exercisable at end of year	512,500	$ 1.97

	2007	2006	2005
Weighted-average fair value of options granted during year	$ 15.39	N/A	N/A
Total intrinsic value of options exercised during the year	$ 10,042,000	$ 147,000	$ 38,000
Total fair value of options vested during the year	$ 692,000	$ -	$ 257,000

The following tables summarize information about non-qualified stock options outstanding and exercisable at December 31, 2007:

	Stock Options Outstanding			
Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Intrinsic Value of Shares Outstanding
$ 1.25 - $ 1.38	399,000	1.58	$ 1.27	$ 10,754,000
$ 2.62 - $ 2.73	32,500	4.22	$ 2.70	829,000
$ 4.19	61,000	0.33	$ 4.19	1,466,000
$ 8.01	425,000	8.75	$ 8.01	8,589,000
$ 1.25 - $ 8.01	917,500	4.91	$ 4.64	$ 21,638,000

14. Stockholders' Equity (continued)

Exercise Prices	Shares Exercisable	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Intrinsic Value of Shares Exercisable
	Stock Options Exercisable			
$ 1.25 - $ 1.38	**399,000**	**1.58**	**$ 1.27**	**$ 10,754,000**
$ 2.62 - $ 2.73	**32,500**	**4.22**	**$ 2.70**	**829,000**
$ 4.19	**61,000**	**0.33**	**$ 4.19**	**1,466,000**
$ 8.01	**20,000**	**8.75**	**$ 8.01**	**404,000**
$ 1.25 - $ 8.01	**512,500**	**1.88**	**$ 1.97**	**$ 13,453,000**

Preferred Share Purchase Rights - In 1999, we adopted a preferred share rights plan (the "Rights Plan"). Under the Rights Plan, we declared a dividend distribution of one Renewed Preferred Share Purchase Right (the "Renewed Preferred Right") for each outstanding share of our common stock outstanding as of February 27, 1999 and all further issuances of our common stock would carry the rights. The Rights Plan has a term of ten years from its effective date. The Renewed Preferred Rights are designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

The Renewed Preferred Rights are generally exercisable when a person or group (other than Jack E. Golsen, our Chairman and Chief Executive Officer ("CEO"), and his affiliates, our company or any of our subsidiaries, our employee savings plans and certain other limited excluded persons or entities, as set forth in the Rights Plan) acquire beneficial ownership of 20% or more of our common stock (such a person or group will be referred to as the "Acquirer"). Each Renewed Preferred Right (excluding Renewed Preferred Rights owned by the Acquirer) entitles stockholders to buy one one-hundredth (1/100) of a share of a new series of participating preferred stock at an exercise price of $20. Following the acquisition by the Acquirer of beneficial ownership of 20% or more of our common stock, and prior to the acquisition of 50% or more of our common stock by the Acquirer, our board of directors may exchange all or a portion of the Renewed Preferred Rights (other than Renewed Preferred Rights owned by the Acquirer) for our common stock at the rate of one share of common stock per Renewed Preferred Right. Following acquisition by the Acquirer of 20% or more of our common stock, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of our common shares having a market value of two times the Renewed Preferred Right's exercise price in lieu of the new preferred stock. Thus, only as an example, if our common shares at such time were trading at $10 per share and the exercise price of the Renewed Preferred Right is $20, each Renewed Preferred Right would thereafter be exercisable at $20 for four of our common shares.

If after the Renewed Preferred Share Rights are triggered, we are acquired, or we sell 50% or more of our assets or earning power, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the

14. Stockholders' Equity (continued)

acquiring company's common shares having a market value at the time of two times the Renewed Preferred Right's exercise price, except if the transaction is consummated with a person or group who acquired our common shares pursuant to a Permitted Offer, the price for all of our common shares paid to all of our common shareholders is not less than the price per share of our common stock pursuant to the Permitted Offer and the form of consideration offered in the transaction is the same as the form of consideration paid pursuant to the Permitted Offer. As defined in the Rights Plan, a "Permitted Offer" is an offer for all of our common shares at a price and on terms that a majority of our Board, who are not officers, or the person or group who could trigger the exerciseability of the Renewed Preferred Rights, deems adequate and in our best interest and that of our shareholders. Thus, only as an example, if our common shares were trading at $10 per share and the exercise price of a Renewed Preferred Right is $20, each Renewed Preferred Right would thereafter be exercisable at $20 for four shares of the Acquirer.

Prior to the acquisition by the Acquirer of beneficial ownership of 20% or more of our stock, our board of directors may redeem the Renewed Preferred Rights for $.01 per Renewed Preferred Right.

Other – In November 2007, the Jayhawk Group exercised a warrant to purchase 112,500 shares of our common stock for $3.49 per share.

In March 2005, the holders exercised certain warrants, under a cashless exercise provision, to purchase 586,140 shares of our common stock.

As of December 31, 2007, we have reserved 4.5 million shares of common stock issuable upon potential conversion of convertible debt, preferred stocks and stock options pursuant to their respective terms.

15. Non-Redeemable Preferred Stock

Series B Preferred -The 20,000 shares of Series B Preferred, $100 par value, are convertible, in whole or in part, into 666,666 shares of our common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitle the holder to one vote per share. The Series B Preferred provides for annual cumulative dividends of 12% from date of issue, payable when and as declared.

Series 2 Preferred -The Series 2 Preferred had no par value and had a liquidation preference of $50.00 per share plus dividends in arrears and was convertible at the option of the holder at any time, unless previously redeemed, into our common stock at an initial conversion price of $11.55 per share (equivalent to a conversion rate of approximately 4.329 shares of common stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. Upon the mailing of notice of certain corporate actions, holders had special conversion rights as discussed below. The Series 2 Preferred was redeemable at our option, in whole or in part, at $50.00 per share, plus dividends in arrears to the redemption date. Dividends on the Series 2 Preferred were cumulative and payable quarterly in arrears.

15. Non-Redeemable Preferred Stock (continued)

Completion of Tender Offer in 2007

On January 26, 2007, our board of directors approved and on February 9, 2007, we began a tender offer to exchange shares of our common stock for up to 309,807 of the 499,102 outstanding shares of the Series 2 Preferred. The tender offer expired on March 12, 2007 and our board of directors accepted the shares tendered on March 13, 2007. The terms of the tender offer provided for the issuance by the Company of 7.4 shares of common stock in exchange for each share of Series 2 Preferred tendered in the tender offer and the waiver of all rights to the dividends in arrears on the Series 2 Preferred tendered. As a result of this tender offer, we issued 2,262,965 shares of our common stock for 305,807 shares of Series 2 Preferred that were tendered. As a result, we effectively settled the dividends in arrears on the Series 2 Preferred tendered totaling approximately $7.3 million ($23.975 per share).

Because the exchanges under the tender offer were pursuant to terms other than the original terms, the transactions were considered extinguishments of the preferred stock. Also the transactions qualified as induced conversions under SFAS 84. Accordingly, we recorded a charge (stock dividend) to accumulated deficit of approximately $12.3 million which equaled the excess of the fair value of the common stock issued over the fair value of the common stock issuable pursuant to the original conversion terms. To measure fair value, we used the closing price of our common stock on March 13, 2007.

Included in the amounts discussed above and pursuant to the Jayhawk Agreement and the terms of the tender offer, the Jayhawk Group and Jack E. Golsen (Chairman of the Board and CEO of the Company), his wife, children (including Barry H. Golsen, our President) and certain entities controlled by them (the “Golsen Group”) tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock. As a result, we effectively settled the dividends in arrears on these shares of Series 2 Preferred tendered totaling approximately $4.96 million with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

No fractional shares were issued so cash was paid in lieu of any additional shares in an amount equal to the fraction of a share times the closing price per share of our common stock on the last business day immediately preceding the expiration date of the tender offer.

Completion of Redemption in 2007

On July 11, 2007, our board of directors approved the redemption of all of our outstanding Series 2 Preferred. We mailed a notice of redemption to all holders of record of our Series 2 Preferred on July 12, 2007. The redemption date was August 27, 2007, and each share of Series 2 Preferred that was redeemed received a redemption price of $50.00 plus $26.25 per share in dividends in arrears pro-rata to the date of redemption.

15. Non-Redeemable Preferred Stock (continued)

The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. If a holder converted its shares of Series 2 Preferred, the holder was not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted. As a result, 167,475 shares of Series 2 Preferred were converted (of which 155,012 shares were converted by the Jayhawk Group) into 724,993 shares of our common stock (of which 671,046 shares were issued to the Jayhawk Group).

As a result of the conversions, only 25,820 shares of Series 2 Preferred were redeemed (of which 23,083 shares were held by the Golsen Group) for a total redemption price of $1,291,000 (of which approximately $1,154,000 was paid to the Golsen Group). In addition, we paid approximately $678,000 in dividends in arrears (of which approximately $606,000 was paid to the Golsen Group). The shares of the Series 2 Preferred were redeemed using a portion of the net proceeds of the 2007 Debentures.

No fractional shares were issued so cash was paid in lieu of any additional shares in an amount equal to the fraction of a share times the closing price per share of our common stock on the day the respective shares were converted.

Exchange Agreements in 2006

During October 2006, we entered into Exchange Agreements with certain holders of our Series 2 Preferred. Pursuant to the terms of the Exchange Agreements, we issued 773,655 shares of our common stock in exchange for 104,548 shares of Series 2 Preferred and the waiver by the holders of their rights to all unpaid dividends. As a result, we effectively settled the dividends in arrears on the Series 2 Preferred exchanged totaling approximately $2.4 million ($23.2625 per share). Because the exchanges were pursuant to terms other the original terms, the transactions were considered extinguishments of the preferred stock. In addition, the transactions qualified as induced conversions under SFAS 84. Accordingly, we recorded a charge (stock dividend) to accumulated deficit of approximately $2.9 million which equaled the excess of the fair value of the common stock issued over the fair value of the common stock issuable pursuant to the original conversion terms. To measure fair value, we used the closing price of our common stock on the day the parties entered into an Exchange Agreement.

Jayhawk Agreement in 2006

During November 2006, the Company entered into an agreement ("Jayhawk Agreement") with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed to tender (discussed above) 180,450 shares of the 346,662 shares of the Series 2 Preferred, if the Company made an exchange or tender offer for the Series 2 Preferred. In addition, as a condition to the Jayhawk Group's obligation to tender such shares of Series 2 Preferred in an exchange/tender offer, the Jayhawk Agreement further provided that the Golsen Group would exchange only 26,467 of the 49,550 shares of Series 2 Preferred beneficially owned by them. As a result, only 309,807 of the 499,102 shares of Series 2 Preferred outstanding would be eligible to participate

15. Non-Redeemable Preferred Stock (continued)

in an exchange/tender offer, with the remaining 189,295 being held by the Jayhawk Group and the Golsen Group.

Other Series 2 Preferred Transactions

During 2007, we cancelled 18,300 shares of Series 2 Preferred previously held as treasury stock. As the result of the cancellation, no shares of Series 2 Preferred were issued and outstanding at December 31, 2007. During 2006, we purchased 1,600 shares of Series 2 Preferred in the open market for $95,000 (average cost of $59.74 per share). These shares were cancelled by the Company. During 2005, we purchased 13,300 shares of Series 2 Preferred in the open market for $597,000 (average cost of $44.90 per share). These shares were being held as treasury stock.

Series D Preferred -The Series D Preferred have no par value and are convertible, in whole or in part, into 250,000 shares of our common stock (1 share of common stock for 4 shares of preferred stock) at any time at the option of the holder. Dividends on the Series D Preferred are cumulative and payable annually in arrears at the rate of 6% per annum of the liquidation preference of $1.00 per share but would be paid only after dividends in arrears were paid on the Series 2 Preferred. Each holder of the Series D Preferred shall be entitled to .875 votes per share.

Cash Dividends Paid – In addition to the settlement of the dividends in arrears relating to the tender offer in 2007 and the exchange agreements in 2006 as discussed above, during 2007, we paid the following cash dividends on our non-redeemable preferred stock:

- $1,890,000 on the Series B Preferred ($94.52 per share);
- $678,000 on the Series 2 Preferred ($26.25 per share); and
- $360,000 on the Series D Preferred ($0.36 per share).

During 2006, we paid the following cash dividends on our non-redeemable preferred stock:

- $30,000 on the Series B Preferred ($1.48 per share); and
- $231,000 on the Series 2 Preferred ($0.40 per share).

At December 31, 2007, there were no dividends in arrears.

Other - At December 31, 2007, we are authorized to issue an additional 229,415 shares of $100 par value preferred stock and an additional 4,000,000 shares of no par value preferred stock. Upon issuance, our board of directors will determine the specific terms and conditions of such preferred stock.

16. Executive Benefit Agreements and Employee Savings Plans

In 1981, we entered into individual death benefit agreements with certain key executives (“1981 Agreements”). Under the 1981 Agreements, should the executive die while employed, we are

16. Executive Benefit Agreements and Employee Savings Plans (continued)

required to pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. At December 31, 2007, the monthly installments specified in the 1981 Agreements total $34,000 and the aggregate undiscounted death benefits are $4.1 million. The benefits under the 1981 Agreements are forfeited if the respective executive's employment is terminated for any reason prior to death. The 1981 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

In 1992, we entered into individual benefit agreements with certain key executives ("1992 Agreements") that provide for annual benefit payments for life (in addition to salary) ranging from $16,000 to $18,000 payable in monthly installments when the employee reaches age 65. As of December 31, 2007 and 2006, the liability for benefits under the 1992 Agreements is $1,040,000 and $979,000, respectively, which is included in current and noncurrent accrued and other liabilities in the accompanying consolidated balance sheets. The liability reflects the present value of the remaining estimated payments at discount rates of 5.70% and 6.01% as of December 31, 2007 and 2006, respectively. Future estimated undiscounted payments aggregate to $2.1 million as of December 31, 2007. For 2007, 2006 and 2005, charges to SG&A for these benefits were $106,000, $75,000 and $110,000, respectively. As part of the 1992 Agreements, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. This amount is in addition to any amount payable under the 1981 Agreement should that executive have both a 1981 and 1992 agreement. At December 31, 2007, the aggregate undiscounted death benefit payments specified in the 1992 Agreements are $456,000. The benefits under the 1992 Agreements are forfeited if the respective executive's employment is terminated prior to age 65 for any reason other than death. The 1992 Agreements may be terminated by the Company at any time and for any reason prior to the death of the employee.

In 2005, we entered into a death benefit agreement ("2005 Agreement") with our CEO. The Death Benefit Agreement provides that, upon our CEO's death, we will pay to our CEO's designated beneficiary, a lump-sum payment of $2.5 million to be funded from the net proceeds received by us under certain life insurance policies on our CEO's life that are owned by us. We are obligated to keep in existence life insurance policies with a total face amount of no less than $2.5 million of the stated death benefit. As of December 31, 2007, the life insurance policies owned by us on the life of our CEO have a total face amount of $7 million. The benefit under the 2005 Agreement is not contingent upon continued employment and may be amended at any time by written agreement executed by the CEO and the Company.

As of December 31, 2007, the liability for death benefits under the 1981, 1992 and 2005 Agreements is $2,051,000 ($1,446,000 at December 31, 2006) which is included in current and noncurrent accrued and other liabilities. We accrue for such liabilities when they become probable and discount the liabilities to their present value.

16. Executive Benefit Agreements and Employee Savings Plans (continued)

To assist us in funding the benefit agreements discussed above and for other business reasons, we purchased life insurance contracts on various individuals in which we are the beneficiary. As of December 31, 2007, the total face amount of these policies is $21 million of which $2.5 million of the proceeds is required to be paid under the 2005 Agreement as discussed above. Some of these life insurance policies have cash surrender values that we have borrowed against. The cash surrender values are included in other assets in the amounts of $1,151,000 and $917,000, net of borrowings of $1,859,000 and $2,084,000 at December 31, 2007 and 2006, respectively. Increases in cash surrender values of $548,000, $432,000 and $574,000 are netted against the premiums paid for life insurance policies of $836,000, $837,000 and $1,037,000 in 2007, 2006 and 2005 respectively, and are included in SG&A.

We sponsor a savings plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. We do not presently contribute to this plan except for EDC and CNC's union employees and EDNC employees which amounts were not material for each of the three years ended December 31, 2007.

17. Fair Value of Financial Instruments

The following discussion of fair values is not indicative of the overall fair value of our assets and liabilities since the provisions of SFAS 107 do not apply to all assets, including intangibles.

As of December 31, 2007 and 2006, due to their short-term nature, the carrying values of financial instruments classified as cash, restricted cash, accounts receivable, accounts payable, short-term financing and drafts payable, and accrued and other liabilities approximated their estimated fair values. Carrying values for our interest rate cap contracts and exchange-traded futures contracts approximate their fair value since they are accounted for on a mark-to-market basis. Carrying values for variable rate borrowings are believed to approximate their fair value. Fair values for fixed rate borrowings, other than the 2007 and 2006 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. The estimated fair value of the 2007 and 2006 Debentures are based on the conversion rate and market price of our common stock at December 31, 2007 and 2006, respectively.

17. Fair Value of Financial Instruments (continued)

	December 31, 2007		December 31, 2006	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Rate:				
Secured Term Loan	**$ 50,000**	**$ 50,000**	$ -	$ -
Working Capital Revolver Loan	**-**	**-**	26,048	26,048
Senior Secured Loan (1)	**-**	**-**	53,774	50,000
Other bank debt and equipment financing	**155**	**155**	2,517	2,517
Fixed Rate:				
5.5% Convertible Senior Subordinated Notes	**61,632**	**60,000**	-	-
Other bank debt and equipment financing	**12,298**	**11,952**	14,853	15,127
7% Convertible Senior Subordinated Notes	**-**	**-**	6,543	4,000
	$ 124,085	**$ 122,107**	$ 103,735	$ 97,692

(1) The Senior Secured Loan had a variable interest rate not to exceed 11% or 11.5% depending on ThermaClime's leverage ratio.

18. Property and Business Interruption Insurance Recoveries

El Dorado Facility - Beginning in October 2004 and continuing into June 2005, the Chemical Business' results were adversely affected as a result of the loss of production due to a mechanical failure which led to a fire at one of the four nitric acid plants at the El Dorado Facility. The plant was restored to normal production in June 2005. We filed insurance claims for recovery of business interruption and property losses related to this incident. For 2006 and 2005, we realized insurance recoveries of $882,000 and $1,929,000, respectively, relating to the business interruption claim which is recorded as a reduction to cost of sales. For 2005, we recognized insurance recoveries totaling $1,618,000, of which most were under our replacement cost insurance policy relating to this property damage claim which are recorded as other income.

Cherokee Facility - As a result of damage caused by Hurricane Katrina, the natural gas pipeline servicing the chemical production facility located in Cherokee, Alabama (the "Cherokee Facility") suffered damage and the owner of the pipeline declared an event of Force Majeure. This event of Force Majeure caused curtailments and interruption in the delivery of natural gas to the Cherokee Facility. CNC's insurer was promptly put on notice of a claim and during 2006, CNC filed a business interruption claim relating to this incident. In 2007, we realized insurance recoveries of $3,750,000 relating to this business interruption claim which are recorded as a reduction to cost of sales.

19. Other Expense, Other Income and Non-Operating Other Income, net

	2007	Year ended December 31, 2006 (In Thousands)	2005
Other expense:			
Losses on sales and disposals of property and equipment	**$ 378**	$ -	$ -
Impairments of long-lived assets (1)	**250**	286	237
Settlement of litigation and potential litigation (2)	**350**	300	-
Other miscellaneous expense (3)	**208**	136	95
Total other expense	**$ 1,186**	$ 722	$ 332
Other income:			
Settlement of litigation (4)	**$ 3,272**	$ -	$ -
Rental income	**17**	25	142
Property insurance recoveries in excess of losses incurred	**-**	-	1,618
Arbitration award	-	1,217	-
Gains on the sales of property and equipment, net	**-**	12	714
Other miscellaneous income (3)	**206**	305	208
Total other income	**$ 3,495**	$ 1,559	$ 2,682

	2007	Year ended December 31, 2006 (In Thousands)	2005
Non-operating other income, net:			
Interest income	**$ 1,291**	$ 523	$ 174
Gains on sale of certain current assets, primarily precious metals	**12**	-	237
Net proceeds from certain key individual life insurance policies (5)	**-**	-	1,162
Miscellaneous income (3)	**61**	199	137
Miscellaneous expense (3)	**(100)**	(98)	(149)
Total non-operating other income, net	**$ 1,264**	$ 624	$ 1,561

(1) Based on estimates of the fair values obtained from external sources and estimates made internally based on inquiry and other techniques, we recognized the following impairments:

19. Other Expense, Other Income and Non-Operating Other Income, net (continued)

	Year ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Chemical Business assets	**$ 250**	$ **286**	$ 117
Corporate assets	-	-	120
	$ 250	$ **286**	$ 237

(2) During 2007, a settlement was reached relating to alleged damages claimed by a customer of our Climate Control Business. During 2006, a settlement was reached relating to an asserted financing fee.

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

(4) During 2007, our Chemical Business reached a settlement with Dynegy, Inc. and one of its subsidiaries, relating to a previously reported lawsuit. This settlement reflects the net proceeds of $2,692,000 received by the Cherokee Facility and the retention by the Cherokee Facility of a disputed $580,000 accounts payable.

(5) Amount relates to the recognition in net proceeds from life insurance policies due to the unexpected death of one of our executives in January 2005.

20. Segment Information

Factors Used by Management to Identify the Enterprise's Reportable Segments and Measurement of Segment Income or Loss and Segment Assets

We have two reportable segments: the Climate Control Business and the Chemical Business. Our reportable segments are based on business units that offer similar products and services. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

We evaluate performance and allocate resources based on operating income or loss. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Description of Each Reportable Segment

Climate Control – The Climate Control Business segment manufactures and sells the following variety of heating, ventilation, and air conditioning ("HVAC") products:

- geothermal and water source heat pumps,
- hydronic fan coils, and
- other HVAC products including large custom air handlers, modular chiller systems and other products and services.

These HVAC products are primarily for use in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems. Our various facilities located in Oklahoma City comprise substantially all of the Climate Control segment's operations. Sales to customers of this segment primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world.

Chemical –The Chemical Business segment manufactures and sells:

- anhydrous ammonia, ammonium nitrate, urea ammonium nitrate, and ammonium nitrate ammonia solution for agricultural applications,
- concentrated, blended and regular nitric acid, mixed nitrating acids, metallurgical and commercial grade anhydrous ammonia, sulfuric acid, and high purity ammonium nitrate for industrial applications, and
- industrial grade ammonium nitrate and solutions for the mining industry.

Our primary manufacturing facilities are located in El Dorado, Arkansas, Baytown, Texas and Cherokee, Alabama. Sales to customers of this segment primarily include industrial users of acids throughout the United States and parts of Canada; farmers, ranchers, fertilizer dealers and distributors located in the Central and Southeastern United States; and explosive manufacturers in the United States.

20. Segment Information (continued)

The Chemical Business is subject to various federal, state and local environmental regulations. Although we have designed policies and procedures to help reduce or minimize the likelihood of significant chemical accidents and/or environmental contamination, there can be no assurances that we will not sustain a significant future operating loss related thereto.

As of December 31, 2007, our Chemical Business employed 360 persons, with 138 represented by unions under currently unexecuted negotiated agreements, which the parties expect to execute in the near future. Assuming the union agreements are executed in their current form, the agreements will expire in July through November of 2010.

Other - The business operation classified as “Other” sells industrial machinery and related components to machine tool dealers and end users located primarily in North America.

20. Segment Information (continued)

Segment Financial Information

Information about our continuing operations in different industry segments for each of the three years in the period ended December 31, is detailed below:

	2007	2006	2005
		(In Thousands)	
Net sales:			
Climate Control:			
Geothermal and water source heat pumps	**$ 165,115**	$ 134,210	$ 85,268
Hydronic fan coils	**85,815**	59,497	53,564
Other HVAC products	**35,435**	27,454	18,027
Total Climate Control	**286,365**	221,161	156,859
Chemical:			
Agricultural products	**117,158**	89,735	80,638
Industrial acids and other chemical products	**95,754**	95,208	80,228
Mining products	**75,928**	75,708	72,581
Total Chemical	**288,840**	260,651	233,447
Other	**11,202**	10,140	6,809
	$ 586,407	$ 491,952	$ 397,115
Gross profit:			
Climate Control	**$ 83,638**	$ 65,496	$ 48,122
Chemical	**44,946**	22,023	16,314
Other	**4,009**	3,343	2,330
	$ 132,593	$ 90,862	$ 66,766
Operating income (loss):			
Climate Control	**$ 34,194**	$ 25,428	$ 14,097
Chemical	**35,011**	9,785	7,591
General corporate expenses and other business operations, net (1)	**(10,194)**	(8,074)	(6,835)
	59,011	27,139	14,853
Interest expense	**(12,078)**	(11,915)	(11,407)
Non-operating income, net:			
Climate Control	**2**	1	-
Chemical	**109**	311	362
Corporate and other business operations	**1,153**	312	1,199
Provisions for income taxes	**(2,540)**	(901)	(118)
Equity in earnings of affiliate - Climate Control	**877**	821	745
Income from continuing operations	**$ 46,534**	$ 15,768	$ 5,634

20. Segment Information (continued)

(1) General corporate expenses and other business operations, net consist of the following:

	2007	2006	2005
		(In Thousands)	
Gross profit-Other	**$ 4,009**	$ 3,343	$ 2,330
Selling, general and administrative:			
Personnel costs	**(6,879)**	(5,862)	(5,258)
Professional fees	**(4,299)**	(3,004)	(2,398)
Office overhead	**(646)**	(598)	(598)
Advertising	**(244)**	(188)	(118)
Shareholders relations	**(154)**	(58)	(34)
Property, franchise and other taxes	**(314)**	(198)	(250)
All other	**(1,626)**	(1,221)	(1,272)
Total selling, general and administrative	**(14,162)**	(11,129)	(9,928)
Other income	**53**	28	883
Other expense	**(94)**	(316)	(120)
Total general corporate expenses and other business operations, net	**$ (10,194)**	$ (8,074)	$ (6,835)

Information about our property, plant and equipment and total assets by industry segment is detailed below:

	2007	2006	2005
		(In Thousands)	
Depreciation of property, plant and equipment:			
Climate Control	**$ 3,195**	$ 2,591	$ 2,223
Chemical	**8,929**	8,633	8,503
Corporate assets and other	**147**	157	149
Total depreciation of property, plant and equipment	**$ 12,271**	$ 11,381	$ 10,875
Additions to property, plant and equipment:			
Climate Control	**$ 6,778**	$ 7,600	$ 4,322
Chemical	**9,151**	6,482	11,617
Corporate assets and other	**294**	37	232
Total additions to property, plant and equipment	**$ 16,223**	$ 14,119	$ 16,171
Total assets at December 31:			
Climate Control	**$ 102,737**	$ 97,166	$ 60,970
Chemical	**121,864**	109,122	111,212
Corporate assets and other (A)	**82,953**	13,639	16,781
Total assets	**$ 307,554**	$ 219,927	$ 188,963

(A) At December 31, 2007, the amount includes cash and cash equivalents of $55.9 million, deferred income taxes of $10.0 million and debt issuance and other debt-related costs, net of $4.6 million.

20. Segment Information (continued)

Net sales by industry segment include net sales to unaffiliated customers as reported in the consolidated financial statements. Net sales classified as “Other” consist of sales of industrial machinery and related components. Intersegment net sales are not significant.

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

Our chief operating decision makers use operating income (loss) by industry segment for purposes of making decisions which include resource allocations and performance evaluations. Operating income (loss) by industry segment represents gross profit by industry segment less SG&A incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense.

Identifiable assets by industry segment are those assets used in the operations of each industry. Corporate assets and other are those principally owned by the parent company or by subsidiaries not involved in the two identified industries.

All net sales and long-lived assets relate to domestic operations for the periods presented.

Net sales to unaffiliated customers include foreign export sales as follows:

Geographic Area	2007	2006	2005
		(In Thousands)	
Canada	**$ 14,206**	$ 14,869	$ 12,077
Mexico, Central and South America	**2,053**	3,240	581
Europe	**3,069**	1,732	1,148
South and East Asia	**2,218**	1,271	1,502
Caribbean	**1,119**	968	282
Middle East	**9,523**	688	2,647
Other	**129**	390	365
	$ 32,317	$ 23,158	$ 18,602

Major Customer

Net sales to one customer, Orica USA, Inc., of our Chemical Business segment represented approximately 9%, 10% and 11% of our total net sales for 2007, 2006 and 2005, respectively. Under the terms of the Supply Agreement, EDC will supply from the El Dorado Facility industrial grade ammonium nitrate through 2010.

21. Related Party Transactions

Jayhawk

Jayhawk Capital Management, L.L.C., and certain of its affiliates (collectively, the "Jayhawk Group"), a former significant shareholder and affiliate, were participants to various investment transactions in certain issues of the Company's debt and equity securities during the past several years, which both increased and decreased their ownership interest in the Company. During August 2007, the two directors appointed by the holders of our Series 2 Preferred were no longer eligible to serve on our board and as of December 31, 2007, the Jayhawk Group had decreased its ownership in our debt and equity securities to the level whereby they are no longer considered a related party. However, the Jayhawk Group was a participant in the following transactions related to our debt and equity securities during the period it was considered a related party:

During 2006, approximately $1,037,000 of the net proceeds from the 2006 Debentures were used to purchase from a member of the Jayhawk Group $1,000,000 principal amount of our subsidiary's 10.75% Senior Unsecured Notes, plus accrued and unpaid interest due thereon.

During 2006, a member of the Jayhawk Group purchased $1,000,000 principal amount of the 2006 Debentures. In April 2007, the Jayhawk Group converted all of such 2006 Debentures into 141,040 shares of our common stock, at the conversion rate of 141.04 shares per $1,000 principal amount of 2006 Debentures (representing a conversion price of $7.09 per share pursuant to the Indenture covering the 2006 Debentures). During 2007, we paid the Jayhawk Group $70,000 of which $46,000 relates to interest earned on the 2006 Debentures and $24,000 relates to additional consideration paid to convert the 2006 Debentures. In 2006, we paid the Jayhawk Group $35,000 for interest earned on the 2006 Debentures.

On March 25, 2003, the Jayhawk Group purchased from us in a private placement pursuant to Rule 506 of Regulation D under the Securities Act, 450,000 shares of common stock and a warrant for the purchase of up to 112,500 shares of common stock at an exercise price of $3.49 per share. In connection with such sale, we entered into a Registration Rights Agreement with the Jayhawk Group, dated March 23, 2003. During 2007, the Jayhawk Group exercised the warrant and purchased 112,500 shares of our common stock at the exercise price of $3.49 per share.

During November 2006, we entered into an agreement (the "Jayhawk Agreement") with the Jayhawk Group. Under the Jayhawk Agreement, the Jayhawk Group agreed, that if we made an exchange or tender offer for the Series 2 Preferred, to tender 180,450 shares of the 346,662 shares of Series 2 Preferred owned by the Jayhawk Group upon certain conditions being met. The Jayhawk Agreement further provided that the Golsen Group would exchange or tender 26,467 shares of Series 2 Preferred beneficially owned by them, as a condition to the Jayhawk Group's tender of 180,450 of its shares of Series 2 Preferred. Pursuant to the Jayhawk Agreement and the terms of our exchange tender offer, during March 2007, the Jayhawk Group and members of the Golsen Group tendered 180,450 and 26,467 shares, respectively, of Series 2 Preferred for 1,335,330 and 195,855 shares, respectively, of our common stock in our tender

21. Related Party Transactions (continued)

offer. As a result, we effectively settled the dividends in arrears totaling approximately $4.96 million, with $4.33 million relating to the Jayhawk Group and $0.63 million relating to the Golsen Group.

We received a letter, dated May 23, 2007, from a law firm representing a stockholder of ours demanding that we investigate potential short-swing profit liability under Section 16(b) of the Exchange Act of the Jayhawk Group. The stockholder alleges that the surrender by the Jayhawk Group of 180,450 shares of our Series 2 Preferred in our issuer exchange tender offer in March 2007 was a sale which was subject to Section 16 and matchable against prior purchases of Series 2 Preferred by the Jayhawk Group. The Jayhawk Group advised us that they do not believe that they are liable for short-swing profits under Section 16(b). The provisions of Section 16(b) provide that if we do not file a lawsuit against the Jayhawk Group in connection with these Section 16(b) allegations within 60 days from the date of the stockholder's notice to us, then the stockholder may pursue a Section 16(b) short-swing profit claim on our behalf. After completion of the investigation of this matter by our outside corporate/securities counsel, we attempted to settle this matter with the Jayhawk Group, but were unable to reach a resolution satisfactory to all parties. On October 9, 2007, the law firm representing the stockholder initiated a lawsuit against the Jayhawk Group pursing a Section 16(b) short-swing profit claim on our behalf up to $819,000. See Note 22 - Subsequent Events.

The redemption of all of our outstanding Series 2 Preferred was completed on August 27, 2007. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. The Certificate of Designations for the Series 2 Preferred provided, and it is our position, that the holders of Series 2 Preferred that elected to convert shares of Series 2 Preferred into our common stock prior to the scheduled redemption date were not entitled to receive payment of any dividends in arrears on the shares so converted. As a result, holders that elected to convert shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted. On or about August 16, 2007, the Jayhawk Group elected to convert the 155,012 shares of Series 2 Preferred held by it, and we issued to the Jayhawk Group 671,046 shares of our common stock as a result of such conversion.

The Company has been advised by the Jayhawk Group, in connection with the Jayhawk Group's conversion of its holdings of Series 2 Preferred, the Jayhawk Group may bring legal proceedings against us for all dividends in arrears on the Series 2 Preferred that the Jayhawk Group converted after receiving a notice of redemption. The 155,012 shares of Series 2 Preferred converted by the Jayhawk Group after we issued the notice of redemption for the Series 2 Preferred would have been entitled to receive approximately $4.0 million of dividends in arrears on the August 27, 2007 redemption date, if such shares were outstanding on the redemption date and had not been converted and into common stock.

As a holder of Series 2 Preferred, the Jayhawk Group participated in the nomination and election of two individuals to serve on our board of directors in accordance with the terms of the Series 2

21. Related Party Transactions (continued)

Preferred. As the result of the exchanges, conversions and redemption of the Series 2 Preferred during 2007, resulting in less than 140,000 shares of Series 2 Preferred being outstanding, the right of the holders of Series 2 Preferred to nominate and elect two individuals to serve on our board of directors terminated pursuant to the terms of the Series 2 Preferred. Therefore, the two independent directors elected by the holders of our Series 2 Preferred no longer serve as directors on our board of directors and the Jayhawk Group is no longer considered an affiliate of ours.

Golsen Group

In connection with the completion of our March 2007 tender offer for our outstanding shares of our Series 2 Preferred, members of the Golsen Group tendered 26,467 shares of Series 2 Preferred in exchange for our issuance to them of 195,855 shares of our common stock. As a result, we effectively settled approximately $0.63 million in dividends in arrears on the shares of Series 2 Preferred tendered. The tender by the Golsen Group was a condition to Jayhawk's Agreement to tender shares of Series 2 Preferred in the tender offer. See discussion above under "Jayhawk."

After our exchange tender offer of our Series 2 Preferred, the Golsen Group held 23,083 shares of Series 2 Preferred. Pursuant to our redemption of the remaining outstanding Series 2 Preferred during August 2007, the Golsen Group redeemed 23,083 shares of Series 2 Preferred and received the cash redemption amount of approximately $1.76 million pursuant to the terms of our redemption of all of our outstanding Series 2 Preferred. The redemption price was $50.00 per share of Series 2 Preferred, plus $26.25 per share in dividends in arrears pro-rata to the date of redemption. The holders of shares of Series 2 Preferred had the right to convert each share into 4.329 shares of our common stock, which right to convert terminated 10 days prior to the redemption date. Holders that converted shares of Series 2 Preferred were not entitled to any dividends in arrears as to the shares of Series 2 Preferred converted.

Cash Dividends

During 2006, we paid nominal cash dividends to holders of certain series of our preferred stock. These dividend payments included $91,000 and $133,000 to the Golsen Group and the Jayhawk Group, respectively.

As discussed above, during 2007, we paid cash dividends to the Golsen Group of approximately $606,000 related to 23,083 shares of Series 2 Preferred redeemed.

In September 2007, we paid the dividends in arrears on our outstanding preferred stock utilizing a portion of the net proceeds of the sale of the 2007 Debentures and working capital, including approximately $2,250,000 of dividends in arrears on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

21. Related Party Transactions (continued)

Quail Creek Bank

Bernard Ille, a member of our board of directors, is a director of Quail Creek Bank, N.A. (the "Bank"). The Bank was a lender to one of our subsidiaries. During 2007, 2006 and 2005, the subsidiary made interest and principal payments on outstanding debt owed to the Bank in the respective amount of $.1 million and $3.3 million in 2007, $.3 million and $1.6 million in 2006, and $.3 million and $1.0 million in 2005. At December 31, 2006, the subsidiary's loan payable to the Bank was approximately $3.3 million, (none at December 31, 2007) with an annual interest rate of 8.25%. The loan was secured by certain of the subsidiary's property, plant and equipment. This loan was paid in full in June 2007 utilizing a portion of the net proceeds of our sale of the 2007 Debentures.

22. Subsequent Events (Unaudited)

During the first quarter of 2008, the University of Kansas Endowment Charitable Gift Fund ("KU") filed a lawsuit against us in the U.S. District Court, for the District of Kansas at Kansas City, styled The KU Endownment Charitable Gift Fund vs. LSB Industries, Inc., Case No. 08-CV-2066. KU alleges that we improperly refused to accept 11,200 shares of Series 2 Preferred, which KU received as a gift from the controlling party of the Jayhawk Group, in our issuer exchange tender offer. Under the issuer exchange tender offer, we offered to exchange each outstanding share of Series 2 Preferred for 7.4 shares of our common stock and a waiver of all dividends in arrears, except for certain shares of Series 2 Preferred owned by the Jayhawk Group (including its controlling party, Kent McCarthy) and the Golsen Group pursuant to an agreement entered into between us and the Jayhawk Group. The gift to KU by the controlling party of the Jayhawk Group was made after the announcement of the issuer exchange tender offer, and it is our position, among other things, that the tender of the shares given as a gift was made contrary to the agreement between us and the Jayhawk Group and contrary to the terms of our issuer exchange tender offer. KU alleges, among other things, that it suffered losses because it was required to convert the 11,200 shares of Series 2 Preferred pursuant to the conversion terms of the Series 2 Preferred, which was 4.3 shares of our common stock for each share of Series 2 Preferred, and that the conversion was less favorable than the terms of issuer exchange tender offer. KU alleges that the refusal to accept the 11,200 shares of Series 2 Preferred was in violation of §14(d) of the Securities Exchange Act of 1934 ("34 Act"), a violation of §10b and Rule 10b-5 and §18 of the 34 Act, the Kansas Uniform Securities Act and common law fraud. We intend to vigorously defend this matter. As of December 31, 2007, no liability has been established relating to this claim. We have placed the carrier under our Executive Organizational Liability Insurance Policy Including Securities Liability on notice of this claim and litigation. Our policy is subject to a $250,000 self insured retention for securities actions.

As discussed in Note 13 - Commitments and Contingencies, in October 2007, a law firm representing a stockholder initiated a lawsuit against the Jayhawk Group pursuing a Section 16(b) short-swing profit claim on our behalf up to approximately $819,000. During the first quarter of 2008, the parties have agreed to settle this claim by a payment to us by the Jayhawk Group of $180,000, of which we will receive approximately $125,000 after attorneys' fees. This settlement is subject to a definitive settlement agreement.

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)

	Three months ended			
	March 31	**June 30**	**September 30**	**December 31**
2007				
Net sales	$ 147,385	$ 156,756	$ 147,613	$ 134,653
Gross profit (1)	$ 32,052	$ 34,657	$ 35,172	$ 30,712
Income from continuing operations (1) (2)	$ 10,847	$ 13,221	$ 17,919	$ 4,547
Net income (loss) from discontinued operations	(29)	-	377	-
Net income	$ 10,818	$ 13,221	$ 18,296	$ 4,547
Net income applicable to common stock	$ 5,631	$ 13,003	$ 18,093	$ 4,547
Income per common share:				
Basic:				
Income from continuing operations	$ .32	$ .66	$ .87	$ .22
Income (loss) from discontinued operations, net	-	-	.02	-
Net income	$ .32	$ .66	$ .89	$ .22
Diluted:				
Income from continuing operations	$ .28	$ .58	$ .75	$ .20
Income (loss) from discontinued operations, net	-	-	.02	-
Net income	$ .28	$ .58	$ .77	$ .20
2006				
Net sales	$ 111,857	$ 132,391	$ 123,968	$ 123,736
Gross profit (1)	$ 20,179	$ 24,795	$ 24,063	$ 21,825
Income from continuing operations (1) (2)	$ 3,078	$ 6,290	$ 3,650	$ 2,750
Net loss from discontinued operations	(100)	(31)	(113)	(9)
Net income	$ 2,978	$ 6,259	$ 3,537	$ 2,741
Net income applicable to common stock	$ 2,426	$ 5,707	$ 2,986	$ 1,766
Income per common share:				
Basic:				
Income from continuing operations	$ .19	$ .41	$ .22	$ .11
Loss from discontinued operations, net	(.01)	-	(.01)	-
Net income	$ .18	$ .41	$ .21	$ .11
Diluted:				
Income from continuing operations	$ .15	$ .32	$ .19	$ .10
Loss from discontinued operations, net	(.01)	-	(.01)	-
Net income	$ .14	$ .32	$ .18	$ .10

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

(1) The following items increased (decreased) gross profit and income from continuing operations:

	Three months ended March 31	June 30	September 30	December 31
	(In Thousands)			
Business interruption insurance recoveries:				
2007	$ -	$ -	$ 1,500	$ 2,250
2006	$ 554	$ 41	$ 287	$ -
Turnaround costs:				
2007	$ (163)	$ (182)	$ (534)	$ (2,483)
2006	$ (159)	$ (1,356)	$ (262)	$ (2,211)
Precious metals, net of recoveries and gains:				
2007	$ (898)	$ (494)	$ (278)	$ (888)
2006	$ (430)	$ (1,114)	$ (103)	$ (1,094)
Changes in inventory reserves:				
2007	$ 317	$ 28	$ 15	$ 24
2006	$ 836	$ (297)	$ 366	$ (194)

(2) The following items increased (decreased) income from continuing operations:

	Three months ended March 31	June 30	September 30	December 31
	(In Thousands)			
Award received related to Trison arbitration:				
2006	$ -	$ -	$ -	$ 1,217
Settlements of litigation and potential litigation:				
2007	$ -	$ -	$ 3,272	$ (350)
2006	$ -	$ (300)	$ -	$ -
Interest expense:				
2007	$ (2,588)	$ (1,992)	$ (3,482)	$ (4,016)
2006	$ (2,875)	$ (2,886)	$ (3,196)	$ (2,958)
Benefit (provision) for income taxes:				
2007	$ (344)	$ (188)	$ 1,549	$ (3,557)
2006	$ (50)	$ (150)	$ (208)	$ (493)

Note: Effective January 1, 2007, we adopted FIN 48. The effect of this change in accounting principles decreased income from continuing operations and net income by $511,000 for the three months ended December 31, 2007. In addition, this change in accounting principles decreased basis and diluted net income per share by $0.03 and $0.02, respectively, for 2007.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Balance Sheets

The following condensed financial statements in this Schedule I are of the parent company only, LSB Industries, Inc.

	December 31, 2007	December 31, 2006
	(In Thousands)	
Assets		
Current assets:		
Cash	$ 35,051	$ 881
Accounts receivable, net	149	43
Supplies, prepaid items and other	101	2,734
Investment in senior unsecured notes of a subsidiary	-	6,950
Due from subsidiaries	6,971	5,413
Notes receivable from a subsidiary	29,886	-
Total current assets	72,158	16,021
Property, plant and equipment, net	156	192
Note receivable from a subsidiary	6,400	6,400
Investments in and due from subsidiaries	92,007	42,004
Other assets, net	3,572	800
	$ 174,293	$ 65,417
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 401	$ 142
Accrued and other liabilities	2,582	1,050
Redeemable, noncumulative, convertible preferred stock	56	65
Current portion of long-term debt	13	44
Total current liabilities	3,052	1,301
Long-term debt	60,002	4,038
Due to subsidiaries	2,558	2,558
Noncurrent accrued and other liabilities	3,146	2,344
Stockholders' equity:		
Preferred stock	3,000	28,870
Common stock	2,447	2,022
Capital in excess of par value	123,336	79,838
Accumulated deficit	(16,437)	(47,962)
	112,346	62,768
Less treasury stock	6,811	7,592
Total stockholders' equity	105,535	55,176
	$ 174,293	$ 65,417

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Income

	Year ended December 31, 2007	2006	2005
		(In Thousands)	
Fees under service, tax sharing and management agreements with subsidiaries	$ 2,801	$ 2,801	$ 1,001
Selling, general and administrative expense	5,361	4,367	4,161
Gain on sale of precious metals	(4,259)	-	-
Other income, net	(402)	(308)	(708)
Operating income (loss)	2,101	(1,258)	(2,452)
Interest expense	5,142	4,452	2,553
Net proceeds from certain key individual life insurance policies	-	-	(1,162)
Interest and other non-operating income, net	(3,309)	(1,355)	(373)
Income (loss) from continuing operations	268	(4,355)	(3,470)
Equity in earnings of subsidiaries	46,266	20,123	9,104
Net income (loss) from discontinued operations	348	(253)	(644)
Net income	$ 46,882	$ 15,515	$ 4,990

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Cash Flows

	Year ended December 31, 2007	2006	2005
		(In Thousands)	
Net cash flows provided (used) by operating activities	$ 5,953	$ (985)	$ (2,484)
Cash flows from investing activities:			
Capital expenditures	(71)	(30)	(9)
Proceeds from sales of property and equipment	2	-	-
Payment (purchase) of senior unsecured notes of a subsidiary	6,950	(6,950)	-
Notes receivable from a subsidiary	(29,886)	(6,400)	-
Other assets	(147)	(209)	40
Net cash provided (used) by investing activities	(23,152)	(13,589)	31
Cash flows from financing activities:			
Proceeds from 5.5% convertible debentures, net of fees	56,985	-	-
Proceeds from 7% convertible debentures, net of fees	-	16,876	-
Payments on other long-term debt	(4)	(1,655)	(4)
Payments of debt issuance costs	(209)	(356)	-
Net change in due to/from subsidiaries	(4,832)	(1,134)	4,475
Proceeds from exercise of stock options	1,522	298	248
Proceeds from exercise of warrant	393	-	-
Excess income tax benefit on stock options exercised	1,740	-	-
Dividends paid on preferred stock	(2,934)	(262)	-
Acquisition of non-redeemable preferred stock	(1,292)	(95)	(597)
Net cash provided by financing activities	51,369	13,672	4,122
Net increase (decrease) in cash	34,170	(902)	1,669
Cash at the beginning of year	881	1,783	114
Cash at the end of year	$ 35,051	$ 881	$ 1,783

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Notes to Condensed Financial Statements

1. Basis of Presentation - The accompanying condensed financial statements of the parent company include the accounts of LSB Industries, Inc. (the "Company") only. The Company's investments in subsidiaries are stated at cost plus equity in undistributed earnings (losses) of subsidiaries since date of acquisition. These condensed financial statements should be read in conjunction with the Company's consolidated financial statements.

2. Debt Issuance Costs - During 2007, we incurred debt issuance costs of $3,224,000 relating to the 2007 Debentures. In addition, the remaining portion of the 2006 Debentures was converted into our common stock. As a result of the conversions, approximately $266,000 of the remaining debt issuance costs, net of amortization, associated with the 2006 Debentures were charged against capital in excess of par value in 2007.

In 2006, the Company incurred debt issuance costs of $1,480,000 relating to the 2006 Debentures. During 2006, a portion of the 2006 Debentures were converted into our common stock. As a result of the conversions, approximately $998,000 of the debt issuance costs, net of amortization, associated with the 2006 Debentures was charged against capital in excess of par value.

3. Commitments and Contingencies - The Company has guaranteed the payment of principal and interest under the terms of various debt agreements of its subsidiaries. Subsidiaries' long-term debt outstanding at December 31, 2007, which is guaranteed by the Company is as follows (in thousands):

Secured Term Loan due 2012	$	50,000
Other, most of which is collateralized by machinery, equipment and real estate		11,358
	$	61,358

In addition, the Company has guaranteed approximately $6.3 million of our subsidiaries performance bonds.

See Notes 11 and 13 of the notes to the Company's consolidated financial statements for discussion of the long-term debt and commitments and contingencies.

4. Preferred Stock and Stockholders' Equity - At December 31, 2007 and 2006, a subsidiary of the Company owns 2,451,527 shares of the Company's common stock which shares have been considered as issued and outstanding in the accompanying Condensed Balance Sheets included in this Schedule I - Condensed Financial Information of Registrant. See Notes 2, 10, 14 and 15 of notes to the Company's consolidated financial statements for discussion of matters relating to the Company's preferred stock and other stockholders' equity matters.

5. Precious Metals - The Company had owned a specified quantity of precious metals used in the production process at one of its subsidiaries. Precious metals are carried at cost, with cost being determined using a FIFO basis. During 2007, the Company sold metals the subsidiary had accumulated in excess of their production requirements. As a result, the Company recognized gains of $4,259,000 for 2007 (none in 2006 and 2005) from the sale of these precious metals. These gains included an intercompany profit of $2,248,000, which are eliminated in the accompanying condensed statement of income through equity in earnings of subsidiaries. The intercompany profit resulted from differences in the FIFO cost basis of these metals in relation to the consolidated FIFO cost basis.

6. Interest Income - During 2006, the Company acquired an investment in senior unsecured notes due 2007 (the "Notes") of one of its subsidiaries, ThermaClime, of $6,950,000. During 2007, ThermaClime repaid the Notes. During 2007 and 2006, the Company earned interest of $685,000 and $565,000, respectively, relating to the Notes. In 2006, the Company entered into a $6,400,000 term loan due 2009 with ThermaClime. During 2007 and 2006, the Company earned interest of $698,000 and $331,000, respectively, relating to this term loan. During 2007, the Company entered into two demand notes totaling $29,886,000 with ThermaClime. During 2007, the Company earned interest of $801,000 relating to these demand notes. In addition, the Company has currently invested a portion of the net proceeds of the 2007 Debentures in money market investments. During 2007, the Company earned interest of $752,000 relating to these money market investments.

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LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2007, 2006 and 2005

(In Thousands)

Description	Balance at Beginning of Year	Additions- Charges to (Recoveries) Costs and Expenses	Deductions- Write-offs/ Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts (1):				
2007	$ 2,269	$ 858	$ 1,819	$ 1,308
2006	$ 2,680	$ 426	$ 837	$ 2,269
2005	$ 2,332	$ 810	$ 462	$ 2,680
Inventory-reserve for slow-moving items (1):				
2007	$ 829	$ 29	$ 398	$ 460
2006	$ 1,028	$ 258	$ 457	$ 829
2005	$ 908	$ 121	$ 1	$ 1,028
Notes receivable - allowance for doubtful accounts (1):				
2007	$ 970	$ -	$ -	$ 970
2006	$ 970	$ -	$ -	$ 970
2005	$ 1,020	$ -	$ 50	$ 970
Deferred tax assets - valuation (1):				
2007	$ 18,932	$ (18,932)	$ -	$ -
2006	$ 25,598	$ -	$ 6,666	$ 18,932
2005	$ 27,336	$ -	$ 1,738	$ 25,598

(1) Deducted in the consolidated balance sheet from the related assets to which the reserve applies.

Other valuation and qualifying accounts are detailed in our notes to consolidated financial statements.

FIRST AMENDMENT TO
AMENDED AND RESTATED LEASE AGREEMENT

This First Amendment to Amended and Restated Lease Agreement (the "First Amendment") is entered into effective April 1, 2007 between Raptor Master, L.L.C., an Oklahoma limited liability company (the "Landlord") and Climate Master, Inc., a Delaware corporation (the "Tenant").

WITNESSTH:

WHEREAS, Tenant and Landlord entered into that certain Amended and Restated Lease Agreement dated as of May 8, 2001 (the "Agreement"); and

WHEREAS, Tenant and Landlord desires to amend the Agreement as provided in this First Amendment.

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth in this First Amendment, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant agree as follows:

1. The foregoing recitals are incorporated as a part of this First Amendment. All terms defined in the Agreement shall have the same meaning in this First Amendment as are set forth in the Agreement, unless defined differently in this First Amendment.

2. The provisions of Section 3.1 of the Agreement are deleted in their entirety and replaced with the following language:

> "3.1 Base Rent. The Tenant agrees to pay to the Landlord throughout the primary term of this Agreement a Base Rent, payable in equal monthly installments of Fifty-Two Thousand Five Hundred Eighty-Three and 72/100 Dollars ($52,583.72) each, payable in advance and without demand beginning on April 1, 2007 and continuing thereafter on the first day of each month throughout the primary term. Landlord and Tenant acknowledge and agree that all amounts due from Tenant to Landlord under the Agreement through and including April 1, 2007 have been fully and timely paid by Tenant."

3. The provisions of Section 14.1 of the Agreement is amended by adding the following language at the end of Section 14.1:

> "Landlord will not take any action or fail to take any action that would have the effect of increasing the amount of the First Fee Mortgage at any time, and Landlord will continue to timely pay the debt service under the First Fee Mortgage. Landlord represents and warrants that the total monthly payment of principal and interest under the First Fee Mortgage is $51,583.72."

4. The provisions of Section 16.1 of the Agreement are deleted in their entirety and replaced with the following language:

> "16.1 Purchase Option. Provided that this Agreement is then in effect and no Event of Default has occurred and is continuing, the Tenant is hereby granted the continuing option to purchase the Premises on the terms and conditions of the Option Agreement executed by Landlord and Tenant dated as of May 8, 2001, as amended by the First Amendment to Option Agreement executed by Landlord and Tenant dated as of April 1, 2007, the terms of which are incorporated herein."

5. The provisions of Section 17.1.1 of the Agreement are deleted in their entirety and replaced with the following language:

> "17.1.1 Base Rent. Notwithstanding the terms of Section 3.1 of this Agreement, and assuming the Tenant's exercise of the foregoing options, the Base Rent for the extension periods will be as follows: (a) Beginning on the first day of the first extension period and for each month during such term and any subsequent extended term, monthly installments in the amount of Fifty-Two Thousand Five Hundred Eighty-Three and 72/100 ($52,583.72) each, payable in advance and without demand."

6. The provisions of Section 19.1.4 of the Agreement are deleted in their entirety and replaced with the following language:

> "19.1.4 Building. The 230,000 square feet of warehouse space, related office space and facilities located on the Land."

7. The provisions of Section 19.1.9 of the Agreement are deleted in their entirety and replaced with the following language:

> "19.1.9 First Fee Mortgage**.** The Mortgage dated as of April 30, 2001 from Landlord to Gold Bank, as amended by the First Amended and Restated Mortgage dated as of January 17, 2002 from Landlord to Gold Bank, covering the Land, the Building, and the Improvements, as well as all increases, renewals, modifications, consolidations, replacements and extensions thereof which may be consented to in advance by Tenant in writing. Tenant hereby provides written consent to the First Amended and Restated Mortgage dated as of January 17, 2002 from Landlord to Gold Bank as if such consent were provided contemporaneously with the execution of such amendment."

8. Except as modified in this First Amendment, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this First Amendments is executed to be effective the day and year first above written.

RAPTOR MASTER, L.L.C.	CLIMATE MASTER, INC.
By: Raptor Properties, L.L.C, Manager	
By: JRB Investments, Inc., Manager	By:__________________________
Name:__________________________	
Title:__________________________	
By: __________________________	
Name: __________________________	
Title: __________________________	

DRAFT

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO
AND ITS LOCAL 13-434

Effective: August 1, 2007

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

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PREAMBLE

Articles of Agreement between EL DORADO CHEMICAL COMPANY (hereinafter referred to as "Company") and UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 13-434 (hereinafter referred to as "Union"), whom the Company recognizes as the exclusive bargaining agency for all production, chemical, and operating employees included in the bargaining unit at its chemical plant located North of El Dorado, Arkansas, for the purposes of pay, wages, and other conditions of employment. There is excepted from the bargaining unit described all Maintenance employees not otherwise described within the Preamble, guards, shipping attendants, janitors and common laborers, office and clerical employees, non-working Foremen, and all supervisory employees.

Our future success and security requires that we foster a plant culture which underscores the importance of teamwork and focuses on customer satisfaction, methods improvement, demands mutual respect and promotes high morale. We must be prepared to meet the needs of changing circumstances and seize opportunities provided. The Company, the Union and all employees are committed to doing so.

We appreciate qualities and values such as pride in what we do, taking ownership of responsibility, dedication, cooperation, efficiency and optimism. Everyone who depends upon EDC recognizes the importance of creating and maintaining a safe and clean workplace and wants a plant which promotes fair treatment, quality work, and productive, profitable and efficient operations. We each accept and share the responsibility to do our parts to make that happen.

ARTICLE I
TERM OF AGREEMENT

This Agreement shall remain in full force and effect for a period beginning at 12:01 a.m., August 1, 2007, and ending at 12:00 Midnight, July 31, 2010. At reasonable times after June 1, 2010, the parties will meet for the purpose of negotiating a new contract to be effective for the period commencing after 12:01 a.m., August 1, 2010.

ARTICLE II
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct, to assure discipline, and efficient operation; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any classification, operation, service or department; to sell, merge, or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged.

The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE III
RIGHT TO ARBITRATE

All grievances and disputes as to classifications, hours of work, and other working conditions, arising between the Company and the employees shall be governed in manner of settlement by the terms of this Agreement. Whenever any grievance or dispute arises which cannot be otherwise adjusted, the parties hereto agree that the same shall be decided in the manner provided for in Article IV. Only a matter concerning the interpretation or application of a provision of this Agreement shall be the subject of arbitration.

ARTICLE IV
GRIEVANCE PROCEDURE AND ARBITRATION

Section 1.

Grievances shall be limited to matters concerning the provisions of the Agreement. A "grievance," as that term is used in this contract, means a claim by an employee, or the Union, that a term of this contract has been violated. All time limits in the first, second, third, and fourth steps listed below shall be to "working days" which shall be interpreted to include only Monday through Friday, but shall not include holidays. Time limits specified herein may be extended by mutual written agreement of the parties in unusual cases.
The Company agrees to investigate situations which may warrant discipline promptly after it learns of the situation. It also commits to administer any discipline warranted within 10 working days after it completes its investigation and assesses relevant facts. If its factual determination and decision whether/how to discipline cannot be completed within 10 working days of the completion of its investigation, the Union will be advised of the need for a reasonable extension of time within which the Company expects to complete the process. The Union's agreement to extend this time will not be unreasonably withheld.

First Step

The aggrieved employee, and/or his Steward, shall verbally discuss the grievance with his foreman and/or supervisor. If the foreman and/or supervisor's verbal reply is not satisfactory, the employee and/or his Steward shall submit the grievance in writing to his foreman or supervisor. No grievance shall be considered unless it is filed within fifteen (15) days after the occurrence of the event complained of. The supervisor to whom the grievance is submitted in writing shall provide his written reply within fifteen (15) days after receipt of the grievance.

Within five (5) days after the receipt of the written decision of the supervisor, the Steward shall notify the supervisor as to whether his decision is satisfactory.

Second Step

If the written decision of the supervisor is not satisfactory, the Chief Steward shall submit the grievance in writing, within ten (10) days, to the head of the department in which the grievance arose. He shall give his reply in writing within fifteen (15) days after receipt of the grievance.

Within five (5) days after the receipt of the written decision of the department head, the Chief Steward shall notify the department head as to whether the decision is satisfactory.

Third Step

If the decision of the appropriate department head is not satisfactory, it shall be submitted in writing, within ten (10) days, to the Plant Manager, who shall then have ten (10) days after receipt of the grievance in which to render his decision.

Within ten (10) days after receipt of the written decision of the Plant Manager, the Workmen's Committee shall notify the Plant Manager, in writing, as to whether his decision is satisfactory.

Fourth Step

If the procedure is not adjusted satisfactorily through the procedure hereinbefore mentioned, the matter may be referred to an arbitrator. If the Union desires to submit such grievance to an impartial arbitrator (providing the grievance is one which does not involve matters on which arbitration is specifically prohibited under the terms of this Agreement, and which the Company and the Union have mutually agreed to submit to arbitration) it must notify the other party of that fact, in writing, within thirty (30) days after the date the Plant Manager, or other duly authorized representative, advised the Workmen's Committee of his decision.

The Union and the Company shall make written application to the Federal Mediation and Conciliation Service requesting a seven-name arbitrator panel from which the parties shall select an arbitrator. The parties shall alternately each strike three names, one at a time. After striking, the remaining name shall act as Arbitrator. It is understood that, starting with the first arbitration case following the date of the execution of this Agreement, the Union shall strike the first name. In the next case, the first name stricken will be by the Company and, alternately, the Union and the Company thereafter. Both the Company and the Union shall have the right to reject two panels submitted by the Federal Mediation and Conciliation Service.

When the Arbitrator has been selected, he shall meet for the consideration of the grievance as soon thereafter as is practical. Any such meeting of an Arbitrator shall be held in El Dorado, Arkansas, unless the parties unanimously decide otherwise.

Any such Arbitrator shall decide only the grievance submitted to him upon testimony presented to him by the Union and the Company, and shall render his decision in writing.

Except as otherwise specifically provided in this Agreement, the Arbitrator shall have no power to change the wages, hours, or conditions of employment set forth in this Agreement; he shall have no power to add to, subtract from, or modify any of the terms of this Agreement; he shall deal only with the grievance which occasioned his appointment. He will require that the Union has the burden of establishing its position on behalf of the employee, except in a discipline and/or discharge case when the burden will be on management.

The parties hereto shall comply fully with the award or decision made by any such Arbitrator, and the decision of the Arbitrator will be final and binding on both parties.

The expense of the Arbitrator shall be paid equally by the Company and the Union.

Section 2.

No provision of this Article IV, or of any other Article of this Agreement, shall deprive any employee covered by the terms of this Agreement of any rights to which he may be entitled under Section 9(a) of the Labor Management Relations Act of 1947, or any other Statute of the United States.

Section 3.

In the event a grievance arises over a discharge or layoff, the first and second steps of the grievance procedure may be bypassed.

ARTICLE V
CLASSIFICATION CHANGES

Section 1.

An employee who has been trained and is functioning independently (without the need for regular contact with an accessible, certified trainer on the shift) but has not yet been certified as qualified for the position will be paid the rate for the position while he is doing so. This provision will not apply when the trainee is assisted by another employee assigned to that position for purposed of training. The employee will be expected to complete the certification process of the position for which he is training without undue delay. The expected time frame for doing so will vary by such factors as position and skill level required, employee ability, availability of other employees and production load of the facility.

Section 2.

Subject to the provision of Article XI, Section 10, when an employee is transferred to a classification paying a smaller wage rate than the classification from which he was transferred, he shall receive the rate of pay of the new classification at the end of ninety (90) calendar days.

If an employee is shifted to any classification paying a smaller wage rate than his regularly assigned classification due to the temporary shutdown of equipment, no reduction in rate shall be made during the first ninety (90) calendar days.

If an employee is transferred to a lower classification due to the exercise of seniority provisions of this Agreement, he shall receive the rate of his new classification on the date of transfer.

Section 3.

An employee who is to be laid off, due to reduction in the work force shall be given two (2) weeks' notice of the date of the layoff. In the absence of such notice, the employee shall be given two (2) weeks' pay at his rate at the time of his layoff. It is provided, however, if an employee is temporarily laid off and is reemployed within less than two (2) weeks of the date on which he was temporarily laid off, he shall be paid only a sum equal to the number of hours he would have worked during the period of the layoff on his regular schedule, multiplied by the hourly wage rate which he was earning at the time he was laid off.

Neither notice nor pay in lieu of notice referred to in this Section 3 shall be required with respect to a temporary layoff which is due to a reduction in forces caused by fire, storm, explosion, Act of God, production emergency due to manpower shortage, or by a strike of any employees of the Company at the Chemical Plant (which employees are in another bargaining unit), or by a strike of any employees of any other employer.

Section 4.

All work peculiar to any classification shall normally be done by employees regularly assigned to that classification except in cases of emergency. An employee called out or assigned to fill that vacancy will be considered regularly assigned to that classification. However, operating personnel in operating areas may perform any other duties and routine process control analyses related to the operation of the Unit. No arbitrary changes in present classifications or duties thereof will be made with the purpose or result of reducing the pay of any classification. Any man who has available time over and above his normal duties shall assist other employees in his area.

When an employee's area duties are down and there is to be no work for him at all on his shift, he may be assigned to:

1. Fill other operating vacancies within his area.

2. Assist in maintenance efforts anywhere in the plant.

3. Perform yard maintenance work anywhere in the plant.

4. Perform minor maintenance in his unit.

5. Perform any other duties as directed by his supervisor so long as it does not require the performance of an immoral or unsafe act.

(Under this condition, an employee may be notified to change shifts and, if so notified sixteen (16) hours or more in advance of the beginning of his new shift, will not be entitled to pay in lieu of short notice under Article VII of the current agreement.)

When an employee's assignment is down only part of the shift, he may be assigned to:

1. Assist in maintenance efforts in his unit.

2. Perform yard maintenance work in his unit.

3. Perform minor maintenance in his unit.

4. Perform any other duties as directed by his supervisor so long as it does not require the performance of an immoral or unsafe act.

An Operating Department employee shall perform minor maintenance functions while his unit is operating if he has time available over and above his primary operating duties.

Section 5.

Except in cases of emergency and for training purposes, no foreman, supervisor, or employee not covered by this Agreement shall do any work peculiar to any classification covered by the bargaining unit. However, Maintenance employees may from time to time perform minor operating functions when accompanied by operating personnel. The Company shall use technical employees from time to time to make tests and inspections requiring engineering skill.

ARTICLE VI
HOURS OF WORK

Section 1.

The regular hours for work shall be eight (8) hours per day and forty (40) hours per work week. One and one-half (1-1/2) times the applicable hourly rate will be paid for all work in excess of eight (8) hours in any one day, in excess of eight (8) hours in succession, or forty (40) hours in any one week.

Section 2.

The work week shall begin at 11:00 p.m. on Sunday and end at 11:00 p.m. the following Sunday. The work day shall begin at 11:00 p.m. and end at 11:00 p.m.

Section 3.

The work schedule and shift schedules which are presently in effect and which are made a part of this contract as Exhibit "C" shall remain in full force and effect for the terms of this Agreement. Regular hours of work for laboratory personnel shall be 8:00 a.m. to 4:30 p.m.

Hours of work may be changed to 7:00 a.m. to 3:00 p.m. as dictated by the needs of the production or production accounting departments and will not be considered a change in shift. Laboratory personnel may be assigned to work other shifts periodically as necessary to meet the needs of the production department.

Section 4.

The payment of additional compensation for any hours worked in excess of eight (8) hours in any one day, or forty (40) hours in any one work week, shall be in satisfaction of the obligation of the Company under this Agreement. There shall be no duplicate payment for daily overtime and weekly overtime. If daily overtime is greater in any one work week, only daily overtime shall be paid, or if weekly overtime is greater in any one work week, only weekly overtime shall be paid.

Section 5.

Notwithstanding any other provision of this Agreement to the contrary, no employee, except in case of emergency, shall be allowed or required to work more than sixteen (16) consecutive hours.

ARTICLE VII
CALL-OUT OVERTIME AND LOCAL NOTIFICATION

Overtime shall initially be distributed, as equitably as practicable, to employees regularly assigned within the area where the overtime is required. The Company may then offer such work to employees in other areas who are qualified.

Section 1.

Work that is required beyond the end of the shift (or end of the day) that is expected to be four (4) hours or less in duration will be performed by a holdover, whereby the overtime will be offered to the employees on duty who are qualified for the work in the order that their names appear on the respective area call-out list. If the work will exceed four (4) hours, Company shall have the option of holding an employee over four (4) hours and calling a qualified oncoming employee in four (4) hours early to complete the overtime, or calling an employee out from the appropriate call-out list.

An employee held over for as much as one (1) hour in a case in which his relief is not late, shall be paid a minimum of four (4) hours at straight time at his regular rate even though the full four (4) hours may not be worked. However, in the case of a holdover due to a Company meeting, individuals will be paid time and one-half (1-1/2) for hours worked.

An employee called for work outside his regular schedule shall be paid a minimum of four (4) hours at time and one-half (1-1/2) his regular rate even though the full four (4) hours may not be worked or he does not work at all.

An employee called out for work outside his regular hours will not be deprived of completing his daily schedule of hours on account of the extra hours worked on such call-out. An employee called out for work who works continuously until the beginning of his regular hours of work and continues to work the regular hours of his scheduled work shall not be considered to have had a change in shift within the meaning of Section 3 of this Article VII. Notwithstanding the fact that an employee has been called out for work, such employee shall be required to perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused by the Company.

In the event overtime distribution and/or call-out procedures do not provide the Company with sufficient qualified personnel to perform the overtime work, the Company shall have the right to assign qualified personnel, or at its option, assign the work to a salaried employee.

Section 2.

If an employee reports to work on time as scheduled, he shall be given the opportunity of working a full 8-hour shift. If an employee reports to work late for a scheduled work day and arrangements have been made to have an employee work overtime in his place, the Company shall allow the employee who reported to work late to work the remainder of his regular schedule, and the employee who is working overtime due to such employee being late will be relieved of duty.

Section 3.

No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change. However, any employee who is working extra to complete his forty (40) hours per week may be used for filling vacancies in his area in accordance with his seniority. The Company further agrees that each employee shall receive twenty-four (24) hours' notice prior to any change in his shift, or in lieu thereof, the employee shall receive time and one-half (1-1/2) for the first shift worked; however, no such extra pay shall be paid when an employee's shift is changed incident to his promotion to a higher vacancy or when he is returned to his regular assignment from an advancement. However, if an employee's assignment is temporarily shut down and, as a result, there is no work for him on his regular assignment, he may be so notified and reassigned to fill other operating vacancies on another shift or to work with Maintenance on another shift. If the employee is so notified sixteen (16) hours or more in advance of the beginning of his new shift, he will not be entitled to pay in lieu of short notice for shift change.

If an Operator Trainee (in order to complete his forty (40) hours per week) must work outside the regularly scheduled hours of a day employee, he will be assigned to work extra and may be used as a relief man for filling vacancies in the operating area in which he last worked in accordance with his seniority.

Section 4.

If an employee is instructed to work and does work continuously for as much as two (2) hours before or beyond his regular shift or schedule, he shall be paid a sum equivalent to thirty (30) minutes at straight-time pay in lieu of meal time.

ARTICLE VIII
SHIFT MEN - DAY MEN

The term "shift employee" as used herein shall be deemed to mean one who is employed for specific periods in the course of continuous operations regularly carried on during two (2) or more shifts per day, five (5) or more days a week; each other employee is a "day employee."

ARTICLE IX
HOLIDAY PAY

Each of the following days is a holiday:

New Year's Day
Good Friday
Memorial Day
July Fourth
Labor Day
Columbus Day
Thanksgiving Day
Day after Thanksgiving
Christmas Eve
Christmas Day

Each of the above-mentioned holidays shall be deemed to begin at 11:00 p.m. on the day immediately preceding the holiday and end at 11:00 p.m. on the holiday, except when the holiday falls on Sunday, in which case those employees who are working a 6-day week will observe the holiday on the following Monday.

An employee may elect to take a personal holiday in lieu of Columbus Day. To do so, it must be scheduled with supervisory approval not less than 14 days prior to the date requested.

Employees who are regularly scheduled to work 12 hour shifts will receive 12 hours’ pay at his straight time rate for each recognized holiday. Other employees who work on a holiday will be paid eight (8) hours' holiday pay at his straight time rate. In addition, all employees will be paid one and one-half (1-1/2) times his straight time rate for each hour worked on the holiday.

Each employee covered by this Agreement who does not work on a particular holiday shall be paid, with respect to that holiday, a sum equal to his regular straight time for either eight (8) or 12 hours worked, depending upon his regular work schedule, provided that no such payment shall be made to an employee, with respect to a holiday, if such employee (a) is scheduled to work on that holiday and, without permission of the Company, fails to report for work; or (b) is on leave of absence; or (c) is on layoff; or (d) is on sick leave and has not worked or does not work at any time during the 2-week pay period in which the holiday occurs.

Holiday Pay -- Employee will be off on a holiday if so notified that his services are not needed. Employees who fail to receive proper notification will receive time and one-half (1-1/2) for the first shift worked after the said holiday. Proper notification will be twenty-four (24) hours. Such notification shall not be required in the event of unit or equipment mechanical failure, fire, storm, explosion, or Act of God.

Employees will have the option, by seniority, to elect to work or leave if less than all can be excused.

Day Employees -- assigned to the Operating areas -- who normally work Monday through Friday, shall observe a holiday falling on Saturday the preceding Friday, and a holiday falling on Sunday the following Monday, and not report for work unless notified. However, the Christmas Eve holiday shall be observed on the last scheduled work day prior to Christmas Day holiday.

ARTICLE X
VACATIONS

Section 1.

Normal vacation accruals will be computed in accordance with the following provisions:

(a) Two weeks (80 hours) after having accrued one (1) year's Company seniority.

(b) Three weeks (120 hours) during the calendar year after having accrued six (6) or more years' Company seniority.

In computing length of service for vacations, time spent working at the El Dorado Plant will be used.

Section 2.

Those employees who had previously accrued or who will accrue, during the term of this Agreement, twelve (12) years or more Company seniority shall be entitled to a vacation accrual of four weeks (160 hours). Thereafter, and for all other employees, the maximum vacation accrual shall be as provided in Section 1.

Section 3.

Each employee must take his vacation during the calendar year in which it falls due. However, when an employee is absent from work due to authorized occupational injury or illness or personal sick leave and has not returned to work by December 31, he may, at the Company's option, be permitted to take his vacation or receive vacation pay between January 1 and April 1 of the following year. An employee may elect to split his vacation in 40-hour periods, or he may take all his vacation in one period. However, an employee that works the Uniform shift schedule (Exhibit "C-3") may elect to schedule his vacation in either 40-hour periods or 56-hour periods, or a combination of the two. Any remaining vacation of less than forty (40) hours must be scheduled in a single period.

Section 4.

Vacation schedules must be prepared and submitted to the department head by March 1, if possible. Scheduling of vacations will begin immediately after November 1 each year and no employee shall be allowed more than forty-eight (48) hours after being contacted by his Foreman or supervisor in which to select his vacation date. Vacation preferences will be determined within an area by bargaining unit seniority. Employees who have not indicated their preference of vacation dates at the end of this 48-hour period will be assigned vacation dates by their supervisors. No employee may change his vacation dates after the schedule has been prepared except with his supervisor's permission. Vacations taken before March 1 will be on a first come basis.

An employee will not be eligible for overtime or call-out after 11:00 p.m. of his last scheduled work day prior to the start of his vacation and until his first scheduled shift to return to work following completion of his vacation.

If any employee is not permitted to take his vacation in the calendar year in which it is due because the Company finds it not convenient to excuse him from work, such employee shall be paid a sum equal to the sum to which he would have been entitled if he had taken his vacation within the period of time immediately preceding the end of the year which period is equal to his vacation period. No more than five (5) employees from the Operating Department and one (1) in the Laboratory may be on vacation at one time.

Section 5.

If an employee so requests at least five (5) days prior to the beginning vacation, the Company shall, prior to his beginning vacation, pay him in advance for all vacation being taken, in 5-day increments only.

Section 6.

An employee who (a) resigns, (b) retires, (c) is laid off as part of a reduction in forces, (d) is discharged for cause, or (e) is granted a military leave under the provisions of Article XV, at a time when he has earned vacation to that date but has not taken or previously received pay in lieu of, shall be paid in lieu of any vacation he has earned to that date but has not taken nor previously received pay in lieu of.

Computation of vacation under this section will be earned at the rate of one-twelfth (1/12th) for each month from employee's anniversary date. Sixteen (16) or more calendar days of employment in any calendar month will be considered a full month in computing vacation accruals.

Section 7.

Vacation pay shall be based upon the straight time rate of an employee's regular classification at the beginning of the vacation and will be taken in accordance with his established work schedule. If a holiday, as defined in Article IX, occurs during an employee's vacation period, the employee will receive pay for said holiday as defined in Article IX.

In the event of the death of an employee who (as of the last day on which that employee worked) had earned but not taken a vacation, a sum of money, in lieu of such vacation, computed on the basis herein stated, shall be paid to the executor or administrator, to the surviving spouse of that employee or, if there is no such representative or surviving spouse, to the next of kin of such employee.

ARTICLE XI
SENIORITY

Subject to Article XI, Section 15, seniority shall be adhered to in vacancies within an area, shifts, and layoffs as outlined below in this Article XI, other than discharge for cause. It is understood the Company shall have the right to retain sufficient numbers of qualified personnel in such event and may assign personnel to particular shifts when required temporarily for training.

Section 1. Eligibility for Seniority.

An employee shall be first entitled to seniority when he has been continuously employed for 180 days within the bargaining unit, his seniority dating from the date of the beginning of such employment.

The Company shall have the right to layoff or discharge, without cause, any employee who has not worked in the bargaining unit a sufficient length of time to be entitled to seniority, and such action on the part of the Company shall not be the subject of a grievance on the part of the Union or the employee involved under any provision of this Agreement.

Section 2. Seniority Credits.

In applying the seniority provisions of this Agreement, each employee shall be credited with the seniority, if any, to which he is entitled as shown on the records of the Company at the time of execution of this Agreement.

Section 3. Progression Chart.

Attached hereto as Exhibit "A" and made a part hereof is a Progression Chart showing all classifications in the various areas of the Operating Department. Only those employees covered by the terms of this Agreement and included in the bargaining unit shall be entitled to exercise their seniority in their respective areas.

Section 4. Bargaining Unit and Area Seniority.

(a) Subject to the provisions of Section 1 of this Article XI, bargaining unit seniority shall be cumulative and shall be continuous from the date on which the employee enters the bargaining unit as shown on Exhibit "A" attached hereto.

(b) Subject to the provisions of Section 1 of this Article, area seniority shall be cumulative and shall be continuous from the date on which the employee enters any particular area by bidding or by assignment to a vacancy of more than ninety (90) days. In the event that two (2) or more employees have the same area seniority date, area seniority will be determined by bargaining unit seniority.

(c) In the event an employee is permanently assigned to an area by reasons of (i) shutdown, (ii) reduction in force in an area, (iii) the return of an employee to that area after an absence in excess of ninety (90) days, or (iv) the application of Section 9 of this Article, he shall continue to be considered a part of the area from which he was so transferred until he has failed to accept a vacancy in the area from which he was so transferred.

The last employee to enter an area shall be the first employee reduced from an area upon the termination of an authorized leave in the area. All other reductions from the area will be made by area seniority.

(d) If an employee in any area elects to bid to another area of the Operating Department and is the successful bidder, upon his transfer, he shall then lose his accrued seniority in the area from which he bid. Should he fail to qualify in the area to which he transferred, he will be transferred to Operator Trainee position and will lose any seniority he has accrued in the area where he failed to qualify.

Section 5. Vacancies of More Than Ninety (90) Days.

(1) Pursuant to Section 15 of this Article, when a vacancy of more than ninety (90) days occurs in any area, the vacancy will be filled by the bidding procedure.

(2) Pursuant to Section 7(1)(a) of this Article, if there are employees not in the area who have retained seniority in the area in which the vacancy occurs, the employee with the most retained seniority shall be assigned without bidding, to the vacancy or forfeit his seniority in the area.

(3) Area seniority shall be adhered to in all shift vacancies of more than ninety (90) days within an area.

Section 6. Vacancy Posting and Bidding Procedure.

(a) The Company shall post promptly and keep posted on the appropriate bulletin board for ten (10) days the notice of any vacancy. It shall be the duty of any employee who feels himself entitled to such vacancy, based on his seniority, to file his signed bid in the manner hereinafter stated.

(b) In order to be considered valid, a bid must be signed, dated, and the original must be deposited in a locked box marked " USWBids for Company," and the duplicate must be deposited in a locked box marked "USW Workmen's Committee." Each of said boxes will be provided at or near the main entrance gate.

(c) Immediately upon expiration of the posting period of ten (10) days, the names of all bidders will be posted on the bulletin board for a period of five (5) days. Within this 5-day period, each bidder who still wants the vacancy must sign an acceptance notice to this effect and deposit in the box marked "USW Bids for Company" and place a copy of the notice in the " USW Workmen's Committee" box at the clock house. However, if an employee is going to be off from work for the duration of this 5-day period, he may leave his acceptance notice with the personnel department.

(d) At the end of this 5-day period, the employee with the most bargaining unit seniority who has turned in an acceptance notice will be assigned the vacancy, and he will be transferred to the new vacancy as soon as possible. The successful bidder's seniority in the area to which he is transferred will start on the sixteenth (16th) day after the vacancy was originally posted. An employee accepting a promotion by either the area realignment or the bidding procedure to a vacancy with a higher rate of pay will not receive the higher rate of pay until qualified for the vacancy.

In cases where more than one (1) vacancy is posted, a bidder must indicate his order of preference on all vacancies he is willing to accept when he turns in his acceptance notice.

(e) In the event no one wishes to accept the posted vacancy, Company may elect to employ a qualified operator or to assign an Operator Trainee to the vacancy.

(f) Notwithstanding any other provisions of this Section 6, it is agreed that the Company shall have the right at any time during said 10-day posting mentioned above, to withdraw that posting in the event the Company decides that such vacancy need not be filled. The provisions of this paragraph will not apply to filling normal vacancies.

Section 7. Filling Vacancies of Ninety (90) Days or Less.

(1) Pursuant to Section 15 of Article XI, when a vacancy exists for a period up to and including ninety (90) days, it shall be filled by promoting the senior employee of the next lower classification who is working the same shift in the area in which the vacancy occurs. If no Operator Trainee, with retained area seniority, is available, this lowest vacancy will be filled on an assignment basis by an Operator Trainee assigned to that area with the most bargaining unit seniority who is available and qualified to perform the work.

In the event the vacancy(ies) cannot be filled by this procedure, the vacancy(ies) will be filled by overtime procedures and will normally be the vacancy which existed in the area before any reassignment.

(a) However, if an employee is removed from the active payroll, the vacancy caused by this action will be filled according to Section 5 of this Article on the first (1st) day after this action.

(2) In the event an Operator Trainee is not available and overtime is required, the following procedure will be used:

(a)(i) When overtime is required other than holdover or early call-in overtime, set forth in Section 1 of Article VII, call-outs will be made from the appropriate call-out list. Overtime call-outs may start up to forty-eight (48) hours in advance of the actual time required. Call-out lists will be maintained for Operator Trainees, Area II, Area III, Area IV, Emergency Squad, and a Master List. Call-outs will be made starting at the top of the list for the area where the overtime is required and proceeding to the bottom, calling those individuals possessing the necessary qualifications for the work.

In the event there will be a vacancy as the result of vacation or other scheduled absence, Company may assign qualified employees to cover such absences up to seven (7) days in advance of such need. Company may also utilize hold-over and call-in, or fill such vacancy by regular call-out procedures.

Upon acceptance or rejection of a call-out, the individual's name will be placed at the bottom of the list. If the call-out is canceled, the employee shall be offered makeup overtime without his name moving on the call-out list. Makeup overtime is defined as: Work of the nature encountered in normal operations but not normally done on overtime. At the time the makeup overtime is offered, the employee must accept or reject the makeup overtime. Makeup overtime will be offered for a full 8-hour shift.

Employees are ineligible for call-outs that interfere with previously arranged call-outs or their normal schedule.

The master call-out list will consist of a list of names of regularly assigned employees on Area II, Area III, and Area IV call-out lists who desire to work overtime. Employees called on this list will rotate on this list, but will not rotate on the area list their name appears on for any overtime worked on a master call-out. Master list call-outs will terminate when the work is completed.

(a)(ii) Each call-out will terminate at the end of the shift during which the work on that call-out began. An employee working a call-out, except for filling shift vacancies, will be expected to do the work for which that person was called and other operational work, excluding housekeeping work, in the area that may arise after the individual reports to work, for which that person is qualified. A call-out will end when the work for which the person was called, plus the additional operational work, is completed.

(a)(iii) Individuals' names will not be moved on the call-out lists for any overtime associated with Safety and Housekeeping Inspection Teams, or Accident Investigation Teams, or Safety Meetings, or Emergency Squad Training, or for overtime set forth in Section 1 of Article VII.

(a)(iv) Employees who work the Uniform Shift Schedule will have their names moved to the bottom of their respective call-out lists at the beginning of the 7-3 shift of the day which is their sixth (6th) work day in the same work week.

(a)(v) Operator Trainees may have their names appear on the list in the area where they possess qualifications. For employees with retained area seniority, the call-out list to which their names will be assigned will be the area where they have retained seniority. Upon acceptance or rejection of a call-out, an individual's name will be moved to the bottom of each list where his name appears. An Operator Trainee's name will be moved from one area call-out list to another, at the beginning of the day of transfer of that individual to another area in which the Operator Trainee holds qualifications.

(a)(vi) Any time an employee's name is entered on an area call-out list, his name will be entered at the bottom of that list.

(a)(vii) An employee may, for personal reasons, have his name removed from the call-out list(s). At such time as he desires, he may return his name to the bottom of the appropriate call-out list(s). An employee who is off for vacation, sick leave, or leave of absence will not be available for overtime. His name shall be turned over on the call-out list(s). Upon return, he will be available as though he had no opportunity during his absence.

(a)(viii) The call-out lists will be maintained under the direction of the area supervisors or Foremen, and it will be their responsibility to keep such records as are necessary to administer the call-out procedure and to present the proper information to the shipping attendants for execution. Copies of the daily call-out sheets will be furnished to the Union representatives.

(a)(ix) Any employee who accepts an assignment outside the bargaining unit will have his name placed at the bottom of the appropriate list(s) for the duration of the assignment.

(a)(x) An employee must have a telephone in his residence or be available at the plant in order to be eligible for a call-out. Only one (1) telephone may be listed for each employee.

(a)(xi) Employees will not be eligible for overtime in an operating area until they have qualified on a vacancy in that respective area. Upon qualifying on a vacancy in an area, a new employee's name will be placed on the bottom of that area call-out list and the master call-out list.

If, at the time of each bi-monthly meeting, it is brought to the attention of the Company that an inequity exists between areas in the distribution of overtime, an attempt will be made to equalize overtime.

When an employee is held over due to negligence in providing relief and proper notice has been given, the employee held over will be paid a minimum of two (2) hours at his straight-time rate.

The above procedure may be modified by mutual agreement between the Union and the Plant Manager or his designated representative.

(b)(i) Any employee who has been off duty due to illness, injury, or an unauthorized leave will be required to give his supervisor eight (8) hours' notice of his intention to return to work or secure permission of the Company to return to work earlier.

(b)(ii) When an employee's shift is changed for any reason so that he will have only eight (8) hours off between shifts, he will not be eligible to double over from the first shift, and he will not be eligible for call-out during the 8-hour interval between shifts.

(b)(iii) When an employee who is temporarily working in a higher classification, other than his regular classification, accepts the opportunity to work over, his classification will revert to his regular classification. At the end of his regular shift, said employee who has stayed over onto a shift may exercise his seniority to receive any temporary upgrading that occurs on that shift.

(b)(iv) When a unit or piece of equipment is temporarily shut down and as a result there is no work for an employee on his regular assignment, such employee may be required to: (a) perform the duties of other assignments within his area, (b) assist in maintenance efforts anywhere in the plant, or (c) perform minor maintenance in his area. If such employee is absent from work during such temporary shutdown, the Company shall not be required to fill his position.

(b)(v) Notwithstanding any other provisions of this Section, if notice of an employee's absence is not reported, the employee not receiving relief will be required to work over if relief is not available; however, if said employee does not desire to work over, he may waive this work provided there are other employees on the same shift who desire to work over. The employees in the same classification will be given the opportunity to work over in order of their seniority. If no employee in that classification accepts the opportunity to stay over, the overtime will be offered to the other employees on that shift in accordance with their seniority. In case a relief man is not found within thirty (30) minutes, he may not be used to fill such vacancy. If an Operator Trainee does not report on schedule, this paragraph is not applicable.

An employee not eligible to work over in accordance with (b)(iii) of this Section will be required to work over only until relief can be obtained.

The same procedure will be applicable to all employees if proper notice is given that an employee will be less than three (3) hours late. Such employee will be relieved when his relief reports.

Section 8. Classifications and Shifts

(a) Each employee returning to the service of the Company or an area from an authorized leave without pay or from sick leave, or temporary shutdown of equipment of sixty (60) days or less, shall resume his duties uninterrupted service in the area from which he left on the same lettered shift, or any shift that has become vacant during his absence, and has been filled by a man younger in area seniority. Notwithstanding any other provisions of this contract upon (1) the termination of an authorized leave, or (2) the temporary shutdown of equipment of sixty (60) days or less, each employee who was promoted or changed shifts shall revert to the same classification (area), and the same lettered shift from which he moved, or any shift within his area that has become vacant during the leave or shutdown of equipment and is filled by a younger man in area seniority.

(b) Any time a new vacancy is established within an area, the employee with the most area seniority shall have the right to this vacancy if he so desires.

(c) Any new operating facility for products not now being manufactured will be filled by the bidding procedure before being transferred to any area.

(d) When employees return to an area because equipment is started up after a shutdown of more than sixty (60) days, all shifts within a classification will be chosen by area seniority.

(e) Any time that it becomes necessary for an employee to be demoted to a lower classification, other than a demotion caused by the termination of an authorized leave, he shall be given an opportunity to pick his shift within the classification in accordance with his seniority.

(f) Subject to the provisions of Subsection (e) of this Section 8 of this Article XI, an employee displaced from his shift has been discontinued, shall have the right to displace any other employee in that area in accordance with his area seniority.

(g) Any shift changes made in accordance with this Section shall be made on Monday following the determination of employees' choices provided that the determinations are made by noon on the preceding Friday and will be made without involving any overtime pay. Determination of employees' choices of shifts must be made within one (1) week after the shift is declared vacant, except as specified above.

Section 9. Reduction in Forces.

1. Effective August 1, 1986, employees who are permanently assigned in areas of the Operating Department who may be transferred from their regularly assigned classifications and thereby assigned, in accordance with the seniority provisions of the Agreement, to a vacancy with a lower rate of pay, shall continue to receive the higher rate of pay until they have had an opportunity to bid on and are the successful bidder to another vacancy calling for the same or higher rate of pay.

When there is more than one (1) bidder receiving the frozen rate of pay, all except the youngest employee in seniority shall have the right to refuse the vacancy. An employee who accepts a vacancy in order to protect a frozen rate or his retained seniority shall have the right to return to the vacancy from which he vacated if the vacancy he takes does not last for more than ninety (90) days.

Any question arising pertaining to safety due to reduced personnel in any area will be subject to Article XVII, Section 2.

2. Reduction in personnel and reduction in rate can, however, result from the fact that the operation of all or part of the equipment being operated in area is shut down either permanently or temporarily.

Any layoff will be in accordance with Article XI, Section 13. No employee will be reduced in pay for ninety (90) calendar days because of temporary shutdown.

3. Bumping Procedure - Employees permanently assigned to an area who are transferred to the Operator Trainee classification due to the shutdown of equipment will be allowed to replace other employees as follows:

(a) An equivalent number of vacancies permanently filled by employees with least bargaining unit seniority in any classification with less bargaining unit seniority, than employees reduced back to the Operator Trainee classification, will be declared vacant. The declaring of vacancies will be made within ninety (90) days after area shutdown and the assignments will be made on the ninety-first (91st) day.

(b) The vacancies declared vacant by the application of Item (1) above will be filled in accordance with bargaining unit seniority by those employees reduced to the Operator Trainee classification, or by the employees whose assignments were declared vacant.

(c) Employees reduced to the Operator Trainee classification who bid on and are the successful bidders before vacancies are declared as provided in Item (a) above will not be included in the number of assignments to be declared vacant.

4. Any employee who has replaced another employee under the provisions of subsection 9(2) above must return to the area from which he was originally reduced when he has an opportunity to do so on a vacancy of more than ninety (90) days or forfeit his seniority in the area to which he was transferred under subsection 9(2) above and go to the Operator Trainee classification.

5. The Bumping Procedure, as set forth in this Section, will not apply as a result of consolidation of assignments, automation, or change in shift schedules.

Section 10. Status of Employees Laid Off.

The accrued seniority, both bargaining unit and area, of an employee who has been laid off through no fault of his own shall continue to exist as of the date of the layoff for the following periods:

Length of Service	Period Seniority to Exist
Less than 180 days	0
180 Days to 2 Years	Length of Previous Service
2 Years or More	2 Years

Section 11. Seniority Lists.

Seniority lists shall be complied and be kept at all times available to the Workmen's Committee, and the Workmen's Committee shall also have access to daily time reports to verify disputed seniority lists and service records.

Section 12. Seniority - Outside Assignments.

Any employee, after having established seniority under the provisions of this Agreement, who is temporarily assigned to another classification by the Company, outside of the bargaining unit, shall continue for not more than ninety (90) working days per calendar year on a cumulative basis to accrue seniority on his regular classification during such period of temporary assignment. If such employee works more than ninety (90) days per calendar year on a cumulative basis, he shall forfeit one (1) day of bargaining unit seniority for each day in excess of ninety (90) days worked outside of the bargaining unit during that calendar year. This paragraph is not applicable to employees who transfer to the Maintenance Department. Such employees forfeit both area seniority and bargaining unit seniority on the date which they transfer to Maintenance.

Section 13. Layoffs and Reemployment.

The last employee hired shall be the first employee to be laid off on the basis of bargaining unit seniority. The last employee laid off shall, if he still has seniority, be the first employee rehired (notwithstanding any provisions of Section 9 of this Article).

An employee who has worked in the bargaining unit sufficiently long to be entitled to seniority in that department, and who was laid off through no fault of his own, has kept his current address on file with the Company and continues to be entitled to seniority under the terms of this contract, shall, subject to the provisions of this Section, be given first opportunity for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with copy of such letter to the Chairman of Workmen's Committee), addressed to him at his address then on file with the Company. He shall be allowed ten (10) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article XI (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed ten (10) days from the date of delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work, totally disabled to work, he shall, on or before that date, deliver to said Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended ninety (90) days.

Section 14. New Operations and Existing Operations.

The classification to be established in any new operations and the area in which new operations will be incorporated shall be discussed with the Workmen's Committee not less than thirty (30) days prior to the posting of new vacancies in that area.

Section 15. Promotional Requirements.

The minimum qualifications required in order for an employee to be eligible to bid on a classification posted as a vacancy will be the ability to write and to read and comprehend written and verbal operating instructions.

ARTICLE XII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

The Company may, from time to time, require all employees to have periodical physical examinations by a doctor selected by the Company. However, as long as an employee is physically fit, such examination shall not be used as a cause for termination. Each employee shall receive his regular rate of pay for all time required for him to be examined at the request of the Company.

Section 2.

In the case of an employee being absent from work due to illness or physical impairment, he may be required to present a certificate of physical fitness, signed by a licensed physician, before being readmitted to work. This rule, however, shall not limit the right of the Company to require physical examination by a physician in the Company's service in exceptional cases of constantly recurring absence from duty.

Section 3.

Notwithstanding any of the provisions of Article II or Article IV of this Agreement, in case a dispute arises over the physical fitness of an employee to return to work or continue to work, a board of three (3) physicians shall be selected, one by the Company, one by the employee, and one selected by the two so named. The decision of the majority of this board shall be final and binding.

ARTICLE XIII
AUTHORIZED DEDUCTIONS

1. Union Dues.

Upon receipt of a signed authorization by an employee in the form provided herein, requesting deductions from his or her wages of his or her monthly Union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form of such individual authorization shall be as follows:

> "Until further notice you are hereby requested and authorized to deduct from wages due me and payable on the first regular pay day of each month, the sum equal to my monthly dues as set by , UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 13-434 , for my account on or before the 15th day of the month following the calendar month for which said deductions are made."

The Financial Secretary of Local Union 13-434and an International Representative of the Union shall, from time to time, notify the Company in writing the amount of the monthly deduction to be made, from time to time, under this authorization.
The Company shall remit to the Union the amount so deducted on or before the 15th day of the calendar month following that for which deductions are made.

2. Political Contributions

The Company hereby agrees to honor contribution deduction authorizations from its employees who are Union members in the following form:

> "I hereby authorize the Company to deduct from my pay a yearly specified sum and forward that amount to the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 13-434 Political Committee. This deduction should be made and remitted to the Union on the first regular pay day of February each year. This authorization is voluntarily made on the specific understanding that the signing of this authorization and the making of payments to the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO Political Committee are not conditions of membership in the Union or the employment with the Company and that the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO Political Committee will use the money it receives to make political contributions and expenditures in connection with federal, state, and local elections."

The Union agrees to indemnify the Company for any loss the Company may suffer as the result of this deduction taken by the Company from an employee's pay to be remitted to the Union.

ARTICLE XIV
DISCHARGE

Section 1.

An employee shall not be discharged if physically and mentally capable of continuing his duties on account of any accident unless the accident was caused by negligence, carelessness, or malicious intent of the employee.

Section 2.

The company shall expect all of its employees to adhere to its rules and regulations.

Section 3.

The question as to whether a person who is discharged was rightfully discharged shall be a proper subject of arbitration.

The Company and the Union will share in the expenses of arbitration equally.

ARTICLE XV
MILITARY LEAVE

Section 1. Leave of Absence.

The rights of employees of the Company who enter military service during the term of this Agreement will be governed in all respects by the Military Selective Service Act including amendments.

Section 2.

An employee, upon return to work from Military Leave, will be allowed to claim any assignment that became vacant during his term of Military Leave to which his area seniority would have entitled him had he not been on Military Leave.

ARTICLE XVI
BULLETIN BOARDS

The Company shall maintain a bulletin board to be placed on the property where it may be seen by employees entering and leaving their place of employment.

Such bulletin board may be used by the Workmen's Committee of the Union for any matters pertaining to its membership provided the material posted shall contain nothing of a political or controversial nature nor reflect upon the Company or any of its employees or products.

Any notices other than notices of Union meetings, results of elections, sample ballots of Union elections, social events shall be approved in writing by Plant Manager or his representative before posting.

This bulletin board will be locked with keys, released to the Chairman of the Workmen's Committee, the Chief Steward, and the Chairman of El Dorado Chemical Company Group of Local 14-434of the Union and to the Company.

ARTICLE XVII
SAFETY & HEALTH

Section 1.

The Company shall institute and maintain all reasonable precautions for safeguarding the health and safety of its employees, and all employees are expected to cooperate in the implementation thereof. Both the Company and the Workmen's Committee recognize their mutual interest to assist in the prevention, correction, and elimination of all unhealthy and unsafe working conditions and practices.

Section 2.

No employee shall be required to perform services that seriously endanger his physical safety, and his refusal to do such work shall not warrant or justify discharge. In all such cases, an immediate conference between the Company and Union shall be held to settle the issue in question.

Section 3.

The Company recognizes the Workmen's Committee to be a Union Health and Safety Committee that will discharge this responsibility at a scheduled session as held under Article XVIII. Discussion of Safety and Health topics will be included in minutes issued from that session. The Health and Safety Committee will have the responsibility of making constructive recommendations for changes to eliminate unhealthy and unsafe conditions and practices. Recommendations of the Health and Safety Committee will not be subject to the Grievance Procedure under Article IV.

Section 4.

The Company will provide and maintain adequate health and safety equipment, monitoring devices, and personnel protective equipment. Additionally, the Company will provide employee training to ensure that employees are knowledgeable in use and maintenance of health and safety equipment and personnel protective equipment.

Section 5.

The Company will provide appropriate routine medical examinations at its discretion. A report of the medical findings will be made to the affected employee.

Section 6.

Inspection of all equipment throughout the plant or place of employment shall be continued by the Plant Manager or other persons designated by the Company from time to time. An inspection of any equipment may be secured upon the recommendation of the Workmen's Committee or the workmen employed on such equipment. The Union Workmen's Committee may make written suggestions to the Plant Manager or his representatives as to the elimination of hazards in order to prevent accidents.

Section 7.

A Safety and Housekeeping Inspection Team will be maintained for purposes of making periodic inspections of the plant premises and recommendations to improve Safety and Housekeeping. This team will consist of not more than two (2) members of this Workmen's Committee, or two (2) other members of the bargaining unit, and other persons outside the bargaining unit as designated by the Company. Those members of the bargaining unit who serve on the team will be excused from work, with pay, on the day of the inspection, and the vacancy created will be filled in accordance with Article XI, Section 8.

Section 8.

Two (2) "at-large" employees will be selected by the Company to participate in the Manufacturing Department Safety Planning Committee. The term of service will normally be one (1) year for these employees. The Company will maintain a list of those employees agreeing to serve.

Section 9.

One (1) "at-large" employee from the area in which the accident occurred, selected by the Company, will be asked to serve on formal Accident Investigation Teams as formed. The Company will maintain a list of those employees agreeing to serve.

Section 10.

The Company may, at its discretion, maintain a plant Emergency Squad for preserving the well-being of both employees and the physical facilities within the plant. The Company may assign employees to the Emergency Squad by classification and classification qualification.

The Emergency Squad shall be trained in first aid, personal rescue, fire fighting and other emergency training under the overall direction of the plant Safety Supervisor. Other selected personnel will be expected to attend training sessions to complement the makeup of the Emergency Squad, emergency equipment, and substitute as Emergency Squad Leader.

The Emergency Squad will be called in the event of an emergency, consistent with the Plant Emergency Plan, and shall be considered the primary crew to perform the duties and direct the operation during the emergency. However, should the need arise, other available employees, including salaried employees, may assist the Emergency Squad. If a need arises during an emergency, the Emergency Squad Leader may, at his discretion, call out additional Emergency Squad members.

The Company will maintain relationships with local emergency service groups so that, if available and if required, these groups may assist the Plant Emergency Squad.

ARTICLE XVIII
WORKMEN'S COMMITTEE CONFERENCES

Workmen's Committee, composed of five (5) members from the employee work force, and management representatives, shall hold regular meetings on a bi-monthly basis. It shall be the responsibility of both parties to submit a written agenda of each subject it wishes to discuss no less than forty-eight (48) hours before the day of any such meeting. In the event the aforementioned day occurs on a holiday, the day preceding the holiday shall be the day of the meeting. This date may be changed by mutual agreement.

The members of the Workmen's Committee, when scheduled to work the graveyard shift on the day after any such regular meeting, will be excused from work on that graveyard shift with pay.

ARTICLE XIX
SEVERANCE PAY

Any employee covered by the terms of this Agreement whose services are terminated through no fault of his own shall be granted severance pay after one (1) year of continuous service of one (1) week's pay, equivalent to forty (40) hours' straight-time pay at his regular rate; after two (2) years' service, two (2) weeks' pay equivalent to eighty (80) hours straight-time pay at his regular hourly rate.

If the services of an employee who has been continuously employed by the Company for one (1) year or longer is terminated through no fault of his own, and he has not been notified by the Company (by notice given at least two (2) weeks prior to the date upon which his services are terminated) that his services will be terminated on that date, he shall be paid, in addition to the amount to which he is entitled under the provisions of the first paragraph of this Article, two (2) weeks' pay equivalent to eighty (80) hours straight-time pay at his regular hourly rate.

ARTICLE XX
CONTRACT WORK

It is agreed that any work or operation as covered by this Agreement will not be contracted out if the Company has men and equipment available for such work.

ARTICLE XXI
DISCRIMINATION

There shall be no discrimination by the Company against any employee on account of his membership in this labor union or on account of any activity undertaken in good faith in his capacity as a representative of other employees. The Union shall not discriminate against any employee who is not a member of the Union.

Where the male gender is used in this contract, it is intended to refer to both male and female. It is a continuing policy of the Company and the Union that the provisions of this Agreement shall be applied to all employees without regard to race, color, religion, sex, physical disability, national origin, or age.

ARTICLE XXII
LEAVE OF ABSENCE

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with written consent of the Company, signed by the Plant Manager or his representative, so long as he does not desire to be off work over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service. The provisions of this Section 1 shall not be extended to more than two (2) employees in each area at any one time.

Section 2. Union Business.

(a) The Company shall grant a leave of absence, without pay, extending not longer than thirty (30) days to employees in order to engage in any work pertaining to the business of the Union, local or otherwise, upon sufficient notice so that the employee's absence will not cause overtime employment. Upon completion of such leave that employee will resume employment with previous seniority retained. This privilege will not be extended to more than four (4) employees at any one time. This privilege will not be extended to any one (1) employee for more than an aggregate of sixty (60) days in any one (1) calendar year. This does not apply to negotiations.

(b) Notwithstanding the provisions of the foregoing subdivision (a), the Company agrees that upon written request of the President of the Union (addressed to El Dorado Chemical Company, P. O. Box 231, El Dorado, Arkansas, Attention: Plant Manager) one (1) employee will be given a leave of absence not to exceed one (1) year, without pay, to work as an employee of the Union, or any of its affiliates, with the provision, however, that such leave of absence shall, upon the written request of the President of the Union (addressed in like manner) be extended for a period of time not to exceed one (1) additional year.

It is provided, however, that not more than one (1) employee at a time may be on leave of the character mentioned in the paragraph immediately preceding.

No employee shall be granted a leave of absence pursuant to this subsection who has not, immediately preceding the date upon which such leave of absence is to begin, worked for a period of one (1) year continuously.

Upon completion of the leave of absence mentioned within this subsection, or upon completion of the extended term of such leave of absence, if the term thereof is extended pursuant to this subsection, the employee involved will resume employment with previous seniority retained, provided such employee reports to the Company for work within one (1) day following the expiration of said leave of absence or within one (1) day following the extended term of such leave of absence if the term thereof is extended pursuant to this subsection.

An employee who fails to report for work within one (1) day following the end of such leave of absence shall thereby forfeit all of his seniority and his services with the Company shall be terminated; provided, however, if the employee involved is (on the date which he would otherwise be required to report to work) totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended thirty (30) days.

Company shall have the right to require such employee to be examined by a physician of its choice before extending such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employ of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously accrued seniority, whichever is less, during the period of his disability as a result thereof, notwithstanding any provisions of Article XI. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employ of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the department in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better assignment elsewhere, his seniority shall be canceled.

When an employee is out of work for the reasons set forth in this section, FMLA and relevant insurance coverage will be applied for the initial 12 weeks of the leave. After the initial 12 weeks, the employee will be entitled to continue health insurance coverage and at costs pursuant to his COBRA rights which will begin upon completion of the initial FMLA coverage.

ARTICLE XXIII
JURY DUTY

Each employee of the Company who is called to serve upon any grand jury, petit jury, coroner jury, or jury commission shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount which he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

ARTICLE XXIV
WAGE RATES AND CLASSIFICATIONS

Each employee who works during the period beginning 12:01 a.m., August 1, 2007, and ending 12:00 midnight, July 31, 2010, in one of the classifications shown on Exhibit "B" attached hereto, shall be paid for his work in that classification in accordance with the applicable wage rate, shift differential, and clothing allowance in accordance with Exhibit "B".

Notwithstanding any other provision of this Agreement to the contrary, the question of wages to be paid shall not be construed to include any allowance which results in an increase in the compensation of an employee or of employees.

ARTICLE XXV
VALIDITY

If any court shall hold any part of this Agreement invalid, such decision shall not invalidate the entire Agreement.

ARTICLE XXVI
NOTICES

Any notice required to be given an employee under Article V, Section 3, or under Article XIX, may be given by posting a notice on the bulletin board of the Union, with a copy of said notice to the Chairman of the Workmen's Committee. If any employee named in such notice is on vacation or on leave of absence, a copy of said notice will be mailed in a sealed envelope, registered, and addressed to him at his address as shown on the records of the Company. Each employee named in any such notice shall be deemed to have received the notice at the time said notice is posted on the bulletin board or mailed to him at his home address.

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to El Dorado Chemical Company, P. O. Box 231, El Dorado, Arkansas 71731, Attention: Plant Manager.

Any notice to be given to the Union may be given by depositing the same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 13-434, El Dorado, Arkansas 71731, with a copy of the notice to the Secretary, Local 13-434, of the Union, El Dorado, Arkansas 71731.

ARTICLE XXVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or to attend the funeral or any of the relatives of the employee hereinafter mentioned for the time hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) days. One of these days shall be the day of the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law, grandmother-in-law or grandfather-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purpose stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for a deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight-time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as: vacation pay, holiday pay, or sickness benefits payments.

ARTICLE XXVIII
MEDICAL INSURANCE BENEFITS

Group Insurance and Pension.

The Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis, in the following employee enrollment categories, payable bi-weekly:

a. Employee
b. Employee and Children
c. Employee and Spouse
d. Family

Medical claims utilization and fixed costs will determine the cost shareassigned to each enrolled employee by enrollment category.

(1) Effective January 1, 2008, the employee’s cost share of 22%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2006, through October 31, 2007.

The specific cost share amounts to be effective January 1, 2008, will be constant throughout that year.

(2) Effective January 1, 2009, the employee cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2007, through October 31, 2008.

The specific cost share amounts, per pay period, to become effective January 1, 2009, will be constant throughout that year.

(3) Effective January 1, 2010, the employee cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2008, through October 31, 2009.

The specific cost share amounts, per pay period, to be effective January 1, 2010, will be constant throughout that year.

Effective January 1, 2008, 2009, and 2010, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2008	22%
2009	23%
2010	23%

If the total claims percentage cost share, per pay period, exceeds the capped rates shown below, the capped rates will apply.

	<u>2008</u>	<u>2009</u>	<u>2010</u>
	22%	23%	23%
Capped Rates:			
Employee	$28.00	$33.60	$40.32
Employee & Children	$52.00	$62.40	$74.88
Employee & Spouse	$86.00	$103.20	$123.84
Family	$110.00	$132.00	$158.40

Employees should refer to Summary Plan Descriptions for details of EDC Health Plan co-payments, deductibles, co-insurance coverage and periodic amendments as may be made from to time to time.

Effective with the date of this Agreement, the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance (twice an employee's annual income).

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

ARTICLE XXIX
NO LOCKOUT -- NO STRIKE

The Company agrees that there shall be no lockout and the Union agrees there shall be no strike, sympathy strike, or interruption of production during the term of this Agreement.

IN WITNESS WHEREOF, this instrument is executed on the 1st day of August, 2004, to be effective as of 12:01 a.m. on the 1st day of August, 2004.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg
Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

EXHIBIT "A"
OPERATING DEPARTMENT
PROGRESSION CHART

AREA II	AREA III	AREA IV
"A" Operator	"A" Operator	"A" Analyst
"B" Operator	"B" Operator	"B" Analyst
"C" Operator	"C" Operator	"C" Analyst
*"D" Operator	"D" Operator	"D" Analyst

* (First 180 Days)

EXHIBIT "B"

WAGE RATES AND CLASSIFICATIONS

	08/01/07	08/01/08	08/01/09
"A" Operator/"A" Analyst	$19.88	$20.38	$20.89
"B" Operator/"B" Analyst	$18.51	$18.97	$19.44
"C" Operator/"C" Analyst	$17.57	$18.00	$18.45
*"D" Operator/"D" Analyst	$14.58	$14.58	$14.58

* (First 180 Days)

Rates for Control Board Operator, Boiler House Board Operator and certain A Lab Analysts:

Supplemental pay will increase from $0.50/hour to $2.50/hour when an operator is functioning in that capacity. The increased premium will be paid to eligible employees immediately upon the beginning of the new term of agreement.

The premium does not apply to Board Operators in training who have not been certified as required and who are functioning with a certified Board Operator as a resource on his shift who is receiving the supplemental pay on that shift.

The Company and the Union representatives will meet again as a committee not later than August 30, 2007 to continue its focus on and efforts to resolve operational and administrative issues related to this initiative. The group will meet as needed to insure that all relevant information is collected and a plan is completed as soon as possible.

Management shall have the right to use casual labor for periods of employment not to exceed ninety (90) days per year for a given individual.

SHIFT DIFFERENTIAL

In addition to the foregoing hourly rates, there shall be paid a shift differential of forty cents ($.40) for each hour worked on the 3:00 p.m. to 11:00 p.m. shift and eighty cents ($.80) for each hour worked on the 11:00 p.m. to 7:00 a.m. shift.

For payroll purposes, shift differential pay will be averaged over all three (3) shifts (7:00 a.m. to 3:00 p.m., 3:00 p.m. to 11:00 p.m., and 11:00 p.m. to 7:00 a.m.) - forty cents ($.40) per hour will be paid for each hour worked. Shift differential will be paid to operating personnel assigned to rotating shifts.

CLOTHING ALLOWANCE

In addition to the foregoing hourly wage rates, there shall be paid a clothing allowance of nine cents) ($.16) per hour for each hour worked by an employee. Effective August,1, 2007 through the term of this Agreement the clothing allowance will be sixteen cents ($.16) per hour worked by an employee. An alternate choice to the employee is to use the contractor service to supply them with uniforms. For those who use the uniform service will be assured of the current level of shirts, pants, jackets and winter work jacket at the $0.16/hour cost to employees with no cost to repair or cost increase for the term of Agreement unless the employee terminates use of uniforms and returns damaged goods. The company will move the location for uniform pick up and drop off to the old guard house entrance. The new location will be implemented not later than September 1, 2007.

EMERGENCY SQUAD PREMIUM

In addition to the foregoing rates, there shall be paid a rate of ten cents ($.10) per hour for each hour worked to employees working classifications designated for inclusion on the Plant Emergency Squad.

EXHIBIT "C-2"
5-2 SHIFT SCHEDULE

M T W T F S S M T W T F S S M T W T F S S

SHIFT
7-3 X X X X X Y Y Y Y Y Z Z Z Z Z

SHIFT
3-11 Y Y Y Y Y Z Z Z Z Z X X X X X

SHIFT
11-7 Z Z Z Z Z X X X X X Y Y Y Y Y

DAYS OFF X X X X X X
Y Y Y Y Y Y
Z Z Z Z Z Z

EXHIBIT "C-3"
UNIFORM SHIFT SCHEDULE

M T W T F S S M T W T F S S M T W T F S S M T W T F S S

SHIFT
11-7 A A A A A D D D D D D D C C C C C C C B B B B B B B A A

SHIFT
7-3 D D D C C C C C C C B B B B B B B A A A A A A A D D D D

SHIFT
3-11 C C B B B B B B B A A A A A A A D D D D D D D C C C C C

OFF B B C D D A A A A B C C D D D D A B B C C C C D A A B B

EXHIBIT "D"
CONSOLIDATION POLICY

During their negotiations, the Company and the Union discussed the procedures to be followed by the Company in its job consolidation program and agreed as follows:

The Company will accomplish consolidation of jobs in each operating department whereby each employee will be trained through the training program announced by the Company.

As soon as an employee has demonstrated the technical knowledge and qualifications to properly perform all duties of each job within an assigned area (II), (III), then such employee will be promoted to the classification of "A" Operator at the appropriate increase in pay.

(a) The length of training will be determined by the individual's ability to learn and perform the skills required by consolidation. To become qualified and entitled to "A" Operator pay and classification, an employee must have the skills and knowledge to perform any job duty within his/her work area.

(b) Areas and shifts will not be changed as a result of consolidation.

(c) Company shall have the right to determine the frequency of rotation, (not more often than weekly) in order to accomplish job consolidation. Such rotation shall normally be on a regular basis with exceptions made only because of justifiable business needs such as unplanned personnel absence, Acts of God, and production equipment failure.

(d) The parties have discussed the possible impact of consolidation on a limited number of employees who are not yet "A" Operators because:

1. They do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator. (This does not mean physical fitness which is provided for in Article XII.)

2. A very limited number of employees who allege they currently have medical conditions which limit their assignment to perform all the duties of the "A" Operator classification.

3. Those who allege they do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and with whom the Company disagrees.

4. Those who have neither alleged nor requested disqualification, but who are nominated by the Company. Following negotiations, a joint committee shall meet for the purpose of discussing the above individuals subject to the following:

(a) Each employee in categories 1-3 must, no later than September 30, 1989, submit a signed, dated request to the Manager of Manufacturing, requesting consideration for one of the above reasons. This procedure is offered on a one-time basis during such period.

(b) In the event the joint committee agrees that such an employee is disqualified for the reason alleged, such person shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B". The Company may utilize such individual in any job he/she is qualified to perform in his/her area.

(c) An employee who has submitted a request to be disqualified, due to physical reasons, for assignment to perform all duties of the "A" Operator classification may be required to submit to a physical examination by the Company's physician pursuant to the provisions of Article XII. In case of a disagreement over such employee's physical fitness for such work assignment, the procedures of Section 3 of Article XII may be resorted to by the employee within three (3) working days or the decision of the Company's physician shall be final and binding.

(d) In the case of an employee who has alleged that he/she does not possess the ability to learn, retain and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and the joint committee cannot reach a mutual agreement, the Company shall have the right to require such employee to proceed with its job consolidation and training program until the employee either qualifies or the Company agrees that such individual does, in fact, lack such ability. Such individual shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B" and assigned any duties qualified to perform within his/her area.

(e) In the event the joint committee does not agree that a person nominated by the Company under paragraph 4 is not qualified for training for promotion to "A" Operator, the individual may grieve the Company's decision.

(f) The above procedure is available only on a one-time basis, limited to those individuals who have submitted written request for consideration under the provisions of paragraphs 1, 2, or 3, or who were nominated by the Company during the 60-day period commencing August 1, 1989.

It is understood that there may be a situation where, because of training needs, it is necessary to train someone other than the senior operator and shift. In this case, as soon as such individual has been promoted to "A" Operator, the most senior operator will be placed in training for advancement to "A" Operator or paid at the rate of "A" Operator.

DATED this first day of August, 2004.

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

LETTER OF UNDERSTANDING

The parties have agreed that not withstanding any other clause or provision of the agreement the following procedures shall apply during the life of the Agreement, effective August 4, 2001:

(a) Commencing August 1, 1990, each employee shall be limited to one bid during each 12-month period commencing with the date the successful bidder is informed of the bid award. A successful bidder will be transferred as soon as a qualified replacement is available to fill his vacancy.

(b) Skills balancing, by shift within each area. Company shall have the right to balance assignment skills in each area on each shift in order to maintain production efficiency and to accomplish training needs.

A shift is considered not balanced until each operating assignment has available a minimum of two qualified operators.

The Company has the right to balance skills on each shift in each area. Whenever three (3) or more employees are qualified on any one assignment within a shift and another shift has only one person qualified for that assignment, the Company may transfer one person to the shift having only one trained person in that assignment in the following manner:

Company will offer the transfers first by area seniority to such qualified personnel and in the event the senior qualified employees decline, there by assignment of the qualified employee(s) with the least area seniority necessary to achieve shift skill balancing.

When more than one shift exceeds minimum skill balancing personnel numbers, the initial offer of transfer opportunity or assignment, will be by area seniority and qualifications from all shifts in the area.

It is understood that the same individual may not be involuntarily transferred for the purpose of skills balancing more frequently than once each twelve (12) months.

Skills balancing between shifts takes precedence over bidding procedures.

In the event the transfer of an employee from one shift to another creates a surplus on the receiving shift, the surplus employee shall then be assigned to the shift from which the transferred employee came. If an employee is not surplus the bidding procedure will be followed.

When there is a conflict between terms of the Agreement and this Letter of Understanding, this document shall control.

DATED this first day of August, 2004.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

EXTRA CREW
LETTER OF UNDERSTANDING

During their negotiations, the parties discussed the Company's objective of facilitating its commitment to job consolidation training, recognizing the need for extra personnel who could be used for purposes of relief, training, or replacement of employees who are absent or for overtime assignment.

The parties have agreed that the Company shall have the right to utilize certain lowest seniority individuals who will be designated as "Extra Crew" and assigned as the Company may elect. Such "Extra Crew" personnel will not be assigned to a shift or area until there is a vacancy after the completion of the realignment and bidding procedures, even though the employee has completed 180 days of service.

Such "Extra Crew" members will be drawn from the lowest senior employees in the plant or from "new hires." No regular assignment will be deleted to provide employees for this "Extra Crew."

The Company will utilize four (4) current employees to establish the "Extra Crew," or new hires as attrition takes place.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

AMERICANS WITH DISABILITIES ACT
LETTER OF UNDERSTANDING

The Company and Union recognize the provisions of the American's with Disabilities Act may impact the terms of this Agreement, and thus agree to discuss each instance individually in order to reach a mutual understanding.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

TWELVE HOUR SHIFT
LETTER OF UNDERSTANDING

There is presently an operating practice of a twelve hour shift schedule. All matters regarding the twelve hour shift policy are governed by the policy which is contained in Standard Operating Procedures Manual No. A002.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

LETTER OF UNDERSTANDING

During their negotiations in July and August, 2001, the parties discussed a proposal which would permit a limited exercise or bargaining unit seniority in the event of a reduction in force from either Area II, Acid, or Area III, Nitrates. The parties recognize the continuing right of the Company to rely on the provisions of Article XI, Seniority, including the first paragraph of Article XI and agreed that Section 4, Bargaining Unit and Area Seniority, subparagraph (c) provides for reducing the numbers of employees from an Area on the basis of area seniority.

The Company agrees, that in the event of a reduction in force from either Area II, or Area III, on the basis of Area seniority, an effected employee must first seek to displace an employee who holds a classification of "D" Operator, on the basis of bargaining unit seniority, within the Area he is presently assigned.

In the event there is no "D" Operator in the Area from which such employee was reduced, he may then request permission to displace an employee who is classified as a "D" Operator from the production area (II or III) he was not displaced from, on the basis of Bargaining Unit Seniority.

The Company shall have the right to give priority over Bargaining Unit Seniority to an employee who seeks to displace a "D" Operator from Area II or III, which he was not displaced from, on the basis of previous qualifications in such Area.

Employees may not displace an employee from a classification wage rate higher than the employee who seeks to retain employment on the basis of Bargaining Unit Seniority.

DATED this first day of August, 2004.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative
APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

LETTER OF UNDERSTANDING

The parties have discussed the use of past disciplinary events of employees who commit violations of Company policies, rules, work procedures, poor work performance, negligence, errors, etc., which do not involve offenses for which the penalty is immediate discharge, and agree, that a written disciplinary record, issued to an employee who does not receive a subsequent written letter or disciplinary notice, within twelve (12) months of the date of the first written notice, then such notice will not be used as evidence in an arbitration hearing in support of a disciplinary event occurring at a later date.

If an employee receives an additional disciplinary warning, at any point in time, commencing with date of the first written warning, an additional twelve (12) months, commencing with date of the most recent disciplinary incident, must lapse with no disciplinary event, before the previous notices become unavailable as evidence in future arbitration hearings.

DATED this first day of August, 2004.

EL DORADO CHEMICAL COMPANY

BY:
George Hogg, Plant Manager

PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS
INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434

BY:
Barry L. Strange, Representative

APPROVED:

BY:
Kenneth Booker

BY:
Danny Eakin

BY:
Duane Yerina

BY:
Ed Tuma

BY:
James Turberville

DRAFT

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE WORKERS,
AFL-CIO
LOCAL NO. 224

Effective: October 17, 2007

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

TABLE OF CONTENTS

PREAMBLE

This Agreement is made and entered into by and between EL DORADO CHEMICAL COMPANY (hereinafter referred to as the “Company”), and the INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL-CIO, LOCAL NO. 224 (hereinafter referred to as the “Union”), which the Company recognizes as the sole bargaining agent for the Maintenance employees of the Company at its chemical plant located north of El Dorado, Arkansas, who are eligible for membership in the Union in accordance with the Labor Management Relations Act of 1947.

Our future success and security requires that we foster a plant culture which underscores the importance of teamwork and focuses on customer satisfaction, methods improvement, demands mutual respect and promotes high morale. We must be prepared to meet the needs of changing circumstances and seize opportunities provided. The Company, the Union and all employees are committed to doing so.

We appreciate qualities and values such as pride in what we do, taking ownership of responsibility, dedication, cooperation, efficiency and optimism. Everyone who depends upon EDC recognizes the importance of creating and maintaining a safe and clean workplace and wants a plant which promotes fair treatment, quality work, and productive, profitable and efficient operations. We each accept and share the responsibility to do our parts to make that happen.

ARTICLE I
APPLICATION OF AGREEMENT

The Company hereby recognizes the Union as the exclusive bargaining agency for the employees of the Company at said plant who work in the capacities hereinafter stated in this Article I.

(a) All Maintenance employees, as described in Exhibit "A", engaged in the installation, maintenance and repair of machinery and equipment, but excluding all production, chemical and operating employees, shipping attendants, office and clerical employees, managers, supervisors and guards.

ARTICLE II
PERIOD OF AGREEMENT

This Agreement shall remain in full force and effect for a three year contract term commencing October 17, 2007, at 12:01 a.m., and ending 12:00 midnight, October 16, 2010. At reasonable times after August 1, 2010, the parties will meet to attempt to negotiate a new contract to be effective for the period beginning after midnight, October 16, 2010.

ARTICLE III
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct; to assure discipline and efficient operations; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of the business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any job, operation, service, or department; to sell, merge or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged. The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE IV
CHECK-OFF OF UNION DUES and UNION MEMBERSHIP

Upon receipt of a signed authorization by an employee requesting deductions from his wages for his monthly union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form shall be furnished by the Union.

The Financial Secretary of Local 224, IAM-AW, shall, from time to time, notify the Company in writing of the amount of the monthly deduction to be made, from time to time, under this authorization. All money so deducted by the Company shall be paid to the Union on or before the end of the month during which deductions are made. Upon receipt of written request by current employees as of October 17, 2007, the Company shall, after thirty (30) days' notice, discontinue dues deduction.

ARTICLE V
SENIORITY

Section 1. Length of Service.

Length of service in the bargaining unit and with the El Dorado Plant shall, in that order, govern the promotion, demotion, and transfer of employees.

Section 2. Order of Seniority.

An employee's seniority shall be determined as follows:

Order of Importance	Seniority
1st	Bargaining Unit
2nd	Plant

Section 3. Eligibility for Seniority.

An employee shall be first entitled to seniority in the bargaining unit when he has been continuously employed in that unit for 180 days; his seniority dating from the date of the beginning of such employment.

However, an employee who has been employed in the bargaining unit, who has been laid off prior to his having been employed therein for 180 days continuously, and who is reemployed in the bargaining unit within 180 days from the date upon which he is laid off, shall, upon such reemployment, be entitled to have the number of days which he has worked in the bargaining unit, during the period of his most recent previous employment herein, included in any subsequent computation of his seniority in the bargaining unit and shall be entitled to seniority when he has accrued 180 days on that basis.

The Company shall have the right to layoff or discharge, without cause, any employee who has not worked in the bargaining unit a sufficient length of time to gain seniority, and such action on the part of the Company shall not be the subject of a grievance on the part of the Union under any provision of this Agreement.

Section 4. Filling Vacancies.

(a) Temporary and permanent vacancies will be filled only when the Company sees a need to fill the vacancy. In the event the Company sees a need to fill a vacancy, it will be filled by the employee having the most bargaining unit seniority, who desires the job, and who possesses a skill of the group in which the vacancy occurs. Any person so promoted must accept the duties and responsibilities of the job.

(b) When there is a permanent vacancy in a group and the Company sees a need to fill that vacancy, the Company shall post promptly, and keep posted for fifteen (15) days, notice on its bulletin board of the job vacancy. It shall be the duty of an employee who feels himself entitled to such job on account of his seniority to file his sealed bid for such job with the Plant Manager or his representative, and send a copy thereof to the Chairman of the Shop Committee within said 15-day period. In order to be considered valid, a bid must be signed, dated, and deposited in a locked box marked "I.A. of M. and A.W. Bids" located at the plant entrance gate.

Immediately upon expiration of the posting period of fifteen (15) days, the names of all bidders will be posted on the bulletin board, and the bidder having the most seniority and who desires the job shall be assigned to the group and receive the "C" Mechanic rate of pay if he possesses the necessary skill. In the event no qualified bidder possessing the necessary skill bids on the vacancy, the Company may hire a qualified employee from the outside.

If he does not possess the skill, he will be reduced to the rate that compares to his previous experience beginning not later than the beginning of the work week following the week in which the successful bidder is determined, provided the successful bidder is available to report for work on that day.

If the group vacancy is not filled by the procedure set forth above and the Company sees the need to fill the vacancy, a first-year "E" Mechanic job will be posted for filling outside the bargaining unit.

Notwithstanding any other provisions of this subsection (b), it is agreed that the Company shall have the right at any time during said 15-day posting period to withdraw the posting of a new job in the event the Company decides that such job need not be filled.

(c) Should an employee within a group who is entitled to a promotion desire to waive his opportunity for that promotion, he shall do so by signing a waiver.

(d) In the event that it becomes necessary to establish a permanent rotating shift the Company will notify the Shop Committee to discuss the procedure and shift to be implemented at least thirty (30) calendar days before establishing such shift.

(e) In addition to the hourly rates, employees who are regularly assigned to a specific shift shall be paid a shift differential of forty cents ($.40) for each hour worked on the evening shift and eighty cents ($.80) for each hour worked on the graveyard shift. For payroll purposes, employees who are regularly assigned to a three shift rotating schedule shall receive shift pay averaged over all three shifts (forty cents ($.40) per hour).

NOTE: Maintenance personnel who are not regularly assigned on a rotating shift basis or to the evening or graveyard shift will receive shift differential in accordance with the August 3, 1989, Letter of Understanding (regarding turnarounds and major maintenance projects).

<u>Section 5. Qualifications for Job</u>.

(a) It is not the intention of the parties to this Agreement that any employee shall be permitted to work on a job when he is not qualified to perform the work which that job requires. However, if, in the opinion of the Company, an employee is not qualified for a particular job to which he would otherwise be entitled by virtue of his seniority, and the Company determines that an employee's application for the job shall be denied on the basis of his lack of qualifications, the Company shall notify the Chairman of the Shop Committee and the employee involved of their decision, at least five (5) days prior to the date upon which any other employee is permanently assigned to the job.

Section 6. Seniority List.

Seniority lists will be compiled on April 1 and October 1 and will be available to all employees. One copy of each seniority list will be furnished to the Shop Committee.

Section 7. Seniority Accrued.

Each employee shall retain the seniority accrued to him based upon actual service at the El Dorado Plant.

Section 8. Seniority - Outside Assignments.

Any employee, after having established seniority under the provisions of this Agreement, who is temporarily assigned to another job by the Company (outside the bargaining unit) shall continue, for not more than ninety (90) days per calendar year, on a cumulative basis, to accrue seniority on his regular classification during such period of temporary assignment. If such employee works more than ninety (90) days per calendar year on a cumulative basis, he shall forfeit one (1) day of bargaining unit seniority for each day in excess of ninety (90) days worked outside of the bargaining unit during that calendar year.

Section 9. Discharges and Reemployment.

When there is a reduction in the number of employees in the bargaining unit, the employee last employed in the bargaining unit shall be the first employee laid off. The employee laid off through no fault of his own, who has the greatest bargaining unit seniority, shall (subject to the following provisions of this Article) be the person first reemployed in the event additional employees are employed, provided that the person is qualified to perform the duties of the job to which he would be assigned on reemployment.

A person who has worked in the bargaining unit sufficiently long to be entitled to seniority in that unit, and who is laid off through no fault of his own, who has kept his current address on file with the Company, and who continues to be entitled to seniority under the terms of this Agreement shall (subject to the following provisions of this Article) be given first consideration for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with a copy of such letter to the Chairman of the Shop Committee), addressed to him at his address then on file with the Company, and he shall be allowed fifteen (15) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article V (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed seven (7) days from the date of the delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended ninety (90) days.

Section 10. Status of Employees Laid Off.

The accrued seniority of an employee who has been laid off through no fault of his own shall continue to exist from the date of his layoff for the following periods:

Years of Service	Period Seniority to Exist
0-180 days	-0-
181 days to 2 years	Length of previously accrued seniority
2 years or more	2 years

Section 11. Loss of Seniority.

Seniority shall be lost and employment terminated for any of the following reasons:

(a) Quitting.

(b) Absence from work for three (3) consecutive days without having notified the Company, unless physically impossible to do so.

(c) Discharge for just cause.

(d) Failure to return at the expiration of a leave of absence or vacation.

(e) If an employee misrepresents the reason for requesting a leave of absence.

(f) If an employee fails to file for reinstatement within ninety (90) days following discharge from the U.S. Military Service.

(g) Failure to return to work from layoff within the time specified in Section 9 of this Article.

(h) At the end of the period specified in Section 10 of this Article, or upon earlier rejection after layoff of an offer of reemployment in a classification equal to the classification from which laid off.

ARTICLE VI
HOURS OF WORK AND OVERTIME

Section 1. Hours of Work.

(a) Regular base hours of work shall be eight (8) hours per day and forty (40) hours per week.

(b) The work week shall begin at 12:01 a.m. each Monday and end at 12:00 midnight the following Sunday. The work day shall begin at 12:01 a.m. and end at 12:00 midnight.

(c) The work week shall normally be five (5) consecutive 8-hour days, Monday through Friday, and will normally begin work at 7:00 a.m. and end at 3:30 p.m. with a 30-minute lunch period from 12:00 noon to 12:30 p.m.

(d) No employee shall be required to work more than twelve (12) hours during any normal work day except in case of an emergency.

(e) All employees shall be expected to report to work promptly at the scheduled time. No employee shall be permitted to work if such employee reports for work more than one and one-half (1-1/2) hours after his regular scheduled reporting time, unless such delay has been previously excused by the Company.

(f) No employee shall be allowed to work more than sixteen (16) continuous hours nor more than sixteen (16) hours in any one day except in the case of an emergency. However, an employee will be allowed to complete his regularly scheduled hours of work as provided in Sections 5, 8 and 10 of this Article VI.

(g) Maintenance overhauls may be staffed on 8-hour, 10-hour, or 12-hour shifts as may be necessitated by the needs of the operation.

The Company will specify and select the number and classifications of personnel on each shift by work group classification for each particular overhaul on a shift basis. Preference to shifts will be governed by the employee's bargaining unit seniority. Shift change notice will be handled as outlined in Article VI, Section 3. In the event there are insufficient qualified personnel on each shift, the Company shall have the right to assign qualified personnel as needed.

Section 2. Overtime and Call-Out Pay Rates.

(a) Overtime and call-out rates shall be one and one-half (1-1/2) times the regular rate and shall be paid for all work performed in excess of forty (40) hours per week, continuous actual work in excess of eight (8) hours, and for all work performed as a result of call-out and for hours worked outside an employee's regularly scheduled hours.

(b) Any employee who works over, beyond his regular scheduled work day, shall be paid a minimum of three (3) hours at straight time. If the employee is required to stay over beyond his regular scheduled work day to attend meetings or to receive training, and no production work is involved, he will receive pay for actual time spent at one and one-half (1-1/2) times his regular rate of pay, providing he has received a minimum of twenty-four (24) hours' notice in advance.

(c) No employee shall work overtime without the approval of his Foreman.

Section 3. Shift Change Notice.

(a) The Company shall pay each employee one and one-half (1-1/2) times his regular rate of pay for the first shift of a rearranged work schedule if the employee whose shift is changed shall not have been notified of the change at least twenty-four (24) hours prior to the beginning of said first shift. If notice of employee's shift change shall be posted on his regular day off, notice of the change shall be posted at least seventy-two (72) hours prior to the beginning of said first shift. Any notice required to be given to an employee under the provisions of this Section 3 may be given by written notice posted on the general bulletin board of the Company and the bulletin board of the Union, and each employee named in any notice shall be deemed to have received the notice at the time copies of said notices are posted on said boards.

(b) The changing of an employee's shift, incident to the return of an employee from sickness or accident, shall not be considered a change in shift within the meaning of this Section 3, unless the absent employee has given the Company at least seventy-two (72) hours' notice of his intention to return to work and the time at which he will return to work by notifying his supervisor.

(c) The changing of an employee's shift from 7:00-3:30 to 7:00-3:00, or from 7:00-3:00 to 7:00-3:30 will not constitute a shift change.

(d) A change in shift at the request of an employee shall not be considered a change in shift for the purpose of this Section 3.

(e) No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change.

Section 4. Meal Time.

(a) If a "Day Man" is instructed to and continues to work overtime past 6:00 p.m., he shall be allowed a 30-minute period beginning at 6:00 p.m. for supper on Company time; and if said "Day Man" then continues to work additional overtime, he shall be allowed a 30-minute lunch period on Company time; each such period to begin at the end of four (4) hours of additional continuous overtime worked after 6:30 p.m.

(b) Any employee called for work outside of his regular working hours, who is required to work more than four (4) consecutive hours outside his regular hours, shall be allowed a 30-minute period for a meal on Company time at the end of the fourth consecutive hour and at the end of each consecutive 4-hour period thereafter that said employee continues to work outside his regular hours.

Section 5. No Reduction of Work Week as Result of Overtime.

No employee will be required to take any time off from his regular work week because of overtime worked in that or any other week. If an employee is required to work on his day off, he shall not be forced to take another day off in lieu thereof.

Section 6. Computation of Overtime.

For the purpose of computing overtime under this Article, the exact time worked, rounded to the nearest quarter hour, shall be accounted for, which shall be paid for at the overtime rate.

There shall be no duplicate payment for daily overtime and weekly overtime. If daily overtime is greater in any one work week, only daily overtime shall be paid, or if weekly overtime is greater in any one work week, only weekly overtime shall be paid. There shall be no pyramiding of overtime.

Section 7. Distribution of Overtime and Call-Out Time.

Overtime work opportunities shall initially be distributed, as equitably as practicable, within each work group where the overtime is required in accord with the Company's distribution policy. The Company may then offer such work to employees in other work groups who are qualified.

For the purpose of distributing overtime, the Company will submit a list, biweekly, to the work group steward showing the overtime worked, refused and overtime standing of each employee covered within the group.

Each employee who is requested to report for overtime duty shall report at the required time unless he shall first obtain permission from his supervisor to be relieved of such duty.

Section 8. Call-Out.

An employee who is called out and reports for work outside his regular working hours shall work until excused by the person then supervising his work; provided that no one shall be required to work longer than is provided in Section 1(d) of this Article. An employee who is called out and reports for work shall be paid a minimum for four (4) hours at time and one-half (1-1/2), even though the full four (4) hours may not be worked because no work is available, or he does not work at all because no work is available. An employee called for such work, who works continuously until the beginning of his regular hours of work and continues to work during the regular hours of his scheduled work, shall not be considered to have had a change in shift within the meaning of Section 3 of this Article VI.

A description of the work or jobs to be done, or the problem necessitating the call-out, is provided as accurately as possible by the supervisor in order that the person being called may judge: (a) whether or not he has the ability to do the work, and (b) about how long he may have to work. It is not intended to have a person come out on one job, then surprise him with a list of additional jobs to be done. However, due to emergencies, it cannot be guaranteed that he will only be required to do what he was called for.

Notwithstanding the fact that an employee has been called out for work, such employee shall perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused from such work.

If an employee is called out for work and works until the beginning of his regular work schedule, the call-out will be considered as ending at the beginning of his regular schedule.

Section 8A. Advance Scheduling of Overtime.

Overtime may be scheduled up to three (3) weeks in advance of the actual time required. In the event the scheduled overtime is cancelled, eight (8) hours' notice will be given or a call-out will be paid.

Section 8B. Right to Assign Qualified Personnel.

In the event overtime distribution and call-out procedures do not provide the Company with sufficient, qualified personnel to perform the overtime work, the Company shall have the right to assign such work to qualified personnel. The performance of such work is mandatory.

Section 9. Holiday Pay.

The following days shall be considered holidays and normally no work will be performed on the designated holidays except in cases of emergency, around-the-clock shift work, and in those crafts where work is necessary for continued operations:

1. New Year's Day
2. Good Friday
3. Memorial Day
4. July Fourth
5. Labor Day
6. Columbus Day
7. Thanksgiving Day
8. Day after Thanksgiving
9. Last work day before Christmas holiday
10. Christmas Day

When any of these holidays fall on Sunday, the following Monday will be observed as the holiday.

When any of these holidays fall on Saturday, the preceding Friday will be observed as the holiday.

Each employee who is not required to work and who does not work on a holiday shall be paid a bonus equivalent to eight (8) hours at his regular rate at straight time pay, providing he has worked his last scheduled work day immediately preceding the holiday and his first scheduled work day following the holiday unless the failure to work these days is because of confirmed illness or accident no more than five (5) work days before or after the holiday, unless the employee was excused in advance by the Company.

An employee who works on the holiday will receive holiday pay equivalent to the actual hours worked on the holiday, up to a maximum of twelve (12). The Company retains the right to schedule employees to work and the amount of hours worked on holidays.

Section 10. Reporting for Work and Not Used.

Except when no work is available due to Act of God, such as fire, flood, explosion, or tornado, an employee who reports for duty on his regular schedule shall be given the opportunity of working a full 8-hour shift.

ARTICLE VII
WAGE RATES AND CLASSIFICATIONS

Section 1. Wages and Pay Period.

The regular pay periods for employees subject to this Agreement will cover every two (2) scheduled work weeks, and checks will be available to the men on their regular shifts on the Friday following completion of the 2-week period.

Each employee who works during the period beginning 12:01 a.m., October 17, 2007, and ending 12:00 Midnight, October 16, 2010, shall be paid for his work in that classification on the basis of the basic hourly wage rate for that classification shown on Exhibit "A" to this Agreement. Each employee will be paid the applicable clothing allowances provided on Exhibit "A" to this Agreement.

Section 2. Changes in Classification of Work.

(a) Each employee covered by any classification is expected to perform any duties to which he may be assigned within his classification or lower classification.

(b) It is understood and agreed by the parties hereto that two (2) work groups shall be recognized under this Agreement. A tabulation of the groups with explanatory notes is made in Exhibit "B," Part 1, which is a part of this Agreement.

(c) All Maintenance personnel may be assigned to do any jobs that they have the ability to perform subject to the provisions of Article V, Section 5, and Article XIV, Section 5, of the current contract.

(d) The Company reserves the right to increase or reduce, at any time and from time to time, the number of individuals employed in any group mentioned in Exhibit "B", Part 1, to that number of individuals which, in the opinion of the Company, are required to perform work in that group for maintaining the plant. Any such increase or reduction of force in any group shall be made on the basis of bargaining unit seniority in that group. The Company shall advise the employee(s) affected seventy-two (72) hours in advance of any permanent change in the number of persons who shall work in any classification.

Section 3. Mechanic Classifications, Opportunities and Training

(a) The Company wants to provide growth and skills enhancement opportunities for members of the bargaining unit. In that regard, it will create new Mechanic classifications of Specialist I, Specialist II and Specialist III. In addition, it will create a third classification of E & I Specialist which will fall between current Specialists I and II.

(b) The rates paid employees in the Mechanic Specialist I and III classifications will be the same as the hourly rates currently paid E & I Specialists I and II. The rates for the Mechanic Specialist II and new E & I Specialist position will be the midpoint between the existing two rates.

(c) The mutual benefit/objective of the new, higher paying classification is to provide interested unit members with a chance to learn new skills or enhance existing ones and provide them with opportunity for additional pay for those in the classifications. The Company expects to benefit by increased flexibility and efficiency, reduced reliance on outside contractors, and be in a better position to recruit and retain skilled personnel.

(d) The Company and the Union committee will have a collaborative discussion to determine the skill sets required for each new position. Input from the Union will be solicited and carefully considered in an attempt to reach consensus on the appropriate standards and expectations for the new jobs. In addition, the parties will work to reach agreement on the procedures which will be used for an interested individual to achieve certification in the new classifications.

(e) The parties recognize and agree that the training component is critical to the success of this initiative and will meet to consider the best, fair methods of testing for competence in relevant skill areas. Tests ultimately used will be relevant to the job skills needed on site.

(f) The Company will include the current Mechanic progression testing program as another focus of the training committee to be established.

(g) The Company expects that the new positions, training and certification programs above will be implemented not later than October 17, 2008. If not implemented by then, the parties agree to meet and discuss reasons for the delay and attempt to complete the process as soon as possible.

ARTICLE VIII
HANDLING OF GRIEVANCES

Section 1

Nothing in this section shall prohibit the informal discussion and settlement of grievances between an individual employee and his supervisor. If so requested by the employee, a representative of the Union, who may be an officer or steward, may be present at such informal discussions. The formal grievance procedure shall be as follows: The grievance will be reduced to the writing (on a form supplied by the Company) and shall state clearly, contract violations or causes. The Company will respond in writing at all steps.

Step 1

If the complaint is not settled informally, it may be submitted to his Maintenance Supervisor or his designee by the aggrieved employee and/or his Union Representative within 10 days excluding Saturday, Sunday and Holidays, of the aggrieved act. The supervisor will give his answer within five days excluding Saturday, Sunday and Holidays. Grievances settled in step 1 shall be on a non-precedent setting basis.

Step 2

If the grievance is not settled in Step 1, the grievance may be referred within ten days, (following receipt of the Supervisor's answer in Step 1) to the Maintenance Manager or his designee. Maintenance Manager or his designee will meet with the shop steward for the discussion of the grievance and after meeting with the shop steward the Maintenance Manager or his designee will give his answer within seven days, excluding Saturday, Sunday and Holidays.

Step 3

If the grievance is not settled in Step 2, the grievance may be referred within ten days, excluding Saturday, Sunday and Holidays (following receipt of the Maintenance Manager or his designee's answer in Step 2) to the General Manager who will meet with the Union Officers and the

International or District Lodge Representative after the meeting with the Union Officers/DBR the Company will answer within ten days, excluding Saturday, Sunday and Holidays.

a) If the grievance is not settled in Step 3, the grievance may be referred within 30 days, excluding Saturday, Sunday and Holidays, (following receipt of the Company's answer in Step 3) to arbitration. If agreeable to both parties, mediation may be used prior to arbitration to resolve the grievance.

The party desiring arbitration will make application to the Federal Mediation and Conciliation Service for a panel of seven arbitrators. The Company and the Union shall alternatively strike until one arbitrator is left. The notice to the FMCS shall contain a requirement that the arbitrator be available to hear the case in 90 days. Both the Company and the Union shall have the right to reject two (2) panels submitted by the Federal Mediation and Conciliation Service. The decision of the arbitrator shall be final and binding upon all parties to this agreement. The arbitrator shall have no power to add to or subtract from or modify any of the terms of this agreement or any agreement made supplementary hereto, nor to establish or change any rate, but shall interpret and adjust grievances in accordance, herewith, and shall render his decision within 30 days from the close of the hearing or date post hearing briefs may be filed. Such decisions are to be put into effect within 30 days of receipt. The cost of the arbitrator shall be borne equally by the parties.

b) Time limits as provided herein may be extended by mutual agreement.

If the Union considers that an employee has been discharged unjustly, the Committee shall file such claim within 15 days, excluding Saturday, Sunday and Holidays, with the Company at Step 3 in this procedure.

ARTICLE IX
SHOP COMMITTEE AND STEWARDS

Section 1. Shop Committee.

The Shop Committee, composed of four (4) members from the employee work force, and management representatives, shall hold regular meetings on a bimonthly basis. It shall be the responsibility of the Shop Committee to submit a written agenda of each subject it wishes to discuss with the Company no less than forty-eight (48) hours before the day of any such meeting. Only three (3) employees in any one group at any one time shall be a member of the Committee.

Section 2. Stewards.

(a) A Steward and an assistant Steward may be elected in each work group by the employees of that group, and the Union shall submit to the Company, in writing, the names of each person so designated. The Company shall consider the person so designated as Steward and assistant Steward of each work group until notified, in writing, to the contrary.

(b) Duly-elected Stewards or Committeemen shall be deemed to possess top ranking seniority for purposes of layoff and recall rights within his respective work group or classification while acting as such.

ARTICLE X
LEAVE OF ABSENCE

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with the consent of the Company so long as he does not desire to be off over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service.

Section 2. Union Business.

(a) The Company shall, upon a minimum of thirty (30) days' prior written request from an employee and the President of Local No. 224 of International Association of Machinists and Aerospace Workers, grant a leave of absence, extending not longer than fourteen (14) days, to the employee applying for such leave in order that he may, during that leave, engage in work pertaining to the business of Local No. 224 of International Association of Machinists and Aerospace Workers.

Such a leave shall not be granted to more than one (1) employee at any one time. Such employee shall not be granted such a leave for more than an aggregate of thirty(30) days in any one (1) calendar year.

(b) The Company shall grant (upon a minimum of sixty (60) days advance prior written request of an employee and the President or Vice President of International Association of Machinists and Aerospace Workers) a leave of absence for a period not to exceed one (1) year in order that the employee requesting such leave may, during the period of such leave, work as any employee of International Association of Machinists and Aerospace Workers. Not more than one (1) employee shall be permitted to be absent from work at any one time on any such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employment of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously-accrued seniority, whichever is less, during the period of his disability as a result thereof. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employment of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the classification in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better job elsewhere, his seniority shall be cancelled.

Section 4. Notice to the Company.

When an employee becomes aware of the fact that he is going to be absent from work due to sickness, accident, or other emergency, he must notify his supervisor as far in advance of his scheduled shift as he/she has knowledge of such intended absence, but no less than one (1) hour before the time he is due to report to work. In the event the employee cannot contact his Supervisor, it is permissible to contact any member of Management.

Section 5. Military Reserve Training.

(a) Any regular employee (not probationary) may be granted a special leave of absence for a period not to exceed fourteen (14) days, plus a reasonable period to cover travel time, when required for the purpose of engaging in a training program for Enlisted Reserve, Reserve Officers, or National Guard Encampment, provided:

1. He furnishes the Company with a copy of orders from the military authorities calling him for duty; and

2. He gives advance notice to his immediate supervisor so that arrangements may be made for his replacement during the period of his leave.

(b) Only one (1) leave of absence for Military Reserve Training shall be granted to any employee during a calendar year.

When an employee is out of work for the reasons set forth herein, FMLA and relevant insurance coverage will be applied for the initial twelve (12) weeks of his leave. After the initial twelve (12) weeks, the employee will be entitled to continue health insurance coverage and at costs pursuant to his COBRA rights which will begin upon completion of the initial FMLA coverage.

ARTICLE XI
VACATIONS

Section 1.

Normal vacation accruals will be computed in accordance with the following provisions:

(a) Two weeks (80 hours) - after having accrued one (1) year's Company seniority;

(b) Three weeks (120 hours) - during the calendar year in which an employee accrues six (6) year's plant seniority;

In computing length of service for vacations, time spent working at the El Dorado Plant will be used.

Section 2.

Those employees who had previously accrued or who will accrue, during the term of this Agreement, twelve (12) years or more Company seniority shall be entitled to a vacation accrual of four weeks (160 hours). Thereafter, and for all other employees, the maximum vacation accrual shall be as provided in Section 1.

Section 3.

(a) Normally, all vacations will begin with the first work day of the work week schedule.

(b) Vacation pay shall be based upon the straight time rate of an employee's regular classification at the beginning of the vacation and will be taken in accordance with his established work schedule. If a holiday, as defined in Article VI, occurs during an employee's vacation period, the employee will receive pay for said holiday as defined in Article VI.

(c) Each employee must take his vacation during the vacation year (January 1-December 31) in which it falls due, subject to subsections (d) and (i) below.

(d) If an employee is not permitted to take his vacation in any calendar year in which it is due because the Company finds it not convenient to excuse him from work, he shall be paid a sum equal to the sum to which he would have been entitled for working at his regular job based on straight-time pay at normal working schedule during the last part of that year equal to the number of weeks' vacation to which he is entitled.

(e) Except with special permission of the Company, no employee shall be permitted to begin a vacation in any year within three (3) months of the date of the end of the vacation taken by him during the preceding calendar year, and any employee who has received pay in lieu of vacation for one (1) calendar year shall be entitled to his next annual vacation before March 1 of the following year, if it is practical for the Company to give him a vacation.

(f) An employee who (a) resigns, (b) retires, (c) is laid off as part of a reduction in forces, or (d) is granted a military leave under the provisions of Article XII, at a time when he has earned vacation to that date but has not taken, nor previously received pay in lieu of, shall be paid in lieu of any vacation he has earned to that date but has not taken, nor previously received pay in lieu of.

Computation of vacation under this section will be earned at the rate of one-twelfth (1/12th) for each month from employee's anniversary date. Sixteen (16) or more calendar days of employment in any calendar month will be considered a full month in computing vacation accruals.

(g) An employee will not be eligible for overtime or call-out during the period beginning with the first day of his vacation and until his first scheduled work day following completion of his vacation.

(h) In the event of the death of any employee who was then otherwise eligible for a vacation but who had not taken it, a sum of money equal to pay in lieu of such vacation shall be paid to the person(s) who shall be entitled to the personal property of such decedent.

(i) No employee shall receive pay in lieu of vacation except as provided in Article XI, Section 2(d). However, when an employee is absent from work due to authorized occupational injury or illness, or personal sick leave, and has not returned to work by December 31, he may, at the Company's option, be permitted to take his vacation or receive vacation pay between January 1, and April 1 of the following year.

<u>Section 4</u>.

The vacation schedule will be initiated January 2nd of each year for those eligible for vacation in that year. Employees shall choose their vacation periods in order of their bargaining unit seniority. The Company will, insofar as operations permit, arrange by choice and by seniority the employee's request in the vacation schedule. An employee not submitting his vacation preference within a reasonable time after being contacted will have his vacation scheduled during the year at a time convenient to the plant operations.

Normally, subject to operational requirements, the Company will permit from each Maintenance Work Group, a maximum of twenty (20%) percent of the active available employees to be on vacation at the same time.

ARTICLE XII
MILITARY LEAVE

<u>Section 1. Military Service</u>

The rights of employees of the Company who enter Military Service during the term of this Agreement will be governed in all respects by applicable laws.

<u>Section 2. Pay in Lieu of Vacation</u>.

Each such employee who is entitled to a vacation under the vacation policy of the Company at the time he leaves to enter the Armed Forces, who elects not to take the vacation but to receive pay in lieu thereof, shall, upon furnishing to the Company a certificate from his commanding officer establishing the fact that he had been inducted into the military service, be paid the amount of money he would have received had he taken his vacation just prior to the beginning of his military leave.

ARTICLE XIII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

The Company may, from time to time, require all employees to have periodical physical examinations by a doctor selected by the Company. However, such examinations shall not be used for the purpose of discriminating against an employee. Each employee shall receive his regular rate of pay for all time required to be examined as provided in this Section 1.

Section 2. Certificate of Physical Fitness.

In the case of an employee being absent from work due to illness or physical impairment, he may be required to present a certificate of physical fitness, signed by a licensed physician, before being readmitted to work. This rule, however, shall not limit the right of the Company to require physical examination by a physician in the Company's service in exceptional cases of constantly recurring absence from duty.

Section 3. Dispute Resolution.

Notwithstanding any of the provisions of Article VIII of this Agreement, in case a dispute arises over the physical fitness of an employee to return to work or continue to work, a board of three (3) physicians shall be selected; one by the Company, one by the employee, and one selected by the two so named. The decisions of the majority of this board shall be final and binding.

ARTICLE XIV
MISCELLANEOUS AND GENERAL

Section 1. Tool Check-in Time.

Employees will be allowed fifteen (15) minutes time to clean and check in their tools before quitting time, if such action is required by them.

Section 2. Bulletin Board.

The Company shall maintain at the plant entrance gate at the Chemical Plant a bulletin board which shall be designated as "Local No. 224 Bulletin Board" and shall be for the use of the Union for posting -- subject to the approval of the Company -- of any matters of interest to or affecting the business of the Union. It is understood and agreed that the posting of notices by the Union within the plant area will be on this bulletin board only and will be posted by the Chairman of the Shop Committee or his recognized representative. This bulletin board will be locked with a key, released to the Chairman of the Shop Committee and to the Company.

Section 3. Discrimination.

There shall be no discrimination by the Company against any employee with respect to any conditions of employment on account of his membership in this labor union, or on account of any activity undertaken in good faith in his capacity as a representative of other employees. The Union shall not discriminate against any employee who is not a member of the Union.

Where the male gender is used in this contract, it is intended to refer to both male and female. It is a continuing policy of the Company and the Union that the provisions of this Agreement shall be applied to all employees without regard to race, color, religion, sex, physical disability, national origin, or age.

Section 4. Wage Rate Changes.

There shall be no change in the basic hourly wage rates set forth in Exhibit "A" to this Agreement, or in the clothing allowance set forth in Exhibit "A" to this Agreement, during the term of this Agreement.

Section 5. Safety Provisions.

The Company shall continue to make reasonable provisions for the safety and the health of its employees at the plant during hours of their employment. Protective devices from injury shall be provided by the Company. Employees, subject to this Agreement, will abide by safe practice rules and regulations of the Company, and failure to do so may be considered grounds for dismissal.

No employee shall be required to perform services which, in the considered judgment of the Company and the Union, seriously endanger his physical safety; his refusal to do such work shall not warrant or justify discharge. If any employee refused to perform such work, representatives of the Company and the Union shall immediately attempt to decide the safety factor. Should they be unable to agree, the decision of a representative of the Safety Department of the Company shall be obtained. If the employee still feels an unsafe condition exists, he will not be required to perform that given job, and the Company will have the work done by any means it elects.

Section 6. Discharges.

It is agreed by and between the Company and the Union that the Company may, without limitation upon its right to discharge an employee for any other valid reason, discharge any employee, subject to this Agreement, for the violation of any of the Company's rules or regulations, which said rules and regulations heretofore have been approved by both the Company and the Union.

Section 7. Recess Period (Smoking).

Where men are required to work continuously in restricted and confined areas where smoking is not permitted, the Foreman is authorized to grant a recess of not longer than ten (10) minutes to employees upon request, providing in his judgment, work conditions permit; however, no employee shall be granted more than two (2) such recesses in any one (1) normal work day.

Section 8. Jury Duty.

Each employee of the Company who is called for service upon any grand jury, petit jury or coroner jury shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay he received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

Section 9. Termination Pay.

An hourly employee whose work comes within the scope of the Fair Labor Standards Act, and who has been continuously employed by the Company for one (1) year, shall, if discharged through no fault of his own, receive a sum equivalent to forty (40) hours' straight time pay at his regular rate, based upon his normal schedule of work, and twice that amount if he has been employed by the Company for a period of five (5) years. No employee shall receive such termination pay more than once in any one (1) calendar year.

Section 10. Contract Work.

It is agreed that any classified work covering maintenance and repair of equipment and machinery now being done by employees of the Company shall not be contracted out as long as the Company has the necessary equipment and as long as there are qualified men available to do the work.

Section 11. Technical and Supervisory Employees.

The Company may use technical and supervisory employees to install temporary test equipment to be used in evaluating conditions and/or performance of plant facilities.

Section 12. Minor Maintenance.

It is agreed that Operating Department personnel will perform minor maintenance functions. Minor maintenance functions shall be similar in scope but not limited to the following examples:

1. Tightening loose mechanical connections.

2. Tightening leaking packing.

3. Changing instrument charts.

4. Tightening piping fittings to stop minor leaks.

5. Changing light bulbs.

6. Hooking up loading and unloading lines.

Section 13. Minor Operating Functions.

Maintenance personnel may perform minor operating functions when requested by production supervision, but only when accompanied by a qualified member of the operations group. Typical example: Assisting in closing or opening large block valves that are difficult for one person to handle.

Section 14. Uniforms

Employees are encouraged to elect to use the contractor service to supply them with uniforms. Those who use the uniform service will be assured of the current level of shirts and pants and the winter jacket at $0.16/hour cost to employees with no cost to repair for the term of this Agreement, unless the employee terminates use of uniforms and returns damaged goods.

ARTICLE XV
VALIDITY OF CONTRACT

In the event any of the provisions of this agreement may conflict with State or Federal statutes now existing or subsequently enacted or with legal executive orders or regulations or applicable court decision, the requirements of law shall overrule such provisions of this agreement, it being the intent thereof that neither the Company nor the Union may insist upon the observance of any provision hereof where the other party to the agreement is obligated by law to adopt a course in conflict with this agreement. The remaining provisions of this agreement not affected thereby will remain in full force and effect.

ARTICLE XVI
NOTICE

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to:

El Dorado Chemical Company
P.O. Box 231
El Dorado, Arkansas 71731
Attention: Plant Manager

Any notice to be given to the Union may be given by depositing same in the U.S. Mail in a seal envelope, registered, postage prepaid, and addressed to:

Recording Secretary
International Association of Machinists
and Aerospace Workers, AFL-CIO,
Local No. 224
Box 1332
El Dorado, Arkansas

A copy of notices should be likewise mailed to:

President, International Association of
Machinists and Aerospace Workers
AFL-CIO Machinists Building
9000 Machinist Place
Upper Marlboro, Maryland 20772-2687

ARTICLE XVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or attend the funeral of any one of the relatives of the employee hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee or spouse, the employee shall be permitted to be absent from work for a period not to exceed two (2) continuous days.

(b) If, to attend the funeral for the deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as vacation pay, holiday pay, or sickness benefits payments.

Any request for such time off with pay based on false statements will subject the employee making the request to immediate disciplinary action or discharge.

ARTICLE XVIII
GROUP INSURANCE

Group Insurance and Pension.

The Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis, in the following employee enrollment categories, payable bi-weekly:

a. Employee
b. Employee and Children
c. Employee and Spouse
d. Family

Medical claims utilization and fixed costs will determine the cost share assigned to each enrolled employee by enrollment category.

(1) Effective January 1, 2008, the employee's cost share of 22%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2006, through October 31, 2007.

The specific cost share amounts to be effective January 1, 2008, will be constant throughout that year.

(2) Effective January 1, 2009, the employee cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2007, through October 31, 2008.

The specific cost share amounts, per pay period, to become effective January 1, 2009, will be constant throughout that year.

(3) Effective January 1, 2010, the employee cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2008, through October 31, 2009.

The specific cost share amounts, per pay period, to be effective January 1, 2010, will be constant throughout that year.

Effective January 1, 2008, 2009, and 2010, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2008	22%
2009	23%
2010	23%

If the total claims percentage cost share, per pay period, exceeds the capped rates shown below, the capped rates will apply.

	2008 22%	2009 23%	2010 23%
Capped Rates:			
Employee	$ 28.00	$33.60	$ 40.32
Employee & Children	$ 52.00	$ 62.40	$ 74.88
Employee & Spouse	$ 86.00	$103.20	$123.84
Family	$110.00	$132.00	$158.40

Employees should refer to Summary Plan Descriptions for details of EDC Health Plan co-payments, deductibles, co-insurance coverage and periodic amendments as may be made from to time to time.

Effective with the date of this Agreement, the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance (twice an employee's annual income).

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

ARTICLE XIX
NO STRIKE OR LOCKOUT

There shall be no strike, sympathy strike, or lockout during the term of this Agreement for any reason.

ARTICLE XX
SERVICE WITH COMPANY

The Company shall honor previous service at the El Dorado Chemical Company for purposes of seniority and vacation eligibility only. Previous service at the plant, or any predecessor of the Company, shall not be credited for purposes of pension benefits.

ARTICLE XXI
RETIREMENT AGE

The mandatory retirement age for employees shall be in accord with federal law.

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

ARTICLE XXII
CHANGE OR MODIFICATION OF AGREEMENT

Section 1

If either party shall desire to change any provisions of the agreement; it shall give written notice of such desire to the other party by certified mail at least 60 days in advance of its expiration date.

Section 2

The giving of notice provided in Section 1 shall constitute an obligation upon both parties to negotiate in good faith all questions at issue, with the intent of reaching written agreement prior to the expiration date.

Section 3

If the parties have not reached agreement on or before the expiration date, all the provisions of the agreement shall remain in effect unless specifically terminated in accordance with the provisions of Article XXIII below.

ARTICLE XXIII
TERMINATION OF AGREEMENT

Section 1

At any time after the expiration date, if no agreement on the question at issue has been reached, either party may give written notice to the other party of intent to terminate the Agreement in (not less than) 10 days. All the provisions of the Agreement shall remain in full force and effect until the specified time has elapsed. During this period, attempts to reach an agreement shall be continued.

Section 2

In the event that parties fail to resolve their differences within the specified time, all obligations under this agreement are automatically canceled at the expiration thereof. Provided, however, that nothing in the foregoing shall take away the right of the parties to mutually agree to a written extension of this Agreement.

This Agreement may be opened for change by specific areas by mutual agreement of the parties without affecting the remainder of the contract. Any changes must be ratified by the Union membership prior to implementation.

IN WITNESS HEREOF, this instrument is executed on the 17th October, 2007, to be effective as of October 17, 2007, at 12:01 a.m.

EL DORADO CHEMICAL COMPANY

By: ____________________________
Greg Withrow, General Manager

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By: ____________________________
Larry G. Booth
Directing Business Representative

MEMBERS OF THE SHOP COMMITTEE:

____
Jim McKnight

____
Edward Johnson

____
Steve Taylor

____
Don Fletcher

____
Jeff Robison

EXHIBIT "A"
BASIC HOURLY WAGE RATE

Classification	10/17/07	10/17/08	10/17/09
"A" Mechanic	$19.88	$20.38	$20.89
"B" Mechanic	$18.51	$18.97	$19.44
"C" Mechanic	$17.80	$18.25	$18.71
"D" Mechanic	$13.17	$13.50	$13.84
"E" Mechanic-New Hire (First 180 Days)	**	**	**

** Rate of pay determined by Company on basis of employees qualifications.

The Company shall have the right to select and appoint employee(s) as Lead. In addition to the regular work of their classification, a Lead may be assigned to train, assist, assign employees, carry out the instructions of supervision, and to perform any other duties pertaining to the maintenance department, which may be assigned by management. The selection of Lead personnel and the duration of their appointment is within the sole discretion of management. While so assigned, Lead(s) shall receive a premium of one dollar ($1.00) above their regular hourly rate.

Specialist I	$21.94	$22.49	$22.94
Specialist II	$23.82	$24.42	$24.91
Specialist III	$25.69	$26.34	$26.87

RATE CHANGES DURING TERM OF AGREEMENT

The parties agree that the Company shall have the right to establish pay practices and rates which assure the Company's ability to attract and retain skilled/qualified bargaining unit members. Before implementation, the Company will discuss the rates and/or changes with the Union.

CLOTHING ALLOWANCE

In addition to the hourly rates set forth in Exhibit "A", there shall be paid a clothing allowance of each hour worked, as indicated below:

Clothing Allowance
Per Hour
$.16

EXHIBIT "B"

RECOGNIZED MAINTENANCE WORK GROUPS

Group I - Mechanical

Includes work ordinarily done by the following work groups:

1 ..Pipefitter, Plumber
2. Welder, Lead Burner
3. Heavy Duty Operator, Rigger
4. Machinist
5. General Mechanic
6. Tank Car Repairman,
7. Carpenter, Painter, Mason, Insulator, Concrete Finisher
8. Rotating Machinery

Group II - - Electrical/Instrumentation

Includes work ordinarily done by:

1. Electrician
2. Instrument Repairman

DRAFT

AGREEMENT

between

United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local Union No. 00417

and

Cherokee Nitrogen Company

November 12, 2007 to November 11, 2010

CONTENTS

AGREEMENT

This Agreement was made and entered into this twelfth day of November, 2007, by and between Cherokee Nitrogen Company, Cherokee, Alabama, hereinafter called the “Company” and The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union AFL-CIO, CLC (USW) on behalf of its Local Union No. 00417, hereinafter called the "Union."

ARTICLE 1
RECOGNITION

Due to the Company's hiring individuals, all of which were previously employed in the Cherokee Nitrogen facility, where the Company currently operates, the Company has recognized the "Union" for purposes of pay, wages, hours of work, and other terms and conditions of employment for employees in the following unit: all hourly-paid production and maintenance employees at the Company's Cherokee, Alabama plant, but excluding journeyman electricians and instrument person, their apprentices and/or electrician or instrument mechanics helpers, clerical employees, professional, technical, managerial, and confidential employees, guards, and supervisors as defined in the Act.

Whenever reference is made to a particular gender in this Agreement, it is understood that the reference applies equally to both male and female employees.

ARTICLE 2
PURPOSE

A. The parties hereto mutually agree that there is concern for the future of the Company and its ability to compete in a the nitrogen fertilizer industry because of factors over which neither the Union nor the Company have control, including but not limited to foreign competition, excess domestic production capability, natural gas prices, and the cyclical nature of product utilization by consumers. Each agrees that our mutual goal is to provide the highest quality product and service at a competitive price, and to assure the effective flexibility in the utilization and skills of all employees.

B. It is the intent and purpose of the parties hereto that this Agreement shall promote and improve the industrial and economic relationship between the Company and the Union, and shall set forth herein rates of pay, hours of work, and working conditions of employment to be observed between the parties hereto.

C.It is recognized by both parties that they have a mutual interest and obligation in maintaining friendly cooperation between the Company and the Union which will permit safe, economical, and efficient operation of the plant.

D.All written Letters of Agreement which are dated prior to the effective date of this contract are null and void unless specifically added to this contract.

ARTICLE 3
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation, and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this agreement, the right to determine policy affecting the selection, hiring, and training of employees: to direct the work force and to schedule work: to institute and enforce reasonable rules of conduct, to assure discipline, and efficient operation: to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of business, divisions, and subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any classification, operation, service, or department; to sell, merge, or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged.

The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE 4
WORK GROUPS

A. Grandfathering and red circle personnel are covered in a Letter of Understanding.

B. **OPERATIONS PRODUCTION DEPARTMENT SKILL ADVANCEMENT/ON-THE-JOB TRAINING.**

1. In the interest of maintaining and improving operating efficiencies, the following is the standard for inception and advancement.

2. Levels of advancement are as follows:

- **a.** **Trainee -** If a new hire cannot complete the qualifications according to the following schedule, they will be terminated. If an existing employee bids to the job but despite his/her best efforts he/she cannot complete the qualifications according to the schedule, the Company will consider alternatives to termination including an extension of the training period or reassignment to his/her prior position for which he/she is qualified.

- **b.** **Chemical Operator 1** - Required to pass necessary requirements as determined by management, for one (1) assignment which will include written and oral examinations and demonstration of job proficiency. Must qualify within 240 hours of training on day shift.

- **c.** **Chemical Operator 2** – Required to qualify by passing the second assignment by written and oral examinations, and demonstration of job proficiency. Must qualify within one (1) year after passing Operator 1 qualifications.

- **d.** **Chemical Operator 3** - Required to pass all area assignment written and oral examinations within an area, and by demonstrating job proficiency on all assignments. Must qualify within one (1) year after passing Operator 2 qualifications.

e. **Chemical Operator 4** - Required to pass all area assignment written and oral examinations within an area, and by demonstrating job proficiency on all assignments. Must qualify within eighty (80) calendar days after passing Operator 3 qualifications and be certified as having completed Cherokee Nitrogen training programs.

C. ROUTE OF ADVANCEMENT – OPERATIONS PRODUCTION DEPARTMENT.

					Switch
	Ammonia	Acid	Urea	Nitrate	Crews
Chemical Operator 4	X	X	X	X	(1)*
Chemical Operator 3	X	X	X	X	(1)*
Chemical Operator 2	X	X	X	X	X
Chemical Operator 1	X	X	X	X	X
Trainee New Hire after 8/31/94	X	X	X	X	X

(1)*To qualify for this level, the switching and rail crew members must qualify for the shipping, bagging, and load-out of products in the Nitrate and Urea areas.

D. MAINTENANCE DEPARTMENT WORK GROUPS.

1. In the interest of maintaining and improving plant on-stream time, the following is the standard for maintenance inception and advancement:

2. The Company will provide on-the-job training necessary to acquire job skills at each level. Levels of advancement are as follows:

a. **Maintenance Trainee** - A new hire or bidder will be required to pass the skill levels established August 31, 1994 (document entitled "Training Program - General Mechanic") in order to advance to Maintenance Level 1. A new hire who does not complete the qualifications will be terminated. Must successfully complete and pass written and practical factors tests, as determined by Management. If an existing employee bids to the job but despite his/her best efforts he/she cannot complete the qualifications according to the schedule, the Company will consider alternatives to termination including extension of the training period or reassignment to his/her prior position for which he/she is qualified.

b. **Maintenance Level 1** - Must be qualified and proficient in one (1) major skill as determined by management, and must pass written and practical factors tests, as determined by Management, (i.e. General Mechanic, Certified Welder, Machinist, Auto Mechanic, Millwright, etc.).

c. **Maintenance Level 2** - Must be qualified and proficient in two (2) major skills, and written and practical factors tests, as determined by Management.

d. **Maintenance Level 3** - Must be qualified and proficient in three (3) major skills, and written and practical factors tests, as determined by Management.

e. **Maintenance Level 4** - Required to be a Level 3 and certified by written and practical factors tests, as determined by Management.

E. ROUTE OF ADVANCEMENT – MAINTENANCE DEPARTMENT.

Ø **Maintenance Level 4**

Ø **Maintenance Level 3**

Ø **Maintenance Level 2**

Ø **Maintenance Level 1**

Ø **Mechanic 3rd Year Trainee**

Ø **Mechanic 2nd Year Trainee**

Ø **Mechanic 1st Year Trainee**

Ø **Maintenance Trainee**

Training program guidelines to become a general mechanic shall be those as described in 4D 2(a) identified in the document, Training Program "General Mechanic" established August 31, 1994, and updated August 15, 1999.

MAINTENANCE DEPARTMENT AREAS

The current operating practice is to assign employees to one of the following areas:

Ammonia/Nitric Acid/Utilities
Nitrate/Urea
Central

ARTICLE 5
SENIORITY

The purpose of this Article is to define and describe the seniority provisions which will govern the seniority status of employees within the bargaining unit.

A. Employees who were hired by Cherokee Nitrogen Company on November 1, 2000 shall have their plant seniority date based on date of original employment at the plant. Such seniority may be used for vacation eligibility and seniority rights.

B. The only type of seniority, which will be considered under this Agreement, is plant seniority.

C. A new employee screened and hired to become a regular full-time employee shall not acquire seniority rights until he/she has been employed by the Company for a period of sixty-five (65) continuous active work days within a period of six (6) months. Until such time as an employee has acquired seniority rights, he/she shall be considered a probationary employee and may be laid off or terminated without recourse, and the Company shall be under no obligation to rehire him/her. When employees have identical plant seniority, the order of seniority placement shall be determined alphabetically.

D. The seniority of an employee shall be considered broken, all rights forfeited, and there shall be no obligation to rehire him/her for any one of the following reasons:

1. If the employee voluntarily quits.

2. If the employee is discharged for just cause.

3. If the employee is away from work for a period of 24 months or length of previously accrued service, whichever is less, for any reason other than illness or injury. In those cases the period of time will be a maximum of three (3) years or length of previously accrued service, whichever is less.

4. Subject to paragraph 3 above, if an employee who has been laid off does not return to work within (10) ten calendar days after the postmark date of a registered or certified letter form the Company, addressed to his / her last known address as shown on the Company's records. It is the employee's obligation to keep the Company informed of his / her correct current address.

Employees who are unable to report within this ten (10) calendar day period because of sickness or accident will, subject to paragraph 3 above and in that event be recalled to any vacancy during any subsequent recall action.

E. If a member of the bargaining unit is promoted to a supervisory or salaried position from an hourly-paid job, he/she shall lose all of his/her seniority in the bargaining unit.

F. A complete seniority list of all active employees shall be posted in each department on the bulletin board within thirty (30) days after signing of this Agreement, and revised quarterly.

ARTICLE 6
POSTING AND FILLING JOB BIDS

When a job vacancy occurs, it shall be posted on the Bulletin Board for six (6) calendar days for bid, plant-wide. The job posting shall indicate the primary job assignment and shift. The senior employees will be awarded the job by plant seniority. The senior bidder will be awarded the job as a trainee or based on Article 4, Section B.2 or D.2 qualifications. An employee will be allowed only one (1) successful bid per six (6) month period unless the bid is to a new job which carries a higher rate of pay at the time of the bid.

An employee who is being laid off from his/her job at the time that a posting is in effect can bump to the job which is posted without bidding in accordance with Article 7, and he/she can keep the job if he/she is senior to the bidder and he/she qualifies. An employee called in from layoff to fill a job while it is posted for bidding must go to the open job when the bidding is completed unless he/she bid for the job and is the senior bidder. If there are no bidders for the job he/she will remain in the job. When employees are being recalled from a layoff, which was caused by a unit production cutback (or shutdown), all employees who have adequate seniority to be recalled are eligible to bid for job openings. If an employee took a voluntary layoff at the time of the shutdown, but he/she has enough seniority to be on the recall list, he/she will have bid rights just as others in the seniority group being recalled, provided that the job for which he/she holds recall right is open. However, filling of a job in either of the above manners will be regulated by the following:

A. No employee will be granted a trial period if he/she does not have a reasonable expectancy of demonstrating the qualifications required by the job. If within the preceding six (6) months an employee has refused training on the job, or he/she has been disqualified on this job, he/she shall not be permitted to bid.

B. The successful bidder shall be given up to 240 hours of training. Fulfillment of assignment requirements by the successful bidder will be determined by the Company. If an employee has been previously qualified in the job, he/she will be provided 84 hours of refresher training. In determining whether an employee has become qualified, the results of written and/or practical tests (which meet Federal guidelines) will be among the factors given consideration. If an employee is already qualified or becomes qualified in less than fifteen (15) work days, he/she will be so informed by management.

C. During the period of posting, the Company will fill the job on a temporary basis, not to exceed 35 working days, unless prevented from doing so by extenuating circumstances. If a successful bidder cannot be moved within 35 days to the new job which would call for a higher rate, the employee will receive the higher rate beginning with the 36th day until he/she can be moved.

D. When a temporary job is posted in operations, the employee who gets the job will share overtime in that area. When the permanent employee returns, all temporary employees will return to their regular (last permanent classification) jobs.

When a temporary job is posted and the regular employee does not return to the job, the temporary employee shall become permanent in that classification.

E. When a permanent vacancy exists in the maintenance department, it shall be filled by plant seniority based on mechanical skills required.

ARTICLE 7
REDUCTION IN FORCE AND RECALL

A. Should it become necessary to lay off employees, the Company shall advise the Union of such layoff at least seventy-two (72) hours in advance. It is understood that this provision shall not apply if the layoff is caused by emergencies or by conditions beyond the Company's control.

B. It is understood the Company shall have the right to retain sufficient numbers of qualified personnel and in such event may assign personnel to particular shifts where required, temporarily, for training, not to exceed 240 hours after assuming the job.

C. Reductions-in-force and recalls shall be on the basis of plant seniority as outlined below:

1. If a layoff is for twenty-one (21) days or less, the employee can take a voluntary layoff with recall rights or bump to any job for which he/she is qualified; however, if no junior employee is available to bump, the employee cannot take a voluntary layoff.

2. Employees who took a voluntary layoff for recall or were laid off, and the reduction in force exceeds twenty-one (21) days, the employee shall be recalled and exercise his/her bump rights as outlined in paragraph (7) below.

3. Employees who choose to take a layoff rather than bump to another job can only be recalled to the job the employee was working at the time of the layoff. The different classifications in production constitute usual jobs as referred to in Article 7, Section C.5. Shift assignments are not recognized in considering usual job. In maintenance, the classifications, as listed in **Appendix "A"** Maintenance, are the basis for determining usual job, with no consideration given to area of assignment.

4. When the number of shifts in a particular job are being reduced, the junior employee(s) will be given a bump notice and the remaining senior employee(s) will select shift preference based on seniority.

5. The employee's "usual job" is the only job for which the employee can be recalled and only a job different from the employee's present "usual job," by the same definition as is used for recall, can be used as a basis for refusing to bump. For example, a control operator on "A" shift could not refuse to bump a control operator on "C" shift. The same operator could not refuse recall to any control operator job, regardless of shift.

6. An employee who has taken a voluntary layoff shall have the option to be recalled, to an entry level vacancy, if the employee's usual job has not reopened within a period of six (6) months from the date the layoff began. The employee must be qualified for the work and pass a physical examination to be eligible to return. If the employee's usual job has not reopened for a period of twelve (12) months from the date that employee was placed on layoff, the employee shall have option to bump the lowest seniority employee who is in a job for which the employee on layoff was previously qualified, and assume that employee's job. To be eligible to bump to this job, the employee must pass a physical examination. If the employee elects not to return after twelve (12) months, the seniority of this employee shall be considered broken, all rights forfeited and there shall be no obligation to rehire the employee, consistent with Article 5 of this agreement.

7. If a layoff is for twenty-one (21) days or more, the employee can either take a voluntary layoff with recall rights in accordance with (1) above, or bump to a job for which he/she is qualified or he/she may bump a junior employee and receive a twenty (20) -work-day qualification period or 84 hours if previously qualified in the job. To receive the twenty (20)-day qualification period the employee must demonstrate within the first three (3) work days the ability to learn this job within the twenty (20)-day qualification period. The employee will only be expected to qualify on the job that he/she bumps to in the twenty (20) work day qualification period. Such training will be provided on the day shift when practical. If the employee does not demonstrate the ability within three (3) work days or fails to qualify within twenty (20) days, he/she shall be disqualified and laid off and the incumbent employee shall remain in the job.

8. During the qualification period, the bumping employee shall receive the rate for the last job on which the employee was qualified.

9. It is understood that in Maintenance, if the bumping employee is a Maintenance Level 4, the bumping employee must have the mechanical skills of the employee he/she bumped after the qualification period.

10. In accordance with paragraph (7), in a given layoff, if a senior employee is laid off without an opportunity to bump and a junior employee is left in the plant at the end of the bump/qualification period, the senior employee will be recalled with bump rights.

11. No bumping between Departments shall be allowed. Employees are only allowed to move from Department to Department under the terms of Article 6.

ARTICLE 8
SCHEDULE CHANGE

The Company shall give an employee thirty-six (36) hours notice of change in the regular work schedule (this notice shall be posted by 2:00 p.m. on the first day of the thirty-six (36) hours notice), and sixteen (16) hours' notice of return to the employee's regular work schedule, except where rescheduling is required due to lack of raw materials, labor difficulty, acts of God, or any other occurrence beyond the Company's control. If the Company fails to give such notice, except where excused in the preceding sentence, the Company shall pay one and one- half (1-1/2) times the affected employee's regular straight-time rate for hours worked on the first day after such change in schedule. If there are any changes in present work schedules for non-shift workers, assignments will be made on the basis of seniority, where practical. The foregoing in no way precludes the Company from making changes in the work schedules according to operational and maintenance needs.

ARTICLE 9
HOURS OF WORK

A. The established workweek begins at 6:00 a.m. on Monday and ends at 6:00 a.m on the following Monday. For the purpose of computing overtime, the normal workweek shall be forty (40) hours and the normal workday shall be eight (8) hours. This is not to be considered a guarantee of eight (8) hours a day or forty (40) hours a week.

B. Under the present operating requirements, the normal schedule for eight (8) hour shift workers shall be organized into three (3) consecutive eight (8) hour shifts as follows:

First shift 6:00 a.m. to 2:00 p.m.
Second shift 2:00 p.m. to 10:00 p.m.
Third shift 10:00 p.m. to 6:00 a.m.

Under the present operating requirements the normal schedule for maintenance workers shall be:

7:00 a.m. to 11:00 a.m.
11:30 a.m. to 3:30 p.m.

When an employee is instructed or scheduled to report for work and so reports and reports on time, the employee shall be guaranteed four (4) hours of work if he/she is put to work, and if no work is available for them to perform, the employee shall receive pay for four (4) hours' work at their regular hourly rate of pay, except in case of fire, flood, power breakdown, or other conditions beyond the control of Management. At the Company's discretion, an employee instructed or scheduled to report for work may be assigned to any work available which the employee is capable of performing in lieu of their being released if there is no work for them to do in their usual occupation.

ARTICLE 10
OVERTIME

A. The basic work day shall be eight (8) hours. The basic work week shall be forty (40) hours. Overtime shall be paid at the rate of one and one-half (1-1/2) times the regular rate of pay for all hours worked in excess of forty (40) hours per week, or in excess of eight (8) hours in a twenty-four (24)-hour period beginning at the start of the employee's regular scheduled shift, except that this provision shall not apply in the case of a regularly scheduled shift change. Overtime payment shall be made on the basis of either daily or weekly overtime, whichever results in the greater pay, but there shall be no pyramiding or duplication of daily and weekly overtime.

B Any employee who is called out to perform work outside their scheduled working hours shall be paid for all time worked pursuant to such call-out, at one and one-half (1-1/2) times his regular rate of pay and will be guaranteed a minimum of four (4) hours' work. An employee on call-out shall not be required to do work other than the job or jobs they were called out to perform unless there is additional emergency work that occurs. The employee will be paid time and one- half (1-1/2) for the actual hours worked on this additional work. To be eligible for call-out, an employee must have a telephone in their residence and notify their foreman of any changes in their telephone number. The Company has no obligation to call an employee at any telephone number other than their residence telephone for call-outs, changing of working schedule, or for any other reason.

C. When an employee moves from one overtime group to another, the number of their overtime hours will be adjusted up or down to equal the average of the new group. Previously qualified employees will also retain eligibility for overtime in previously qualified groups for one (1) year. Employee will receive the higher rate of pay of the two jobs when filling the overtime in another area.

D. Premium pay provided for herein shall not be pyramided on premium pay payable under any other article or section of this Agreement**.**

E. All overtime hours refused will be charged or added to an individual's overtime hours on the basis of twice (2) the number of hours actually paid to the employee who accepted the work. If charged overtime on a double-time shift is worked, only the overtime paid will be charged.

F. It is considered inappropriate in the scheduling of employees to hold over more than eight (8) hours after any regular eight- hour shift, or to plan work where employees must be scheduled more than twelve (12) hours per day, or holdover more than 4 hours on a 12 hour shift. Every effort should be made to anticipate relief requirements of employees in advance of the time required.

G. If an employee believes he or she has been bypassed for overtime, at the employee’s or union’s request, the employee or union and his or her supervisor will examine the overtime records and if they agree that a bypass occurred, preference for overtime will be given to the employee, as soon as it is practical.

H. All temporary vacancies will be offered to the qualified operator lowest in overtime hours in that area. It is the Work Group’s responsibility to fill the vacancies. Employees who are on duty who refuse to accept holdover overtime assignments to vacancies shall be subject to disciplinary action. Such assignments shall be deemed as mandatory. The Company shall have the right to implement a pager policy or a disciplinary policy to assure that it will have the services of its qualified employees to perform the necessary work.

I. All overtime will be reduced to zero at the end of each calendar year period.

J. **OVERTIME COVERAGE PROCEDURE.** Overtime hours shall be shared equally by all employees in the Work Group, as far as practical for the efficient operation of the plant, or on the following basis:

1. **Maintenance**

a. All Maintenance overtime shall be posted by area and Work Group. This time, hours paid for straight-time basis, and two (2) times hours paid but turned down, will be posted by the Company. It shall be the responsibility of the Company to keep this time accurate daily. Overtime will be grouped by area Work Group.

b. **Holdovers.** The Work Group will offer (holdover) overtime to employees who are already working on the job according to the following procedure:

The personnel already working on the job will be offered the work first, regardless of their normal overtime group.

In the event the assignment involves work in process, and continuity of the work is required, Company may assign the employees already working the job. If a group consists of both central and resident personnel, the resident personnel on the job will be offered the work first. If additional personnel are needed, the work will be offered to the central personnel on the job prior to offering it to the resident personnel who are not working the job at the time the overtime occurs.

If the job has not been started, the first employee held over shall be the lowest qualified mechanic from the group involved, and all succeeding personnel required for the job shall be obtained by beginning with the lowest qualified employee in the group (ML4, 3rd year mechanic, 2nd year mechanic, 1st year mechanic, or utility person), until the job is manned. In the event that additional help outside the group is needed, the Work Group will contact the lowest qualified employee (ML4, 3rd year mechanic, 2nd year mechanic, 1st year mechanic, and utility person) from the central maintenance group until the job is filled. If for some reason the job still cannot be manned, the Work Group shall call the other resident group in the same order until all are called. All holdovers should be notified as early as possible before quitting time.

In the event sufficient volunteers are not obtained, employees may then be mandatory assigned.

The Work Group will start to fill hold-over requirements as well in advance of 2:00 p.m. as practicable. If by 2:30 p.m. the required hold-over personnel have not been obtained, the Company will notify the junior qualified employee that they may be required to stay over. The Work Group will continue to try to obtain the personnel requirements through the established overtime procedure until 2:30 p.m. At this time, personnel requirements not already fulfilled will be obtained by assigning the junior qualified employee in the maintenance department to stay over.

c. **Call-outs.** On call-outs the Company will first call the qualified ML4 who has worked to the lowest in number of overtime hours worked from the group concerned. All succeeding personnel required for the job shall be obtained as in the preceding paragraphs.

d. **Planned Overtime.** The group concerned will be assigned to planned overtime first, beginning with the lowest qualified ML4 and continuing as above until all personnel in the group have been assigned. When additional personnel are required, they will be assigned from the Central Maintenance group by assigning the lowest qualified employee first, and so on until the job is properly staffed.

When out-of-classification work in the Automotive Shop must be offered to mechanics, and it is known by 2:00 p.m. the day before the work is assigned, the Company agrees to offer the work to the junior qualified employee(s) at the time the work is offered. There may be some instances when special skills are involved and would preclude following this procedure. Such cases will be discussed with appropriate Union Officials. It is understood and agreed that this arrangement will not be extended to other jobs or work assignments.

e. **Scheduled Shutdowns.** Work performed on straight days, or on around-the-clock shifts shall be handled as in the past, i.e., by the area people involved, and whatever additional help is needed may be obtained from any overtime group.

f. Prior to major scheduled turn-around, the Company will advise the Union of work arrangements.

g. When Central Maintenance employees are scheduled to work during a shutdown or start-up of at least four (4) working days duration, they shall share overtime on an alternating basis with maintenance people in the area, with an employee from the area scheduled first.

Example: 1st Person - Area
2 People - Area, Central
3 People - Area, Central, Area
4 People - Area, Central, Area, Central

h. When work needs are great and cannot be met by personnel from the area concerned and Central Maintenance, the other resident area is to be called starting with the lowest qualified employee, and so on until the job is staffed.

2. Production Department.

The following overtime procedure is to be used by each area work group in the Production Department:

a. If a section in a department is not in operation, then the operators from that section may be moved, if qualified, to fill vacancies or to perform other duties.

b. The overtime in each production area will be grouped into the usual job classification that the employee normally works. All temporary vacancies will be filled by the usual job classification that the overtime occurs. If the vacancies cannot be filled in this manner, they will be offered to the qualified operator lowest in overtime hours in that area. It is the work group on duty's responsibility to fill the vacancies. If the vacancies cannot be filled in this manner, and the employees who are on duty refuse to accept holdover overtime assignments, they shall be subject to disciplinary action. Such assignments shall be deemed mandatory.

c. If an operator informs the plant at least three (3) hours before his scheduled shift begins, any overtime worked as result of this absence will be offered first to the qualified employee lowest in overtime in the classification. In the event of an unscheduled absence before shift change, the employee who is presently staffing the job (except when employee is in training, regardless of their classification will be required to continue working until properly relieved or may accept the overtime opportunity. If an operator does not inform the plant of their absence at least three (3) hours before their shift change, then the employee who is presently staffing the job (except when the employee is in training), regardless of their classification, will be given the choice of the overtime.

d. If the operator contacted desires the full eight (8) hours, he/she may work the entire shift. If the operator wishes to work only one-half (1/2) of the shift, he/she will be required to remain on duty until properly relieved by another qualified operator who can be obtained. Operators who are contacted may be mandatory assigned to perform the overtime work if other volunteers cannot be reached. If any operator is contacted and declines the overtime, then he will be charged twice (2) the number of hours actually paid to the employee who accepted the work.

e. If it appears that vacancy will be for an extended period, the operators in that classification may be pre-scheduled to work the overtime.

f. When a temporary job is posted in operation, the employee who gets the job will share overtime in that area.

g. It is the Work Group on Duty's responsibility to post daily overtime hours on the overtime board**.** This time, hours paid on a straight-time basis, and two (2) times hours paid but turned down will be posted daily in each area, unless there are unusual circumstances which make a delay in posting necessary.

h. It is realized that the Work Group is responsible for filling a shift. In every case, operators are required to fill the job while the Work Group proceeds to fill vacancies by means of this procedure.

i. It is understood that employees may swap a shift or part of a shift by mutual consent; however, it is further understood that shift swapping will not trigger an obligation to pay any overtime premium pay.

In the event, overtime distribution and/or call-out procedures do not provide the Company with sufficient qualified personnel to perform the overtime work, the Company shall have the right to assign qualified personnel. Failure to work such mandatory overtime shall constitute just cause for disciplinary action.

ARTICLE 11
12-HOUR SHIFT AGREEMENT

Some employment conditions which apply to employees who work on 12-hour continuous shift operations may be different than those described in various Articles of this Agreement. A special Letter of Agreement concerning 12-hour shift employees is attached as **APPENDIX "B"** to this Agreement.

ARTICLE 12
ABSENCES

A. **Employees will give his/her foreman or designee notice** no less than twenty-four (24) hours in advance for all absences from work for personal reasons except in cases of personal illness, illness or death in the employee's immediate family, or other emergency making such advance notice impossible. In case of such emergency, the employee will provide the Company as much advance notice as possible.

B. An employee absent for two (2) days or more shall not be permitted to return to work unless they notify the Company at least four (4) hours prior to the start of their shift that he/she is returning to work. This notification shall not serve to excuse unexcused absences**.** The Company shall have the right to require an employee to submit a medical certificate justifying his absence.

C. When an employee is absent for thirty (30) or more consecutive calendar days for any reason, including layoff, the number of their overtime hours will be increased by the number of hours the average of their work group has increased during their absence.

D. When an employee is absent from their assigned schedule for a definite period of time (eight hours, one day, one week, etc.) their name will not be called for overtime work to be performed during their time off.

E. When an employee is absent from their assigned schedule for an indefinite time, their name will be removed from the overtime list until the employee calls in to report that they are available for work.

ARTICLE 13
<u>WAGES</u>

A. The hourly wage rates shall be as shown in **APPENDIX "A"** attached hereto and made a part of this Agreement.

B. The Company shall advise the Union of the proposed basic hourly rate for any new work established after the date of this Agreement. Upon request of the Local Union representatives, the Company will negotiate with them concerning such rate, provided that the Union so requests within thirty (30) days from the establishment of such rate. If agreement is not reached on the new rate, the matter will be appealed to the fourth (4th) step of the Grievance Procedure.

C. When an employee is temporarily assigned to a job paying a lower rate of pay, he/she shall be paid his regular hourly rate.

D. When an employee is temporarily assigned to a higher rated job for a purpose other than that of training or instruction, he/she shall receive the rate for the job to which he/she is so assigned for all hours worked on such higher rated job.

E. An employee who actually works for four (4) hours or more on seven (7) consecutive days in the regularly established work week shall receive double (2) their regular straight-time hourly rate for all hours worked on the seventh (7th) consecutive day.

F. A maximum of ten (10) employee members who have been trained and certified to perform Hazardous Material Emergency Response shall receive twenty-five ($.25) cents per hour, (maximum 40 hours per week) while so assigned.

G. An employee required to work on his/her normal scheduled day or days of rest or on hours outside of his/her normal work schedule will be paid at one and one-half (1-1/2) times their regular hourly rate, provided that they shall not be entitled to premium pay for such day or days in any week in which he/she has been absent without a satisfactory excuse on one or more scheduled workdays.

H. Premium pay provided for, herein, shall not be pyramided on premium pay payable under any other articles of this Agreement.

ARTICLE 14
SHIFT DIFFERENTIAL

A. Employees who are scheduled on multiple shift operations shall be paid a shift differential of fifty cents ($0.50) per hour for all time worked during the hours of 2:00 p.m. to 10:00 p.m. shift. Employees shall be paid a shift differential of seventy cents ($0.70) per hour for all time worked during the hours of 10:00 p.m. to 6:00 a.m. shift.

B. The shift differential is not paid to employees scheduled on regular, single-day shift operations who may work overtime into another shift; however, such employees will be paid shift differential for scheduled hours worked during the times listed in paragraph A above. All employees not scheduled on regular, single-day shift operations are considered to be on scheduled multiple-shift operations.

ARTICLE 15
VACATIONS

A. All regular employees of the Company shall be granted a vacation of one (1) week after one (1) year of continuous active service, two (2) weeks after three (3) years of continuous active service, three (3) weeks after five years of continuous service, and four (4) weeks after fifteen (15) years of continuous active service. It is understood an employee shall receive his/her next level of vacation effective January 1st of the year his/her hire date for service is due. However, an employee who is separated for any reason before his/her service anniversary date must repay the Company for all vacation time taken/paid but not earned.

B. Employees who have one (1) or more years of continuous service as of January 1st (except for new employees provided for below) will be granted vacations during the calendar year January 1st to December 31st, provided that they have worked a minimum of one thousand (1,000) continuous active hours during the preceding calendar year. The following hours will be counted in determining whether or not employees have worked a minimum of one thousand (1,000) continuous active hours during the preceding calendar year:

1. Hours actually worked;

2. Holidays paid for but not worked;

3. Forty (40) hours for each week of paid vacation;

4. All hours lost due to compensable, job-related injuries, maximum 800 consecutive hours lost in the first calendar year of such injury; and

5. All hours lost by Union officials for Local Union business pertaining to Cherokee Nitrogen as approved by the Plant Manager.

C. A new employee shall become eligible for his/her first vacation with pay upon his/her first anniversary date, provided that he/she has worked a minimum of one thousand (1,000) continuous active hours during his/her first anniversary year, counting as hours worked those set forth in paragraph B above. An employee will qualify for his/her second vacation to be taken not earlier than January 1st following his/her first anniversary date, by fulfilling the contractual requirements set forth in paragraph B above, provided that the second vacation cannot be taken earlier than six (6) months after the employee's completion of his/her first vacation.

D. Pay for each week of vacation to which an employee is entitled shall be computed on the basis of forty (40) hours at the particular employee's regular straight-time rate of pay.

E. Vacations will be granted only during the year in which they are due, and they may not be carried over or taken advantage of during subsequent years.

F. Allocation of the individual's time for taking the vacation during the vacation season from January 1st to December 31st shall be subject to the approval of the Company in order to ensure orderly efficient operation of the plant. Vacation scheduling shall be from January 1st until March 1st.

G. In the event of termination of service due to death, provided that at the time of death of such employee he/she had become eligible to receive a vacation that had not been granted, payment in the amount equal to that which would have been paid to the employee for such vacation shall be made to the beneficiary of the group insurance carried by the employee. Also, if the employee had worked one thousand (1,000) hours in the present year, the same beneficiary will receive payment for the vacation the deceased employee would have been eligible for if he/she had been on the payroll during the following year. This payment of the following year's vacation will be made during January of the following year.

H. Vacation pay for any employee entitled to a vacation, will, upon request to management, be paid to the employee. Requests must be on time cards two weeks prior to vacation.

I. Employees entitled to a vacation will not be allowed to take money in lieu thereof except that the Company may, with the employee's consent, pay him/her vacation pay in lieu of time off for vacation for any weeks of vacation due him/her in excess of one (1) week in any eligibility vacation period. It is understood that the preceding in no way diminishes the Company's right to schedule a vacation shutdown.

J. If an employee takes his/her vacation during a week in which a holiday occurs, the amount of his/her vacation pay shall be increased by the amount of eight (8) hours' pay at his/her basic hourly rate, in order to compensate for the holiday pay to which he/she would have been entitled had they not been on vacation. If a holiday falls during an employee's vacation, it may be mutually agreed to that he/she may receive an additional day off.

K. Employees joining the Armed Forces of the United States shall receive their previously earned vacation pay provided they have fulfilled all of the contractual requirements for a vacation.

L. Vacations will be granted only for continuous periods starting on Monday and ending on Sunday, except by an employee's choice, he may take two (2) weeks one (1) day at a time, or as he/she so desires, with approval from the Foreman or designee and at least a twenty-four (24)-hour notice.

M. Employees who have become eligible to receive a vacation under the provisions set forth in this Agreement and who thereafter leave the service of the Company shall, upon request, be entitled to receive vacation pay in lieu of the vacation they otherwise would have been eligible to receive.

N. Deductions from vacation pay will be consistent with the earning period. For example, if an employee received two (2) or more weeks of vacation pay, one or more checks may be issued but the deductions will be calculated as if a separate check was issued for each week.

O. In the calendar year in which an employee terminates due to retirement, the employee will receive what would have been the Employee's subsequent year's vacation on a pro-rata basis. For every full calendar month the employee works on an active basis, the employee will receive 1/12 of the following year's vacation.

ARTICLE 16
HOLIDAYS

A. The following shall be considered as holidays:

1. New Year's Day (January 1st)

2. Good Friday (Last Friday Preceding Easter)

3. Memorial Day (Last Monday in May)

4. Fourth of July

5. Labor Day (First Monday in September)

6. Thanksgiving Day (Fourth Thursday in November)

7. Thanksgiving Friday (Fourth Friday in November)

8. December 24th

9. Christmas Day (December 25th)

B. The term "holiday" is defined to mean the twenty-four (24)-hour period between 6:01 a.m. and 6:00 a.m. of the holiday. When a holiday falls on Saturday, the preceding Friday shall be considered as the holiday, except when Friday is a holiday also, then the preceding Thursday shall be considered as the holiday. When a holiday falls on Sunday, the following Monday shall be considered as the holiday, except when Monday is a holiday also, in which case the following Tuesday shall be considered as the holiday. Shift workers shall be paid for holidays on the day the holiday falls.

C. One and one-half (1-1/2) times the regular hourly wage rate will be paid for all work performed on the holidays listed in paragraph A above, in addition to such holiday pay as the employee may be entitled to under the provisions of paragraph D below.

D. All regular full-time employees on the payroll shall receive holiday pay for eight (8) hours at their basic hourly rate for each of the holidays set forth in paragraph A above, provided that they report to work and work the hours as scheduled on the last scheduled work day preceding and the first scheduled work day following the holiday. In the event that a holiday occurs during the initial calendar week in which an employee becomes laid off, or during the calendar week in which an employee is recalled from layoff status, the employee will be entitled to receive holiday pay if he/she is otherwise eligible.

E. If an employee fails to report or fails to work the hours as scheduled on the holiday, or fails to work the hours as scheduled on the last scheduled work day preceding and the first scheduled work day following the holiday, he/she will not receive holiday pay as provided for herein.

F. If a regular employee is excused from work for all or any part of his/her last scheduled work day preceding, or for all or any part of his/her work day following a holiday, or both, he/she shall be regarded as having worked on such day or days (for the purpose of qualifying for holiday pay), and they shall be eligible to receive holiday pay if they otherwise qualified for holiday pay under the terms of this

Agreement, provided that the Company shall excuse absences on such days on the same basis and for the same reasons as would apply on any other day during the year. Employees not excused under the foregoing circumstances will not qualify for holiday pay. Employees reporting off will not automatically constitute an excused absence. Employees on short-term disability, or long-term disability, or workers compensation will qualify for holiday pay not to exceed six months (6). Eligibility begins the first full workday away from work.

G. There shall be no pyramiding of daily, weekly and holiday overtime.

ARTICLE 17
FUNERAL LEAVE PAY

A. In the case of the death of a member of the immediate family of a regular employee, the employer will, when requested in advance, grant a maximum of three (3) days (twenty-four hours) paid leave of absence, and in no case will the paid leave of absence extend beyond the day immediately following the day of the funeral.

B. The term "immediate family" as used herein is defined as consisting of the following members of the employee's family only: mother, father, spouse, children, brother, sister, mother-in-law, father-in-law, son-in-law, daughter-in law, stepfather, stepmother, stepson, stepdaughter, grandparents, grandchildren, brother-in-law, sister-in-law, and spouse’s grandparents.

C. When a death occurs to any such member of an employee's family, the employee shall notify his/her Foreman or designee for such paid leave. Such paid leave will not be granted in instances when the employee otherwise eligible does not attend the funeral. The employee absent on a paid funeral leave shall not be eligible for any overtime which is scheduled during the period of such employee's leave. If a holiday falls during the paid leave of absence, the employee will not receive both holiday pay and paid leave of absence.

D. The employee will not be entitled to funeral leave pay for any day falling within the three (3) day leave of absence which is not a scheduled work day for the employee or when the employee is on vacation.

E. The rate of pay shall be the regular hourly rate of the employee and for regular scheduled work.

ARTICLE 18
JURY DUTY

A. All regular full-time employees (not including casual or part-time employees) who have been in the continuous service of the Company for six (6) months or more, shall be paid wages amounting to the difference between the amount paid to them for jury service and the amount they would have earned at their basic hourly rate had they worked on such days with their regular work group.

B. No difference shall be paid if the employee received a greater amount for jury service than he/she would have earned working in his/her work group at the basic hourly rate.

C. Employees who are absent due to layoff, vacation, sickness or injury, or other leaves of absence shall not be entitled to receive difference payments under this article during such periods of absence.

D. No difference payments for jury service shall be paid in the case of an employee who is absent on the last scheduled work day prior to starting jury service.

E. No difference payments for jury service shall be paid to employees who fail to report to work and work the hours on any scheduled work day on which their service was not required in court

F. In order to receive difference payments as above provided, each such employee must furnish to the Company a certificate of service duly signed by the Clerk of the Court.

G. Employees scheduled to work after 10 PM for eight (8) hours on days of required jury duty will be excused from work for this time period and will receive the difference between the amount paid to them for jury service and the amount they would have earned at their basic hourly rate had they worked on such days.

H. Employees that have received a subpoena or summons from a court of law shall be excused without pay and he/she shall present a certificate to his/her Foreman or designee with as much notice as possible.

ARTICLE 19
PAYDAY

The parties agree to the present payday which is every other Thursday at 3:30 p.m. to 5:45 p.m. and Friday at 6:00 a.m. Employees whose scheduled shift ends at 2:00 PM will be permitted to get their checks at 2:00 PM.

ARTICLE 20
MEAL ALLOWANCE PROVISIONS

A. Whenever an employee is required to work overtime, six dollars ($6.00) meal money or a meal will be provided at the end of two (2) hours' work and each four (4) hours thereafter, provided that said employee has completed an eight (8)-hour shift immediately preceding such overtime assignment.

B. The Company will not furnish a lunch for an employee called in to work a regular eight (8)-hour shift for anyone who is sick or absent provided that more than two (2) hours' notice is given. If less than two hours' notice is given, the Company will provide a meal.

C. If an employee is called out on an emergency basis, he/she will be furnished a meal after completing four (4) hours' work and each four (4) hours thereafter as long as he/she is required to stay on the job.

D. Whenever maintenance work is scheduled on a twelve (12)-hour relief basis, that is, one crew relieving another each twelve hours, the Company will provide the second meal and allow both meals to be eaten on Company time. It is mutually understood that these meal periods will be held as short as possible in order to keep the work going.

E. Whenever maintenance work is scheduled on an extended day or holdover basis and one crew does not relieve another, the first meal period will be for thirty (30) minutes and shall be on the employee's own time. The Company will furnish additional meals as required, and these will be on Company time.

F. A non-shift worker required to work any part of his/her meal period shall receive pay for his/her entire meal period unless he/she is given a full-length lunch period later in the shift at the employee's option.

G. Production employees working 8-hour shifts will eat their lunch on Company time at such hours as their duties permit.

ARTICLE 21
WORKERS COMMITTEE

A. There shall be an employee Workers Committee comprised of the Local Union President, Vice-President, Recording Secretary and not more than two (2) other Committee persons. The Union shall certify to the Company from time to time the names of the Workers Committee persons who shall be employees of the Company, and the Company shall not recognize any committee person until his / her name has been so certified. The Workers Committee as a committee, shall negotiate and settle grievances in Steps 3 and 4 of the Grievance Procedure.

B. Time spent by employees in the investigation and settlement of grievances shall be on the employee’s own time.

C. During contract negotiations the number of committee members may be increased to six (6) active employees.

ARTICLE 22
GRIEVANCE PROCEDURE

Should any difference arise between the Company and the Union, or between the Company and employees, or between employees of the Company, or should trouble of any kind arise in the plant, there shall be no strike, stoppage, slowdown, suspension of work or boycott on the part of the Union or its members or the employees, or lockout on the part of the Company on account of such dispute.

First Step

The employee shall first take his grievance up with his foreman, and, only if the aggrieved employee requests, a committeeman shall be given an opportunity to be present.

If the grievance is not settled, it shall, within five (5) working days thereafter, be reduced to writing on a form provided by the Union, signed by the employee, and presented to the foreman, who shall, within five (5) working days after receipt thereof, give his written answer to the grievance.

No grievance will be considered unless it has been submitted to his foreman within five (5) working days from the date the employee knew or should have known of the occurrence giving rise to the dispute.

Second Step

The grievance shall be considered settled unless within five (5) working days after receipt of the foreman's written answer, a Union committeeman notifies the Area Superintendent that he desires additional processing of the grievance. Management will arrange a meeting with the grievant and one committeeman. Such meeting will be held no later than ten (10) working days after receipt of the Union's appeal.

The Area Superintendent or his designated representative shall provide a written answer to the grievance within ten (10) working days after the close of the Second Step meeting.

Third Step

In the event the Union is not satisfied with management's Second Step answer, an officer of the Union, may, within five (5) working days after receiving the Second Step answer, notify the Plant Manager and/or his designated representative, in writing, that he wishes to submit the matter for further consideration. At the same time, the Union shall provide a written statement of the contractual reasons the Company's Second Step answer was not accepted. The Plant Manager, and/or his designated representative will discuss the matter with the Workers Committee and, if the Union requests, an International Union Representative or the President of Local 417 G, at a time to be mutually agreed upon. The Plant Manager and/or his designated representative shall provide a written answer to the grievance within ten (10) working days after the close of the discussions.

Fourth Step

If the answer of the Plant Manager, or his designated representative, does not settle the grievance, the International Representative of the Union may request that the grievance be submitted to an impartial arbitrator, providing the grievance is one which does not involve matters in which arbitration is specifically prohibited, under the terms of Article II of this Agreement. The Union must then notify the Plant Manager of that fact, in writing, within thirty (30) days after the date the Third Step answer was rendered.

The International Union Representative and the Company shall make written application to the Federal Mediation and Conciliation Service requesting a nine (9) member panel from which the parties shall select an arbitrator. The parties shall alternately strike eight (8) names, one at a time. The remaining panelist shall serve as arbitrator. It is understood that, starting with the first arbitration case, following the date of execution of this Agreement, the Union shall strike the first name. Thereafter the determination of which party strikes first will be made by the toss of a coin. Both the Company and the Union shall have the right to reject one entire panel submitted by the Federal Mediation and Conciliation Service.

When the arbitrator has been selected, he shall meet for the consideration of the grievance as soon thereafter as is practical. Any such meeting of an arbitrator shall be held in a location the parties unanimously decide upon.

Any such arbitrator shall decide only the grievance submitted to him, upon testimony presented to him, by the Union and the Company, and shall render his decision in writing.

The jurisdiction of the arbitrator shall be limited to a grievance involving the interpretation or application of the specific provisions of this Agreement.

Except as otherwise specifically provided in this Agreement, the arbitrator shall have no power to change the wages, hours, or conditions of employment set forth in this Agreement; he shall have no power to add to, subtract from, or modify any of the terms of this Agreement; he shall deal only with the grievance which occasioned his appointment. He will require that the Union has the burden of establishing its position on behalf of the employee, except in discipline or discharge cases, where the burden will be on management.

The parties hereto shall fully comply with the award or decision made by any such arbitrator, and the decision of the arbitrator will be final and binding on both parties. The fee and expenses of the impartial arbitrator shall be borne equally by both parties. The expense of witnesses for either side shall be paid by the party requesting the witness. The total cost of the stenographic record which may be made and all transcripts thereof shall be paid for by the party ordering the same. If a stenographic record is made by either party, the other party shall receive a copy thereof only if the other party states at the outset of the hearing that he is requesting a copy of such stenographic record and agrees to pay one-half (1/2) of the cost thereof.

No provision of Article VIII or any other Article of this Agreement shall deprive any employee covered by the terms of this Agreement of any right to which it may be entitled under Section 9(A) of the Labor Management Relations Act of 1947, or any other statute of the United States.

In cases involving verbal or written reprimands, a grievance may be filed and processed through Step Three, but may not be submitted to arbitration. The Union has authority to process, abandon, or settle grievances on behalf of employees. The arbitrator may herein determine only one grievance at a time without the express agreement of the Company and the Union.

The grievance and arbitration provisions provided for herein, in addition to any other right or obligation under the Agreement, are limited to grievances and claims arising and actually filed in writing during the term of this Agreement. The parties recognize the principle that the Company's action governs until and unless modified by an arbitration award which is in conformity with the provisions of this Agreement, and that the Union may not, and will not, apply to any court for interim relief of any kind pending such an arbitrator's award.

In any case involving discharge or a disciplinary suspension, a grievance may be filed in Step Three, but the grievance must be submitted no later than three (3) working days following notice of the action, or the action becomes final.

In cases involving written discipline up to and including discharge, a copy of the action notice will be given to the employee involved and a copy furnished to the on-site committeeman.

The parties agree to follow each of the foregoing steps in the processing of a grievance and, if in any step the Union fails to proceed within the time limits therein set forth, the grievance shall be considered settled, based on the Company's answer in the last step through which it was processed. The parties further agree that if in any step the Company's representative fails to give his written answer within the time limit set forth, the Union may advance the grievance to the next step at the expiration of the time limits. All time limitations set forth herein shall be exclusive of Saturdays, Sundays, and holidays. Time limits set forth in Step Four may be extended in writing only by mutual agreement between the International Representative and the Plant Manager.

ARTICLE 23
LEAVE OF ABSENCE

A. The Company will grant leave of absence, without pay, not to exceed one (1) year to one (1) employee who is elected or appointed to a full-time position with the Union, upon ten (10) days' written request. Upon ten (10) days' notice of his /her desire to return to work for the Company, given not later than one (1) week after he/she ceases to occupy such full-time position or after the termination of this Agreement, whichever is earlier, he/she shall be returned to the Company's employment in line with his/her original seniority rights unimpaired. The Union shall notify the Company promptly when an employee of the Company on leave of absence under this paragraph B ceases to occupy such full-time position. A leave of absence granted under this paragraph B shall become void and the employee's seniority rights shall be forfeited if such employee accepts other employment or engages in other work.

B. The Company may within its sole discretion grant a leave of absence, without pay, not to exceed thirty (30) days in any one year, for personal reasons, without loss of seniority.

C. Requests for leaves of absence must be in writing no less than fourteen (14) working days in advance of to the start of the absence. Leaves of absence will not be granted for the purpose of allowing an employee to take another position temporarily, try out new work, or venture into business for himself.

D. A medical leave provided due to workers' compensation illness or injury will not be considered leave time offset against the annual amount required by the Family and Medical Leave Act (FMLA) as long as the injury or illness would otherwise be covered by the FMLA.

ARTICLE 24
MILITARY SERVICE

A. Except as otherwise provided by law, an employee who is inducted into (or joins voluntarily during a national emergency) the armed services of the United States shall be granted a leave of absence during the period of such service, during which period his/her seniority shall accumulate, provided, however, that if he/she voluntarily re-enlists for an additional period, he/she shall not accumulate seniority during such additional period of service and shall not be entitled to the re- employment rights and privileges hereinafter set out. Upon termination of his/her military service in the first instance, the employee shall be offered re-employment in line with his/her seniority as may be available, which he/she is capable of doing, at the current rate of pay for such work, provided that he/she meets the following requirements:

1. He/she has been honorably discharged.

2. He/she is physically able to do the work.

3. He/she reports for work within ninety (90) days after the date of his/her discharge, or ninety (90) days after hospitalization continuing after discharge, for not more than one (1) year.

B. A regular employee having more than one (1) year of continuous service who is granted a leave of absence to perform summer military training under the National Armed Forces Reserves, including Army, Navy or Marine Corps Reserves or State National Guard, shall be paid for the period of such leave, not to exceed two (2) weeks in any calendar year, the difference between his/her pay while performing such training and the compensation he/she would have received at his/her regular hourly straight-time rate had he/she worked the number of straight-time hours which his/her regular crew worked during such two (2)-week Period.

C. This provision does not apply to employees who perform such training duties during periods of layoff, vacation, or during any other periods of recognized leave of absence, nor does this provision apply unless the employee works on his/her last scheduled work day prior to the leave granted and his/her first scheduled work day thereafter.

ARTICLE 25
SAFETY AND HEALTH

A. The Company recognizes a Health and Safety Committee consisting of two (2) members selected by the Union, and one representative from Management. The Company will make reasonable provisions for the safety and health of the employees during their hours of employment consistent with all governmental regulations. Such protective devices and other safety equipment as may be necessary to properly protect employees from injury shall be provided by the Company without cost to the employee.

B. Adequate ventilation, drinking coolers, showers, and safety equipment such as respirators goggles, gloves, and any other safety devices as may be determined from time-to-time shall be provided by the Company without cost to the employees.

C. The Union agrees that in order to protect the employees from injury and to protect the facilities of the plant, it will cooperate to the fullest extent in seeing that the safety rules and regulations are followed and that it will lend its whole-hearted support to the safety program of the Company.

D. All active employees will be reimbursed (up to $100) for one (1) pair of safety boots annually. The Company will reimburse active employees regularly assigned to the Nitrate/Urea area for the actual cost (up to $100 each) of two (2) pairs of safety boots annually. Employees may purchase the boots from any source and will be reimbursed by the Company upon providing the receipt. However, if the employee's boots are damaged and become ineffective or unsafe due to conditions of the work environment, the employee will be eligible to receive reimbursement (up to $100) for a second pair that year upon demonstration to the Company.

The Company recognizes a Health and Safety Committee consisting of two (2) members selected from the by the Union, and one representative from management. This committee will be maintained for purposes of making monthly inspections of the plant facilities and making recommendations to improve safety and housekeeping. Such members of the bargaining unit who serve on the team will be excused from work, with pay, on the day of the committee inspection. Recommendations of the Health and Safety Committee will not be subject to the provisions of Article 22 - Grievance Procedure.

ARTICLE 26
DISCRIMINATION

Neither the Company nor the Union shall discriminate against any employee with regard to the terms and conditions of employment on the basis of race, color, creed, national origin, sex, age, handicap, religion, or because of membership or non-membership in a Union.

ARTICLE 27
BULLETIN BOARDS

A. The Company will provide one bulletin board in each of the four (4) areas for the purpose of posting official Union notices restricted to the following:

1. Notices of Union recreational and social affairs;

2. Notices of Union elections;

3. Notices of Union appointments and results of Union elections; and

4. Notices of Union meetings.

B. The bulletin boards shall not be used by either party for disseminating propaganda of any kind, posting or distributing pamphlets or political matter, advertising, or for notices adversely reflecting upon the Union or the Company.

ARTICLE 28
SICKNESS BENEFITS

GROUP INSURANCE

For the plan year beginning January 1, 2008, employees will be offered the opportunity to enroll in a program provided by High Mark Group insurance with the terms and benefits agreed upon.

For 2008, the group insurance program will include three alternative coverage tier options—employee only, employee plus one, and family. Dental and vision coverage will be offered those who enroll in the health insurance in 2008 and may not be elected separately by anyone not enrolled.

The employee share of the cost of the GROUP INSURANCE BENEFITS will be 25% of the premium costs in each year of the Agreement. However, the Company is not responsible for any part of the cost of dental and vision coverage, the premium for which is fully paid by the employee.

For plan years 2009 and 2010, the plan participants will elect whether coverage that year will be under a plan provided by High Mark or a self-funded one with tiers, benefits and premium costs determined exclusively by the Company. The Union will authorize High Mark to provide the Company with complete and detailed experience and cost information which will enable it to prepare terms for potential coverage under a Cherokee, self-funded plan for the next year. High Mark will also provide terms of alternative coverage its plan would provide. All plan participants then will have an opportunity to decide which program to adopt for the following plan year. If the program changes to a Company self-funded one in 2009, the Company will provide the necessary experience to High Mark in similar fashion the next year so it can quote its alternative program for consideration and election by 2009 participants in 2010. The information exchange and decision shall be done as soon as practical each year.

It is agreed that in the event some form of "universal" healthcare is initiated by the government during the term of this Agreement, the then current group program may no longer be appropriate and a conversion to an alternative system may be necessary. The parties will meet to discuss the implications at such time.

LONG TERM DISABILITY

the Company agrees to pay the cost of a basic employee long-term disability plan with a maximum benefit of 50% of the monthly pay up to $1,000.00 per month.

SHORT TERM DISABILITY

Effective with the date of this Agreement, the weekly benefit provided eligible employees under the existing plan will increase to $250.

LIFE INSURANCE

the Company agrees to pay the cost of basic life insurance equal to one (1) times an employee's annual income, maximum of $50.000.00.

MEDICAL EVIDENCE AND RETURN TO WORK. The employee's disability and its continuation must be affirmed by acceptable medical evidence showing the result of examinations made at appropriate intervals throughout the period of absence, such intervals to depend upon the nature of the disability. The Company will provide a form on which such statements may be submitted by the employee's doctor.

If a disagreement arises between the Company's doctor and the employee's doctor as to the employee's ability to return to work, the Company's doctor and the employee's doctor shall agree upon a third doctor who shall make a determination as to the employee's physical ability to work and the decision of such third doctor shall be final and binding. Any fee or expenses of such third doctor shall be divided equally between the Company and the employee involved.

RETURN TO WORK PROGRAM. For employees who have suffered work related illnesses/injuries, the company will continue its practice, when possible, of providing modified duties in an effort to help employees in the transition from non-ability to work, to full capacity work. The company also reserves the right to limit the number of employees in this program. In such case, seniority and qualifications will prevail. When applicable, the Company will use occupational function capacity evaluations, developed by certified physicians and therapist, to determine an employee's ability to return to full capacity work or modified work duty. A modified duty work arrangement is intended to be a temporary accommodation and not to exceed four (4) to eight (8) weeks; however, in the event that an employee cannot return to full capacity work after said period, the Company will consider establishing a second modified duty work arrangement, but not to exceed an additional four (4) to eight (8) week duration. An employee returning to work on a modified work duty program will be entitled to his/her normal wage rate as recorded in Appendix "A" of this Agreement. In such event there is no guarantee for overtime work; but any overtime assignments will be offered to the employee only if he/she possesses the physical and endurance requirements of the assignment.

The Company agrees to administer the Return - To - Work program on a non-discriminatory basis, and the employees at this work location agree not to abuse the opportunities provided under this program. This Return - To - - Work program is not intended to adversely affect any other bargaining unit employee.

ARTICLE 29
DISCIPLINE AND DISCHARGE

In the event that an employee is discharged and the employee considers such discharge to be without just cause, such action must be appealed to the fourth step of the grievance procedure within forty-eight (48) hours of the time of such discharge, excluding Saturdays, Sundays and holidays.

Any disciplinary action administered and related documentation will remain as part of the employee’s formal personnel file. However, the following will not be used in determining the level of appropriate discipline to be administered:
Verbal warning issued active employee more than 12 months before;
Written warning issued active employee more than 24 months before;
Suspension issued active employee more than 36 months before.

ARTICLE 30
GENERAL

A. **MANAGEMENT EMPLOYEES WORKING.** It is agreed that supervisors are not to perform production or maintenance work to the extent that it would deprive any worker of his/her regular job, or would result in the layoff of a regular employee, or would prevent the hiring of additional employees, if the amount of work warranted it. This, of course, does not preclude a supervisor from helping out in emergencies or from giving instructions to employees.

B. **NOTIFICATION OF CURRENT HOME ADDRESS.** An employee must notify his/her supervisor whenever he/she changes his/her home address.

C. **CONTRACTORS.** The Company may contract out work at its discretion as long as bargaining unit employees are not laid off as a result of contracting out bargaining unit work.

D. **MAINTENANCE PERSONNEL ON 12 – HOUR SHIFTS**. The Company may staff Maintenance on 12-hour shifts as it deems necessary. Maintenance employees with the required skills will be assigned by canvassing the maintenance employees with those skills, by seniority.

ARTICLE 31
AUTHORIZED DEDUCTION
UNION SECURITY

Membership in the Union is not compulsory by state and federal law. Employees have the right to join, not join, maintain, or drop their membership in the Union as they see fit. Neither the Union, its agents, or any employee shall exert any pressure on, or discriminate against an employee as regards to such matters.

Union Security and Check-off. (a) Upon receipt of written authorization of any employee who is a member of the union, all in accordance with the requirements of the Labor Management Relations Act of 1947, as amended, from time to time, the Company agrees to deduct from the earnings of such employees who are members of the Union, assessments and weekly membership dues. It is agreed that the Company shall check off weekly dues and assessments, each as designated by the International Secretary-Treasurer of the Union.

Said deductions shall be made from such respective employee's pay in the calendar month following the month in which the effective date of the employee's membership in said Union occurs. The authorization will be on forms furnished by the Union and approved by the Company. A copy which appears in the Appendix "E" of the agreement. All such initiation fees, weekly dues and assessments, that are deducted in this manner, shall be remitted by the Company to the International Secretary-Treasurer. Pittsburgh, Pennsylvania, so long as the authorization is validly in effect and not revoked by the employees.

A check for deductions shall be to the International Secretary-Treasurer, Pittsburgh, Pennsylvania each current month, together with an itemized list of all collections.

(b) The Union agrees to indemnify, hold, and save the Company harmless of, from and against all claims, demands, suits, liabilities and expenses or other forms of liability that may arise out of or by reason of action taken by the Company for the purpose of complying with any of the provisions of this Article or in reliance on any notice, authorization, or assignment furnished pursuant to said provisions.

ARTICLE 32
SAVINGS CLAUSE

If any term or provision of this Agreement is, at any time during the life of this Agreement, in conflict with any applicable valid federal or state law, such term or provision shall continue in effect only to the extent permitted by such law. If, at any time thereafter, such term or provision is no longer in conflict with any federal or state law, such term or provision, as originally embodied in this Agreement, shall be restored in full force and effect. If any term or provision of this Agreement is or becomes invalid or unenforceable, such invalidity or unenforceability shall not affect or impair any other term or provision of this Agreement.

ARTICLE 33
STRIKES AND LOCKOUTS

During the term of this Agreement, neither the Union, its officers, agents, members, nor any employee will authorize, instigate, aid, condone, participate in, or engage in a strike, work stoppage, slow-down, boycott, sympathy strike, overtime ban, or any other interruption or interference with work or any impeding of production or business of the Company regardless of whether there is a claim by the Union of a breach of this Agreement or of State or Federal law by the Company. Any employee or employees who violate the provisions of this Article may, at the sole discretion of the Company, be discharged or otherwise disciplined. If an employee is disciplined or discharged for a violation of this Article, the arbitrator's jurisdiction is limited to a determination of whether the employee engaged in activity prohibited by this Article.

The employer specifically has a right to proceed directly to court for an injunction and any and all other legal relief for any breach of this Article.

The Company agrees that there shall be no lockout during the term of this Agreement.

ARTICLE 34
TERM

This Agreement shall be effective as of the 12th day of November, 2007 and shall remain in effect until and including 12:00 midnight on November 11, 2010 and shall continue in full force and effect from year-to-year thereafter, unless either party to this Agreement desires to change or modify the term or terms of the Agreement. The party desiring the change or modification must notify the other party to this Agreement, in writing, not less than sixty (60) days and not more than seventy-five (75) days prior to the termination date or to any subsequent anniversary date thereof.

EXECUTED AT CHEROKEE, ALABAMA THIS TWELFTH DAY OF NOVEMBER, 2007:

CHEROKEE NITROGEN COMPANY **Cherokee, Alabama Plant**	**UNION**
S/Don Phillips Plant Manager	S/Leo W. Gerard International President
S/John Nix Plant Controller	S/Jim English International Secretary-Treasurer
	S/Thomas Conway International Vice-President (Administration)
	S/Fred Redman International Vice-President (Human Affairs)
	S/Stan Johnson District 9 Director
	S/Claude Karr Staff Representative
	S/Terry Daniel President 417-G
	S/R. Longmire, Vice President
	S/B. Black, Negotiating Committee
	S/M. Koger, Negotiating Committee
	S/S. O. Davis, Negotiating Committee
	S/J. D. Thomason, Negotiating Committee

APPENDIX "A"

The hourly rates at the Cherokee, Alabama plant of Cherokee Nitrogen shall be as follows:

Maintenance Table

	Rates Effective November 12, 2007		Rates Effective November 12, 2008		Rates Effective November 12, 2009	
Knowledge / Skill Level	Grandfathered Rates	Pay Rate	Grandfathered Rates	Pay Rate	Grandfathered **Rates**	Pay Rate
Maintenance Level 4	$17.94	$19.84	$18.48	$20.44	$19.03	$21.05
Maintenance Level 3		$17.69		$18.22		$18.77
Maintenance Level 2		$17.45		$17.97		$18.51
Maintenance Level 1		$16.97		$17.48		$18.01
1st Yr. Mechanic		$15.56		$16.03		$16.51
2nd Yr. Mechanic		$15.83		$16.30		$16.79
3rd Yr. Mechanic		$16.12		$16.60		$17.10
Utility Person		$15.56		$16.03		$16.51
Trainee		$11.66		$12.01		$12.37

APPENDIX "A" (continued)

Operations Table

	Rates Effective November 12, 2007		Rates Effective November 12, 2008		Rates Effective November 12, 2009	
Knowledge / Skill Level	Grandfathered" Rates	Pay Rate	Grandfathered Rates	Pay Rate	Grandfathered **Rates**	Pay Rate
Chem. Oper. 4	$17.94	$19.84	$18.48	$20.44	$19.03	$21.05
Chem. Oper. 3		$17.69		$18.22		$18.77
Chem. Oper. 2		$17.45		$17.97		$18.51
Chem. Oper. 1		$16.97		$17.48		$18.01
Trainee (Probationary)	----	$11.66	----	$12.01		$12.37

If an employee bids to a new area, he/she will receive Trainee rate of pay until he/she qualifies as Operator 1.

Each fully qualified regularly assigned Board Operator will receive an additional fifty cents ($.50) per hour for such hours worked in recognition of additional duties assigned.

APPENDIX "B"

12-HOUR CONTINUOUS SHIFT OPERATIONS

This agreement establishes the terms and conditions which are applicable when production employees are scheduled on 12-Hour Continuous Shift Operations at the Cherokee, Alabama facility. Explained herein are the procedures which apply to bargaining-unit employees who work a modified "4-3-4-3" rotating-shift schedule over a twenty-eight (28)-day period, consisting of the following:

--- Thirteen (13) twelve-hour shifts; and

--- One (1) four-hour shift.

Certain criteria must be met in the preparation of this 12-Hour Shift Agreement. It is desirable to conform as closely as possible to the contractual pay provisions under the current Labor Agreement, and it is essential that the Company's cost and the employees' wages be equitable for the same amount of time worked under both a 21-turn shift schedule and the 12-hour continuous shift operations schedule (hereinafter referred to as the "12-Hour Shift Schedule).

Federal Wage and Hour Law requires that an employee be paid time and one-half (1.5) for hours worked in excess of forty (40) hours in a work week. No other overtime/premium payments shall be applicable to this 12-Hour Shift Schedule.

In order to satisfy legal and contractual requirements and to provide employees with equitable pay for the same amount of time worked under both a modified 21-turn shift schedule and this 12-Hour Shift schedule, the Standard Hourly Wage Rates listed in Appendix "A" of the current Labor Agreement will be adjusted for the 12-Hour Shift Schedule. These adjustments are based on the ratio of equivalent straight-time hours paid on the modified 21-turn shift schedule to those on the modified 12-Hour Shift Schedule. The Adjusted Hourly Rates, which are determined by multiplying the current Standard Hourly Wage Rates by a factor, are applicable only for the proposed schedule. All hours worked or paid outside this 12-Hour Shift Schedule, such as holdover overtime or call-outs, will continue to be paid on the basis of the Standard Hourly Wage Rates listed in APPENDIX "A" of the current Labor Agreement.

I. CONDITIONS FOR SHIFT SCHEDULE. The conditions under which the 12-Hour Shift Schedule will be implemented are as follows:

A. Coverage of shift vacancies will be mandatory in accordance with the existing requirement that an employee may not leave his/her work area until properly relieved.

B. The Company requires the Union employees to hold over or be available for overtime (by pager) to man the jobs when vacancies occur. If problems are encountered in filling vacancies, the Company reserves the right to cancel the 12-Hour Shift Schedule operations at any time with ten (10) days' notice.

C. Vacations will be adjusted as defined herein for employees scheduled on 12-Hour Shift Schedules.

II. PAY PRACTICES

A. Regular Scheduled Work Hours

1. Base Pay

a. In order to equalize the cost to the Company and earnings of the employee, it is necessary to apply a factor of .9756 to the Standard Hourly Wage Rate for each job class and to develop an Adjusted Hourly Wage Rate for each job class.

b. Overtime worked as part of the regular 12-Hour Shift Schedule will be paid at the Adjusted Hourly Wage Rate and referred to as Regularly Scheduled Overtime (RSOT).

2. Shift Differential. An employee who works on the 12-Hour Shift Schedule during a four-week period will receive forty ($.40) cents per hour for all hours worked.

Example: An employee whose Standard Hourly Wage Rate is $19.84 per hour would be paid as follows:

Standard Hourly Wage Rate	$19.84
Shift Differential	+ .40
Subtotal.	$ 20.24
Factor	x .9756
Adjusted Hourly Wage Rate	$19.75

Above rate applicable to Day and Night Shifts.

B. Overtime

1. Overtime worked outside the regular 12-Hour Shift Schedule will be paid at the Standard Hourly Wage Rates listed in APPENDIX "A" of the current Labor Agreement.

2. The computation of hours of days worked for the appropriate overtime premium will be made under the terms of the current Labor Agreement except that during the week of the 28-day cycle in which the employee is scheduled to work 48 hours, all of these hours, except unexcused hours, shall be considered hours worked for the purpose of computing overtime. The work week shall begin at 6:00 a.m. on Monday and end at 6:00 a.m. on the following Monday. The work day shall begin at 6:00 a.m. and end at 6:00 a.m. the following morning.

3. Employees assigned to 12-Hour Shifts will eat their lunches on Company time at such hours as their duties permit. No overtime lunches will be provided to employees while working scheduled 12-Hour Shifts.

C. Holiday Pay

1. On the 12-Hour Shift Schedule, a holiday will be paid as follows:

a. Each of the two 12-Hour Shifts that work will be paid 1.5 times the Adjusted Hourly Wage Rate for all hours worked on the holiday plus eight (8) hours of holiday pay at the Standard Hourly Wage Rate.

b. Each Off-Shift employee will receive eight (8) hours times the employee's straight-time pay at his/her Standard Hourly Wage Rate.

2. An employee who works on a holiday will be paid 1.5 times his/her Adjusted Hourly Wage Rate only for all scheduled hours worked on the holiday plus eight (8) hours of holiday pay at the employee's Standard Hourly Wage Rate.

3. An employee who is scheduled off on a holiday will be paid eight (8) hours only at his/her Standard Wage Rate.

4. For purposes of the 12-Hour Shift Agreement, holidays will be the same as those listed in Article 16 of the current Labor Agreement.

5. An employee who is on a scheduled vacation on a holiday will be paid eight (8) hours at the Standard Hourly Wage Rate, in addition to his/her vacation pay.

III. VACATIONS

A. Employees on the 12-Hour Shift Schedule will qualify for vacations in accordance with Article 15 of the current Labor Agreement.

B. Vacation pay for an employee on the 12-Hour Shift Schedule will be computed in accordance with the number of hours the employee would have been scheduled to work had he/she not been on vacation. The number of hours of vacation time is defined in the contract with the maximum being one-hundred sixty (160) hours per year depending on eligibility. Vacation time remaining of less than one (1) week will be taken as per the contract.

C. One (1) vacation week equals the hours determined in paragraph B above.

D. Vacations will be adjusted for the full year.

E. A week of vacation under the 12-Hour Shift Schedule shall be a work week as defined in Article 15, Section L of the current Labor Agreement, provided that suitable standby coverage is maintained. It is understood that persons working the 12-Hour Shift Schedule may take five (5) twelve-hour days of vacation one day-at-a-time with approval from the Company and at least a twenty-four (24)-hour notice.

IV. OVERTIME PROCEDURES. In addition to paragraphs A and B of Section I of this Agreement, the following shall apply:

A. 12-Hour Shift overtime coverage will be obtained from the replacement chart shown on the 12-Hour Shift Schedule except as otherwise specified below.

B. All employees on the 12-Hour Shift Schedule must make available to the Company a telephone number where they can be contacted.

C. The Company may, when such action is necessary to fill a job, require an employee to work past the time when his/her vacation is scheduled to begin. The Company will, however, review any undue inconveniences which may result from such action.

D. Overtime provisions in the Labor Agreement will govern those areas not specifically excluded herein under this Section IV.

V. CALL-OUT AND SCHEDULE CHANGES. Not withstanding any other provisions of this Agreement, call-outs of 12-Hour Shift employees to vacancies on 12-Hour Shifts will be paid at the Standard Hourly Wage Rate for those call-out hours. If an employee is rescheduled to a 12-Hour Shift, the employee will be paid according to the 12-Hour Shift Agreement. An employee scheduled to work other than a 12-Hour Shift, but who actually works a 12-Hour Shift, shall be paid at the applicable Standard Hourly Wage Rate.

VI. MISCELLANEOUS BENEFITS.

A. Jury Duty will be administered in accordance with the provisions of Article 18 of the current Labor Agreement.

B. Funeral Leave Pay will be paid only for two (2) workdays (24 hours) at twelve (12) hours each at the Standard Hourly Wage Rate. If a 12 hour shift employee needs a third day in conjunction with funeral leave, it will be granted, without pay, upon request.

VII. SCOPE OF AGREEMENT

A. It is agreed that this 12-Hour Continuous Shift Operations Agreement supersedes the current Labor Agreement in all areas where there may be a conflict.

B. All areas not specifically covered by this Agreement shall be governed by the terms and conditions of the current Labor Agreement.

C. In the event of questions concerning the application of the 12-Hour Shift Schedule, and/or unforeseen conflicts with the provisions of the current Labor Agreement, such issues shall be referred to Human Resources for resolution.

D. Any modifications and/or changes made to the existing terms and conditions of the current Labor Agreement as a result of the Cherokee Nitrogen facility or any portion thereof changing to this 12-Hour Shift Schedule shall be applicable only during the term of this 12-Hour Continuous Shift Operations Agreement. In the event that the 12-hour Shift Schedule is subsequently discontinued, the terms and conditions of the current Labor Agreement will be given their normal interpretation and application.

One (1) Four-Week Schedule

	Week No. 1							Week No. 2							Week No. 3							Week No. 4						
	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S
DAY	X	X	X	X															X	X	X							
NIGHT												X	X	X	X								X	X	X			
OFF					X	X	X	X	X	X	X					X	X	X				X				X	X	X

Factor:	Hours Worked	Hours Paid at Straight Time
1st Week	48	52
2nd Week	36	36
3rd Week	40	40
4th Week	36	36
Hours in 28-Day Cycle:	160	164
Thirteen 28-Day Cycles/Yr.	X 13	X 13
Number Hours Per Year:	2080	2132

Factor Determination: 2080 / 2132= .9756

APPENDIX "C”

401(K) PLAN

Effective January, 2003, the company will contribute a sum based on 10% of a maximum of $4,000.00 contribution by a plan participant. If a participant employee contributes $4,000.00 during a plan year, the company’s contribution would be $400.00, for that plan year.

APPENDIX "D"

The Cherokee Nitrogen Substance/Alcohol Abuse Policy and Procedure is made a part of the Labor Agreement by reference.

<u>APPENDIX "E"</u>

United Steelworkers (USW) Check-off Authorization Form

LETTER OF UNDERSTANDING

February 22, 2002 and amended November 12, 2007

A. During their negotiations, the Parties discussed Article 4, Work Groups, Operations Skill Advancement/On-The-Job Training, and agreed as follows:

All employees who were hired on or after December 1, 1994, must complete all levels of advancement outlined in Article 4, B. 2. for operations personnel and in Article 4, D. 2. for maintenance work groups.

Employees hired before December 1, 1994, in either operations or maintenance will only be required to complete the levels of advancement through Level 2.

B. The parties also agreed, as follows:

1. Red Circle Personnel listed below will receive first consideration for available Utility Positions within all areas of the plant. Those individuals are: Charlie Pounders and Clyde Wallace.

The Parties agree that the positions they hold are not subject to the seniority provisions of Article 10, Seniority, which relate to bidding and bumping procedures.

In the event of a reduction in force which includes Red Circled utility persons, plant seniority shall control any such reduction in force.

It is understood no employee will be laid off unless he/she has had the opportunity to displace red-circled employees.

2. Ron Russell shall not be required to complete the Operations and/or Maintenance Skills Advancement requirements of Article 4, Work Groups, for Operations or Maintenance personnel.

COMPANY UNION

______________________ ________________________

LETTER OF UNDERSTANDING

(Board Operator Premium)

November 12, 2004 and reaffirmed November 12, 2007

During their negotiations, the parties discussed the Company's agreement to provide a premium of fifty cents ($.50) per hour to Board Operators in consideration for their handling of administrative duties in addition to their regular duties such as: filling out time cards for production personnel; calling employees for overtime call-ins; maintaining area overtime board; posting of overtime hours, refused and worked; maintain attendance records for shift personnel; handles requests for vacation time off; functions as contact point and receives calls from suppliers or vendors as needed.

COMPANY	**UNION**
______________________________	______________________________

SUBJECT INDEX

Exhibit 21.1

LSB INDUSTRIES, INC.
SUBSIDIARY LISTING
At December 31, 2007

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

Prime Financial Corporation
- Prime Holdings Corporation (f/k/a Tower IV Corporation, f/k/a LSB Leasing Corp.)
- Northwest Capital Corporation
- ThermaClime, Inc. (5% stock ownership)

LSB Holdings, Inc.
- LSB-Europa Limited
- Summit Machine Tool Inc. Corp.
- Cherokee Nitrogen Holdings, Inc. (f/k/a Cherokee Nitrogen Company)

ClimateCraft Technologies, Inc.

INDUSTRIAL PRODUCTS BUSINESS

Summit Machine Tool Manufacturing Corp.
- Summit Machinery Company
  - Pryor Plant Chemical Company (f/k/a LSB Financial Corp.)

Hercules Energy Mfg. Corporation

<u>CLIMATE CONTROL/CHEMICAL BUSINESS</u>

ThermaClime, Inc. (f/k/a ClimaChem, Inc.) (95% stock ownership)
Northwest Financial Corporation
LSB Chemical Corp.
El Dorado Chemical Company
Chemex I Corp. (f/k/a Slurry Explosive Corporation)
DSN Corporation
Chemex II Corp. (f/k/a Universal Tech Corporation)
El Dorado Nitric Company (f/k/a El Dorado Nitrogen Company, f/k/a LSB Nitrogen Corporation, f/k/a LSB Import Corp.)
El Dorado Acid, L.L.C. (General Partner of El Dorado Nitrogen, L.P.)
El Dorado Nitrogen, L.P. (1% ownership)
El Dorado Acid II, L.L.C. (Limited Partner of El Dorado Nitrogen, L.P.)
El Dorado Nitrogen, L.P. (99% ownership)
XpediAir, Inc. (f/k/a The Environmental Group, Inc.)
International Environmental Corporation
Climate Master, Inc.
The Climate Control Group, Inc. (f/k/a APR Corporation)
ClimateCraft, Inc. (f/k/a Summit Machine Tool Systems, Inc.)
ThermaClime Technologies, Inc. (f/k/a ACP International Limited, f/k/a ACP Manufacturing Corp.)
CEPOLK Holdings, Inc. (f/k/a ThermalClime, Inc.; f/k/a LSB South America Corporation)
ClimaCool Corp. (f/k/a MultiClima Holdings, Inc., f/k/a LSB International Corp.)
TRISON Construction, Inc.
Koax Corp.
Cherokee Nitrogen Company

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors

LSB Industries, Inc.

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-58225) pertaining to the 1993 Stock Option and Incentive Plan, the Registration Statements (Forms S-8 No. 333-62831, No. 333-62835, No. 333-62839, No. 333-62843, and No. 333-62841) pertaining to the registration of an aggregate of 225,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for various employees, the Registration Statement (Form S-8 No. 333-98359) pertaining to the 1998 Stock Option and Incentive Plan and Outside Directors Stock Purchase Plan, the Registration Statement (Form S-8 No. 333-110268) pertaining to the registration of an aggregate of 804,000 shares of common stock pursuant to certain Non-Qualified Stock Option Agreements for various employees, the Registration Statement (Form S-8 No. 333-145957) pertaining to the registration of an aggregate of 450,000 of common stock pursuant to certain Non-Qualified Stock Option Agreements for two employees, and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our reports dated March 13, 2008, with respect to the consolidated financial statements and schedules of LSB Industries, Inc., and the effectiveness of internal control over financial reporting of LSB Industries, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2007.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 13, 2008

Exhibit 31.1

CERTIFICATION

I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of LSB Industries, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

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

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

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

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

Date: March 13, 2008 /s/ Jack E. Golsen □60;
Jack E. Golsen
Chairman of the Board and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of LSB Industries, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

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

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

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

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

Date: March 13, 2008 /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 Annual Report of LSB Industries, Inc. (“LSB”) on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

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

March 13, 2008

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

Exhibit 32.2

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

In connection with the Annual Report of LSB Industries, Inc. (“LSB”), on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony M. Shelby
Tony M. Shelby
Executive Vice President
and Chief Financial Officer

March 13, 2008

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.