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, 2004

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 and $3.25 convertible Exchangeable Class C Preferred Stock, Series 2

(Facing Sheet Continued)

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. YES [X] 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2004 was approximately $54 million. For purposes of this computation, shares of the Registrant's common stock beneficially owned by each officer and director and Jayhawk Capital Management, L.L.C. and its affiliates are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors and such other beneficial owners of our common stock are, in fact, affiliates of the Registrant. In addition, this computation does not include the 1,054 shares of voting Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company. An active trading market does not exist for the shares of Non-Cumulative Preferred Stock.

As of March 18, 2005 the Registrant had 13,696,198 shares of common stock outstanding (excluding 3,321,607 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", "We", "Us", or "Our") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. We are a diversified holding company which engages, through our subsidiaries, in:

- the Climate Control Business manufactures and sells a broad range of water source heat pumps (including geothermal heat pumps) and hydronic fan coils, as well as other products including large custom air handlers, used in commercial and residential air conditioning systems and
- the Chemical Business manufactures and sells chemical products for the agricultural, varied industrial and mining markets.

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

Our Climate Control Business continues to establish leadership positions in niche markets by offering extensive product lines, custom tailored products and proprietary new technologies. Under this focused strategy, we have developed an extensive line of water source heat pumps (including geothermal heat pumps) and hydronic fan coils. We have developed flexible production to allow us to custom design units for the growing retrofit and replacement markets. Products developed by our Climate Control Business include water source heat pumps, fan coils, large custom air handlers, modular chillers and ultraviolet light units for bacteria removal. Our Climate Control Business has developed the use of geothermal water source heat pumps in residential and commercial applications. We believe that an aging installed base of residential HVAC systems, coupled with increased energy costs and relatively short payback periods of geothermal systems, will continue to increase demand for our geothermal products in both the new and replacement residential markets.

The Chemical Business focuses on specific geographic areas to develop freight and distribution advantages and establish a leading regional presence, provide value-added services as a means of building customer loyalty, and expand and modify the product mix towards higher margin products. For example, in the agricultural products market, we believe we have developed geographic advantages in the Texas, Oklahoma, Missouri, Alabama and Tennessee markets by establishing an extensive network of wholesale and retail distribution centers for nitrogen-based fertilizer tailored for regional farming practices and by providing value-added services.

As discussed in "Liquidity and Capital Resources" under Item 7, on October 7, 2004 one of the four nitric acid plants at our Chemical Business'El Dorado, Arkansas facility experienced a mechanical failure. Management estimates that this plant will not be back to normal production until the end of April 2005.

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating profit, 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 18 of the Notes to Consolidated Financial Statements included elsewhere in this report.

All discussions below relate to our continuing operations and accordingly exclude the discontinued operations sold in 2002. See Note 17 of the Notes to the Consolidated Financial Statements.

Climate Control Business

General

Our Climate Control Business manufactures and sells a broad range of standard and custom designed water source heat pumps and hydronic fan coils as well as other niche products for use in commercial and residential heating ventilation and air conditioning ("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 systems drive the demand for our Climate Control Business' products. Our Climate Control Business' 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:

	2004	2003	2002
Percentage of net sales of the Climate Control Business:			
Water source heat pumps	52%	51%	45%
Hydronic fan coils	35%	40%	44%
Other HVAC products	13%	9%	11%
	100%	100%	100%
Percentage of consolidated net sales:			
Water source heat pumps	20%	19%	20%
Hydronic fan coils	14%	15%	20%
Other HVAC products	5%	4%	5%
	39%	38%	45%

Water Source Heat Pumps

We are a leading provider of water source heat pumps to the commercial construction and renovation markets in the United States. These highly efficient heating and cooling products 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.

Hydronic Fan Coils

As 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. During 2003 and 2002, a decline of major lodging and hospitality construction projects in several key geographic markets had an impact on our hydronic fan coil operations. We do not believe this is a long-term trend and, going forward, we expect this specific market to return to historical levels.

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 $300 million. Levels of repair, replacement, and new construction activity generally drive demand in these markets. In aggregate, the United States market for water source heat pump and fan coil products is approaching the historical levels experienced five years ago. The previous decline in the total market in 2001 through 2003 was a direct result of the slowdown in construction and refurbishment related to the lodging and hospitality industry and has been attributed to the events of September 11, 2001 and world unrest.

Production and Backlog

Most of our Climate Control Business production occurs on a specific order basis. We manufacture the units 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. As of December 31, 2004 and 2003, the backlog of confirmed orders for our Climate Control Business was approximately $28.4 million and $22.8 million, respectively. Past experience indicates that customers generally do not cancel orders after we receive them. As of the date of this report, our Climate Control Business had

released the majority of the December 31, 2004 backlog to production. All of the December 31, 2004 backlog is expected to be filled during 2005.

Marketing and Distribution

Distribution

Our Climate Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. Our sales to mechanical contractors primarily occur through independent manufacturers' representatives, who also represent complementary product lines not manufactured by us. Original equipment manufacturers 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 original equipment manufacturers relating to our products of the Climate Control Business:

	2004	2003	2002
Net sales to original equipment manufacturers as a percentage of:			
Net sales of the Climate Control Business	21%	23%	22%
Consolidated net sales	8%	8%	10%

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 steel contracts. We expect to obtain our requirements for raw materials in 2005, however, changes in market supply and demand could result in increased costs. We believe the majority of cost increases, if any, will be passed to our customers in the form of higher prices and while we believe we will have sufficient materials, a shortage of raw materials could impact production of Climate Control products. We do not expect to have any difficulties in obtaining any necessary materials for our Climate Control Business.

Competition

Our Climate Control Business competes primarily with five companies, some of whom are also our customers. Some of our competitors have greater financial and other resources than we do. Our Climate Control Business manufactures a broader line of 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.

Chemical Business

General

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

- fertilizer grade ammonium nitrate and urea ammonium nitrate ("UAN") for the agricultural industry,
- concentrated, blended and regular nitric acid, metallurgical grade anhydrous ammonia and sulfuric acid for industrial applications and
- industrial grade ammonium nitrate and solutions for the mining industry.

Our Chemical Business' principal manufacturing facilities are located in El Dorado, Arkansas ("El Dorado Facility"), Cherokee, Alabama, ("Cherokee Facility") and Baytown, Texas ("Baytown Facility").

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

	2004	2003	2002
Percentage of net sales of the Chemical Business:			
Agricultural products	39%	40%	38%
Industrial acids	32%	33%	37%
Mining products	29%	27%	25%
	100%	100%	100%
Percentage of consolidated net sales:			
Agricultural products	23%	25%	20%
Industrial acids	19%	20%	20%
Mining products	17%	16%	13%
	59%	61%	53%

Agricultural Products

Our Chemical Business produces agricultural grade ammonium nitrate, a nitrogen-based fertilizer, at the El Dorado Facility and anhydrous ammonia, UAN and urea at the Cherokee Facility. The Cherokee Facility also has the ability to produce agricultural grade ammonium nitrate. Ammonium nitrate and UAN are two of several forms of nitrogen-based fertilizers which are derived from anhydrous ammonia. 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 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. We sell these agricultural products to farmers, fertilizer dealers and distributors located primarily in the South Central and Southeastern United States.

Our Chemical Business' agricultural markets are in relatively close proximity to our El Dorado, Arkansas and Cherokee, Alabama facilities and include a high concentration of pastureland and row crops which favor our products. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. Using a proprietary prilling process, our 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. We believe that our "E-2" brand ammonium nitrate fertilizer is recognized as a premium product within our primary market. In addition, our El Dorado Facility establishes long-term relationships with end-users through its network of wholesale and retail distribution centers and our Cherokee Facility sells directly to agricultural co-op customers.

Industrial Acids

Our Chemical Business manufactures and sells industrial acids, primarily to the polyurethane, paper, chemical and electronics industries. We are a major supplier of concentrated nitric acid, a special grade of nitric acid used in the manufacture of fibers, herbicides, explosives, and other chemical products. In addition, we produce and sell blended and regular nitric acid, metallurgical grade ammonia and sulfuric acid. We compete on the basis of price and service, including on-time reliability and distribution capabilities. We provide inventory management as part of the value-added services offered to our customers.

The Baytown Facility is one of the two largest single train nitric acid manufacturing units in the United States, with nameplate capacity of 443,000 short tons per year. 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"), subsidiary within our Chemical Business, operates the Baytown Facility at Bayer's Baytown, Texas operation. Under the terms of the Bayer Agreement, Bayer will purchase 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, 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.

Mining Products

Our Chemical Business manufactures industrial grade ammonium nitrate and 83% ammonium nitrate solution for the mining industry. One of our subsidiaries, El Dorado Chemical Company ("EDC"), is a party to a long-term cost-plus supply agreement. Under this supply agreement, EDC will supply Orica USA, Inc. ("Orica") with approximately 190,000 tons of industrial grade ammonium nitrate per year for a term through at least March 2007, with provisions for renewal thereafter.

In addition, another subsidiary is party to a long-term cost-plus supply agreement under which it will supply a customer its requirements of 83% ammonium nitrate solution for a term through at least September 2006, with provisions for renewal thereafter.

Major Customers

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

	2004	2003	2002

Net sales to Bayer as a percentage of:			
Net sales of the Chemical Business	18%	19%	21%
Consolidated net sales	11%	12%	11%
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	17%	18%	16%
Consolidated net sales	10%	11%	8%

Raw Materials

Anhydrous ammonia and natural gas represent the primary components in the production of most of the products of our Chemical Business. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of December 31, 2004, EDC's agreement with its principal supplier of anhydrous ammonia terminated and since that date EDC and this supplier have been in negotiations concerning a new purchase agreement. Since December 31, 2004 until a new contract was finalized, the supplier continued to provide EDC with its requirements of anhydrous ammonia. In March 2005, EDC reached an agreement with this supplier. Under a new agreement effective January 3, 2005, EDC will purchase substantially all of its requirements of purchased ammonia using a market price-based formula plus transportation to the manufacturing facility in El Dorado, Arkansas through December 31, 2005. We believe that we could obtain anhydrous ammonia from other sources in the event of a termination or interruption of service under the above-referenced contract. Our Chemical Business natural gas feedstock requirements are generally purchased at spot market price for delivery at our Cherokee Facility. Periodically, our Chemical Business enters into fixed-price natural gas contracts.

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. See "Business - Environmental Matters" and "Legal Proceedings".

As a result of growing concerns over ammonium nitrate and other nitrogen fertilizers, 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.

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 other chemical companies in our markets, many of whom have greater financial and other resources than the Company. We believe that competition within the markets served by our Chemical Business is primarily based upon price, location of production and distribution sites, service and product performance.

Employees

As of December 31, 2004 we employed 1,240 persons. As of that date, our Climate Control Business employed 809 persons, none of whom are represented by a union, and our Chemical Business employed 370 persons, with 122 represented by unions under agreements expiring in July through November of 2007.

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 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 pollutants or other substances 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, including, but not limited to, EDC at its El Dorado, Arkansas plant (the "El Dorado Facility"), in order to comply with the Environmental Laws and Health Laws. Our Chemical Business could be required to make significant additional site or operational modifications at this or other facilities involving substantial expenditures. In addition, if we should decide to no longer operate the El Dorado Facility and if such facility is retired, we may be required to continue to operate discharge water equipment, the cost and time to operate this equipment is presently unknown.

1. Water Matters

Discharge Water Issues

The El Dorado Facility generates process wastewater. This wastewater is transported at the El Dorado Facility to a small pond for pH adjustment and then to a larger pond for biological oxidation. The process water discharge and storm-water run off are governed by a state NPDES water discharge permit renewed every five years. During 2004, EDC entered into a settlement agreement with the state of Arkansas Department of Environmental Quality ("ADEQ") that provided, in part, for effluent limits which EDC believes are acceptable. Pursuant to the settlement agreement, the ADEQ issued the final revised NPDES water discharge permit, which became effective on June 1, 2004. In order to release EDC's discharge water, we plan for EDC to utilize a pipeline to be built by the City of El Dorado, Arkansas (the "City").

We believe that the NPDES permit, as issued, will require additional expenditures by EDC, estimated to be approximately $3 to $4 million, which would be expended over the next three years, plus reimbursement to the City for our pro-rata portion of pipeline engineering and construction costs as those costs are incurred. It is anticipated that EDC will be required to pay approximately $1.8 million over the next three years of the City's engineering and construction costs to build the pipeline. This estimate assumes that the City timely builds its own discharge pipeline to a nearby river and we are permitted to tie our pipeline into the City's pipeline. The City council has approved the joint pipeline. We do not have any reliable estimates of the cost of an alternative solution in the event that the pipeline is not built, or timely built, by the City.

In addition, EDC 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 is being completed to address the shallow groundwater contamination, which will include an evaluation of the current conditions and remediation based upon a risk assessment. 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. There are no known users of this shallow groundwater in the area, and preliminary risk assessments have not identified any public health risk that would require remediation. At December 31, 2004 a liability of $133,000 has been established for the estimated investigation and remediation costs. However, this estimate may be revised in the near term based on the final remedy selected pursuant to the new CAO.

Drainage of Pond at El Dorado Facility and Plea Agreement

In response to a maintenance emergency and to prevent an uncontrolled release, the equalization pond located at the El Dorado Facility was

drained to accommodate repairs to an underground discharge pipe in September 2001. Although, no adverse environmental conditions were noted at the time of discharge, the sustained discharge was out of compliance with the mass effluent limits contained in the facility's permit. An environmental compliance employee of EDC determined that proper procedure would be to notify the state of Arkansas in the month-end report. The state disagreed and took the position that they should have been notified immediately. EDC and the state of Arkansas have agreed to a Consent Administrative Order to settle any civil penalty claims relating to this discharge event whereby EDC paid a

$50,000 civil penalty and has funded $50,000 on supplemental environmental projects.

In January 2002, the United States began a criminal investigation as a result of the drainage of the pond. EDC and one of its employees have entered into a Plea Agreement with the United States, with EDC and the employee pleading guilty to one misdemeanor count for negligently violating a permit, to wit: failing to report a discharge within 24 hours, a misdemeanor. Under the Plea Agreement, EDC paid a fine of $45,000 and is placed on probation for one year, and the employee is placed on probation for one year. The Plea Agreement was approved by the United States District Court during February 2005. Although there are no assurances, as of the date of this report, the Company does not believe that the Plea Agreement will have a material adverse effect on the Company.

2. Air Matters

EDC and the ADEQ have entered into a consent administrative order ("Air CAO") resolving certain air regulatory alleged violations associated with EDC's sulfuric acid plant and certain other alleged air emission violations. The Air CAO became effective during February 2004. The Air CAO requires EDC to implement additional air emission controls at the El Dorado Facility and to install a continuous air monitoring system. The air monitoring system is to operate for twelve months. The ultimate cost of any technology changes required cannot presently be determined but is believed to cost between $1.5 million to $3 million. The implementation of the technological change and related expenditures will be made over the next three to six years.

3. Other Environmental Matters

In April 2002, Slurry Explosive Corporation ("Slurry"), a subsidiary within our Chemical Business, entered into a Consent Administrative Order ("Slurry Consent Order") with the state of Kansas, 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 state of Kansas for review and approval, and agree with the state as to any required corrective actions to be performed at the Hallowell Facility.

In connection with the sale of substantially all of the operating assets of Slurry and UTeC, both subsidiaries within our Chemical Business, in December 2002, UTeC leased the Hallowell Facility 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. Slurry has placed the prior owners (Chevron/Texaco) of the Hallowell Facility on notice of their responsibility for contribution towards the costs to investigate and remediate this site. Representatives of the prior owner have agreed to pay for one-half of the costs of the investigation on an interim, non-binding basis. At December 31, 2004 a liability of $208,000 has been established for our share of the estimated investigation and remediation costs. However, these estimates may be revised in the near term based on the results of our investigation and remediation.

Grand Jury Investigation -Slurry -Hallowell Facility

The U.S. Alcohol Tobacco and Firearms Agency ("AT&F") previously conducted an investigation at Slurry. In August 2003, the Company learned that a federal grand jury for the District of Kansas was investigating Slurry and certain of its former employees relating to the conduct at Slurry's commercial explosives manufacturing plant at the Hallowell, Kansas facility ("Hallowell Facility") related to compliance with federal explosives statutes. Active operations at the Hallowell Facility were discontinued in February 2002 after its license to possess explosives was revoked by the AT&F. Thereafter, as stated above, Slurry's business was sold to a third party. As of the date of this report, no target letters indicating a decision by the United States to seek criminal charges in connection with this investigation have been received.

ITEM 2. PROPERTIES

Climate Control Business

Our Climate Control Business manufactures most of its heat pump products in a 270,000 square foot facility ("Building") in Oklahoma City, Oklahoma. We lease the Building, with an option to buy, through May 2016, with options to renew for three additional five-year periods. For 2004, 79% of the productive capacity of this manufacturing operation was being utilized, based on two ten-hour shifts per day and a four-day week in one department and one ten-hour shift per day and a four-day week in all other departments.

Our Climate Control Business conducts its fan coil manufacturing operations in a facility located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet. We own this facility subject to a mortgage. For 2004, our Climate Control Business was using 87% of the productive capacity, based on one eight-hour shift per day and a five-day week.

All of the properties utilized by our Climate Control Business are considered by our management to be suitable and adequate 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 120 acres of a 1,300 acre tract of land located at the Cherokee Facility and (c) in a nitric acid plant at the Baytown Facility. The Company and/or its subsidiaries own all of its manufacturing facilities except the Baytown Facility. The Baytown Facility is being leased pursuant to a long-term lease with an unrelated third party. As discussed in Note 7 of Notes to Consolidated Financial Statements, the El Dorado Facility and the Cherokee Facility (with certain exceptions) are being used to secure a $50 million term loan. For 2004, the following facilities were utilized based on continuous operation:

	Percentage of Capacity
El Dorado Facility	78%
Cherokee Facility	88%
Baytown Facility	88%

The above 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. The current nitric acid utilization percentage is lower than normal due to the lost production resulting from the mechanical failure of one of the El Dorado Facility's four nitric acid plants. This plant that normally produces 10,000 tons per month has been down since October 7, 2004 and is not expected to return to production until the end of April 2005.

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

Our Chemical Business distributes its agricultural products through 18 wholesale and retail distribution centers, with 14 of the centers located in Texas (11 of which we own and 3 of which we lease); 2 centers located in Missouri (1 of which we own and 1 of which we lease); and 2 centers located in Tennessee (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:

- Settlement Agreement entered into by EDC as to its El Dorado Arkansas facility ("El Dorado Facility") with the Arkansas Department of Environmental Quality ("ADEQ") regarding the El Dorado Facility's NPDES water discharge permit, which permit became effective June 1, 2004.
- A consent administrative order entered into by EDC with the ADEQ as to the presence of nitric contamination in the shallow groundwater at the El Dorado Facility.
- A consent administrative order entered into by EDC with the ADEQ resolving certain air regulatory violations at the El Dorado Facility.
- A consent administrative order entered into by EDC with the ADEQ as a result of the draining of the equalization pond at the El Dorado Facility.
- A federal grand jury investigating Slurry and certain of its former employees in connection with alleged violations of federal explosives statutes at the Hallowell Facility.

2. Plea Agreement

As previously reported, EDC and one of its employees have entered into a Plea Agreement with the United States as a result of the drainage of the equalization pond at the El Dorado Facility in response to a maintenance emergency and to permit an uncontrolled release in September 2001, in which it was alleged that the sustained discharge was out of compliance with the mass effluent limits contained in the facility's permit. An environmental compliance employee of EDC incorrectly determined that the proper procedure

was to notify the state of Arkansas of the discharge in the month end report and not within 24 hours of the discharge. EDC and the employee have each pled guilty to one misdemeanor count for negligently violating a permit, to-wit: Failing to report a discharge within 24 hours, a misdemeanor. Under the Plea Agreement, EDC paid a fine of $45,000 and placed on probation for one year and the employee is placed on probation for one year. The Plea Agreement was approved by the United States District Court during February 2005.

3. Climate Control Business

A lawsuit was filed in August 2002, against Trison Construction, Inc. ("Trison"), a subsidiary within our Climate Control Business, in the District Court, State of Oklahoma, Pontotoc County, in the case styled Trade Mechanical Contractors, Inc., et al. v. Trison Construction, Inc. In this lawsuit, the plaintiff alleges that Trison breached its contract with the plaintiff by delaying contract performance and refusal of payment, and that the actions by Trison damaged the plaintiff. The plaintiff alleges that Trison owes it approximately $231,000, inclusive of overhead, cost and profit; approximately $94,000 in extended overhead and expenses and lost profits of an unspecified amount. Trison has asserted a counterclaim against the plaintiff for recovery of its costs and attorneys fees associated with the defense of this case and approximately $306,000 in damages due to plaintiff's breach of contract. In June 2004, Johnson Controls, Inc. ("JCI") filed a formal demand for arbitration against Trison and its bonding company. JCI is alleging that it has sustained damages of approximately $1.7 million as a result of alleged defects in Trison's work in connection with a facility located in Pontotoc County, Oklahoma. In addition, in accordance with demands by the Company's bonding company, the Company has agreed to increase the security deposited with the bonding company from a $1 million letter of credit to $1.5 million letter of credit. Trison intends to vigorously defend this action.

International Environmental Corporation ("IEC"), a subsidiary within our Climate Control Business, has been sued, together with 18 other defendants and 8 other parties added by the original named defendants, in the case styled Hilton Hotels, et al. v. International Environmental Corporation, et al., pending in the First Circuit Court of Hawaii. The plaintiffs'claims arise out of construction of a hotel in Hawaii. The plaintiffs claim that it was necessary to close the hotel approximately one year after it was opened due to an infestation of mold, requiring the hotel owner to undertake a mold remediation project. The owner of the hotel sued many of the parties involved in the design and construction, or supply of equipment, for the hotel, alleging the improper design, construction, installation and/or air conditioning equipment. IEC supplied certain portions of the air conditioning equipment, which the plaintiffs allege was defective. IEC believes that it has meritorious defenses to this lawsuit. The plaintiffs have not specified the amount of damages. The Company has notified its insurance carrier, which is providing a defense under a reservation of rights.

4. Chemical Business

Cherokee Nitrogen, Inc. ("Cherokee"), a subsidiary within our Chemical Business, has been sued for an undisclosed amount of money based on a claim that the subsidiary breached an agreement by overcharging the plaintiff for ammonium nitrate as a result of inflated prices for natural gas used to manufacture the ammonium nitrate. The suit is Nelson Brothers, LLC v. Cherokee Nitrogen v. Dynegy Marketing, and is pending in Alabama state court

in Colbert County. Cherokee has filed a third party complaint against Dynegy and a subsidiary asserting that Dynegy was the party responsible for fraudulently causing artificial natural gas prices to exist and seeking an undisclosed amount from Dynegy, including any amounts which may be recovered by the plaintiff. Dynegy has filed a counterclaim against Cherokee for monies allegedly owed on account, which is alleged by Dynegy to be $600,000. Although there is no assurance, counsel for Cherokee has advised the company that, at this time, they believe that there is a good likelihood that Cherokee will recover monies from Dynegy over and above any monies which may be recovered by the plaintiff or owed to Dynegy.

5. Other

Marty Davis, et al. v. El Dorado Chemical Company, pending in the United States District Court, Western District of Arkansas, El Dorado Division, brought against EDC by the owners of 283 acres of property adjacent to the El Dorado Facility, was settled in February 2005 for an immaterial amount.

Zeller Pension Plan

In February 2000, the Company's Board of Directors authorized management to proceed with the sale of the automotive business, since the automotive business was no longer a "core business" of the Company. In May 2000, the Company sold substantially all of its assets in its automotive business. After the authorization by the board, but prior to the sale, the automotive business purchased the assets and assumed certain liabilities of Zeller Corporation ("Zeller"). The liabilities of Zeller assumed by the automotive 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 business was contacted by a representative of the Pension Benefit Guaranty Corporation ("PBGC") regarding the plan. The Owner has been informed by the PBGC of a possible under-funding of the plan and a possible takeover of the plan by the PBGC. The Owner has notified the Company of these events. The Company has also been contacted by the PBGC and has been advised that the PBGC considers the Company to be potentially liable for the under-funding of the Zeller Plan in the event that the plan is taken over by the PBGC and has alleged that the under-funding is approximately $.6 million. The Company has been advised by ERISA counsel that, based upon numerous representations made by the Company and the assumption that the trier of fact determining the Company's obligations with respect to the plan would find that: we disposed, in May 4, 2000 of interest in the automotive business including the Zeller assets and business pursuant to a bona fide purchase agreement under the terms of which the purchaser assumed all obligations with respect to the operation, including funding of the Zeller plan, the purpose of the sale of the automotive business did not include an attempt to evade liability for funding the Zeller plan, at the time we disposed or our interest in the automotive business, the Zeller plan was adequately funded, on an ongoing basis and all required contributions had been made, and the Zeller plan did not terminate at anytime that any member of the Company's controlled group of entities was a contribution sponsor to the Zeller plan, that the possibility of an unfavorable outcome to us in a lawsuit if the PBGC attempts to hold us liable for the under-funding of the Zeller plan is remote.

Asserting Financing Fee

On December 4, 2003, the Company and Southwest Securities, Inc. ("Southwest") entered into a letter agreement whereby the Company agreed to

retain Southwest to assist the Company in obtaining financing for the Company. Southwest's right to a fee under the Agreement is limited to a refinancing occurring during "a period of sixty days, to be extended if a transaction is ongoing." A financing did not occur within sixty days of the date of the Agreement, nor was a funding transaction "ongoing" at the end of that period. In September 2004, more than ten months after the date of the Agreement between the Company and Southwest, ThermaClime borrowed $50 million from Orix Capital Markets, LLC ("Orix"). It is the Company's position that the Orix financing transaction was not the result of any efforts by Southwest, nor was it the culmination of any negotiations or transaction commenced during the sixty-day term of the Agreement. Nonetheless, Southwest has asserted that it is entitled to a fee of $1.7 million pursuant to the Agreement. The Company brought an action against Southwest in Oklahoma state court in a lawsuit styled LSB Industries, Inc. v. Southwest Securities, Inc. pending in the Oklahoma District Court, Oklahoma County, for a declaratory judgment that the

Company is not liable to Southwest under the Agreement as a result of the Orix financing transaction. The Company intends to vigorously defend itself against the claim by Southwest.

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 2004.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

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 Chairman of the Board and Chief Executive Officer. See information regarding Mr. Golsen under "Directors" in Item 10.

Barry H. Golsen Vice Chairman of the Board, President, and President of the Climate Control Business. See information regarding Mr. Golsen under "Directors" in Item 10.

David R. Goss Executive Vice President of Operations and Director. See information regarding Mr. Goss under "Directors" in Item 10.

Tony M. Shelby Executive Vice President of Finance and Director. See information regarding Mr. Shelby under "Directors" in Item 10.

Jim D. Jones Senior Vice President, Corporate Controller and Treasurer. Mr. Jones, age 63, 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 accountingfirm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Jones is a graduate of the University of Central Oklahoma.

David M. Shear Senior Vice President and General Counsel. Mr. Shear, age 45, 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. Also see discussion under "Family Relationships" in Item 10.

PART II

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

Market Information

Since December 15, 2003 our Common Stock has been listed for trading on the American Stock Exchange. Prior to that date, our Common Stock traded on the Over-the-Counter Bulletin Board ("OTC"). 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.

	Fiscal Year Ended December 31,			
	2004		2003	
Quarter	High	Low	High	Low
First	8.63	6.00	3.80	2.80
Second	8.45	6.97	5.30	3.70
Third	9.49	6.95	5.15	3.80
Fourth	9.59	7.43	6.45	5.00

Stockholders

As of March 18, 2005 we had 800 record holders of our common stock. This number of record holders 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 Working Capital Revolver Loan and Senior Secured Loan agreements to which they are parties.

Under the terms of the Working Capital Revolver Loan and Senior Secured Loan agreements, ThermaClime cannot transfer funds to us in the form of cash dividends or other distributions or advances, except for (a) the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with us and (b) an amount not to exceed fifty percent (50%) of ThermaClime's consolidated net income during each fiscal year determined in accordance with GAAP plus amounts paid to us under clause (a) above, provided that certain other conditions are met, (c) the amount of direct and indirect costs and expenses incurred by us on behalf of ThermaClime pursuant to a certain services agreement and (d) amounts under a certain management agreement between us and ThermaClime, provided certain conditions are met. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Holders of our Common Stock are entitled to receive dividends only if and when declared by our Board of Directors. No cash dividends may be paid on our Common Stock until all required dividends are paid on the outstanding shares of our Preferred Stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods.

As of December 31, 2004 we have issued and outstanding, 618,550 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,000,000 shares of Series D Cumulative Convertible Class C Preferred Stock ("Series D Preferred"), 1,027 shares of a

series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") 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, if and when declared by our Board of Directors, payable as follows: (a) Series 2 Preferred at the annual rate of $3.25 a share payable quarterly in arrears on March 15, June 15, September 15 and December 15, which dividend is cumulative, (b) Series D Preferred at the rate of $.06 a share payable on October 9, which dividend is cumulative but will be paid only after accrued and unpaid dividends are paid on the Series 2 Preferred, (c) Non Cumulative Preferred Stock at the rate of $10.00 a share payable April 1, which are non-cumulative and (d) Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative.

Due to our previous operating losses and our subsidiaries limited borrowing ability under credit facilities, we discontinued payment of cash dividends on our Common Stock for periods subsequent to January 1, 1999. Also due to our previous operating losses and our liquidity position, we have not declared or paid the regular quarterly dividends of $.8125 on our outstanding Series 2 Preferred since June 15, 1999. In addition, we did not declare or pay the regular annual dividend of $12.00 on the Series B Preferred since 1999.

No dividends or other distributions, other than dividends payable in Common Stock, shall be declared or paid, and no purchase, redemption or other acquisition shall be made, by us in connection with any shares of Common Stock until all cumulative and unpaid dividends on the Series 2 Preferred, Series D Preferred and Series B Preferred shall have been paid. As of December 31, 2004 the aggregate amount of unpaid dividends in arrears on our Series 2 Preferred, Series D Preferred and Series B Preferred totaled approximately $11.1 million, $.2 million and $1.2 million, respectively. We do not anticipate having funds available to pay dividends on our stock (Common or Preferred) for the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

	Years ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales (1) (2)	$ 364,053	$ 317,263	$ 283,811	$ 314,942	$ 272,668
Interest expense (1) (4)	$ 6,784	$ 5,559	$ 7,590	$ 13,338	$ 14,707
Income from continuing operations before cumulative effect of accounting changes (1) (3)	$ 2,409	$ 3,111	$ 2,700	$ 7,330	$ 7,969
Net income	$ 1,873	$ 3,111	$ 99	$ 8,557	$ 6,195
Net income (loss) applicable to common stock	$ (449)	$ 784	$ (2,228)	$ 6,290	$ 3,424
Income (loss) per common share applicable to common stock:					
Basic:					
Income from continuing operations before cumulative effect of accounting changes	$ ..01	$ ..06	$ ..03	$ ..43	$ ..44
Income (loss) from discontinued operations, net	$ -	$ -	$ (.29)	$ .10	$ (.15)
Net income (loss)	$ (.03)	$ .06	$ (.19)	$ .53	$ .29
Diluted:					
Income from continuing operations before cumulative effect of accounting changes	$ ..01	$ ..05	$ ..03	$ ..41	$ ..43
Income (loss) from discontinued operations, net	$ -	$ -	$ (.29)	$ .09	$ (.14)
Net income (loss)	$ (.03)	$ .05	$ (.19)	$ .50	$ .29

(1) Amounts are shown excluding balances related to businesses disposed.

(2) Net sales for the five years ended December 31, 2004 include $56.6 million, $45.5 million, $33.4 million, $35.9 million and $7.1 million, respectively, associated with a subsidiary's operation of the Cherokee Facility acquired in October 2000.

(3) Income (loss) from continuing operations before cumulative effect of accounting changes includes gains on sales of property and equipment of $6.6 million for 2001 and gains on extinguishment of debt of $4.4 million, $1.5 million, $2.6 million and $20.1 million for 2004, 2002, 2001 and 2000 respectively.

(4) 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.

ITEM 6. SELECTED FINANCIAL DATA (CONTINUED)

	Years ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share data)				
Selected Balance Sheet Data:					
Total assets	$ 163,402	$ 158,294	$ 162,782	$ 179,838	$ 193,989

Redeemable preferred stock	$ 97	$ 103	$ 111	$ 123	$ 139
Long-term debt, including current portion (1)	$ 106,507	$ 103,275	$ 113,361	$ 131,620	$ 134,980
Stockholders' equity (deficit)	$ 8,398	$ 5,681	$ 503	$ (1,962)	$ (9,442)
Selected other data:					
Cash dividends declared per common share	$ -	$ -	$ -	$ -	$ -

(1) Amounts are shown excluding balances related to businesses disposed of.

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 should be read in conjunction with a review of our December 31, 2004 Consolidated Financial Statements, Item 6 "Selected Financial Data" and Item 1 "Business" included elsewhere in this report.

Certain statements contained in this "Management's Discussion and Analysis of Financial Conditions and Results of Operations" may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

All discussions below relate to our continuing operations and accordingly exclude the discontinued operations sold in 2002.

Overview

General

We are a diversified holding company. Our wholly-owned subsidiary, ThermaClime, through its subsidiaries, owns substantially all of our core businesses consisting of the Climate Control and Chemical Businesses which are engaged in:

- the manufacturing and selling of a broad range of water source heat pumps (including geothermal heat pumps) and hydronic fan coils, as well as other products including large custom air handlers, used in commercial and residential air conditioning systems and
- the manufacturing and selling of chemical products for the agricultural, varied industrial and mining markets.

Climate Control Business

The Climate Control Business has significant market share in its niche of the United States commercial and residential heating ventilation and air conditioning "HVAC" business. Most of their products have proprietary aspects and are produced to customer orders that are placed well in advance of required delivery dates. As a result, the Climate Control Business carries significant backlogs that eliminate the necessity to carry substantial inventories other than for firm customer orders.

During 2003 and 2004, the Climate Control Business' profitability was affected by operating losses of certain new product lines being developed over the past few years. In 2005, the emphasis will be to move these new operations into an operating profit by increasing the sales levels above the breakeven point. The Climate Control Business' profitability was also impacted by the reduced demand for its hydronic fan coil product line which relies on the hospitality and lodging industry as a significant market. The demand in the hydronic fan coil market was impacted by a slowdown in major construction projects and deferral of major renovations attributed to events of September 11, 2001. In 2004, our higher order levels for hydronic fan coils (approximately 19% greater than 2003) were consistent with a turnaround in the construction industry, which industry predicted that new hotel construction starts and renovation would increase during 2004.

The Climate Control Business has historically generated consistent annual profits and positive cash flows. The Climate Control Business' objectives include the continued emphasis on increasing the sales and operating margins of existing products and on new product development. The water source heat pump product line experienced a 22% growth in sales in 2004, as compared to 2003 and 5% growth in 2003, as compared to 2002.

Chemical Business

The Chemical Business is primarily a nitrogen business. The primary raw material feedstocks (anhydrous ammonia and natural gas) are commodities, subject to significant price fluctuations and are purchased at prices in effect at time of purchase. Due to the uncertainty of the spot sales price, management has pursued a strategy of developing customers that purchase substantial quantities of products pursuant to sales agreements and/or formulas that provide for the pass through of raw material costs, variable costs, and certain fixed costs, plus in most cases, a profit margin. This pricing arrangement provides a hedge against the commodity risk inherent in the raw material feedstocks of natural gas and ammonia. In addition management hedges most sales commitments made at fixed sales prices.

The remaining sales are primarily into agricultural markets at the price in effect at time of shipment. The cost of the anhydrous ammonia and gas feedstock costs are decoupled from the sales price of the Company's agricultural products resulting in profitability problems in this market in recent periods.

The problem with profitability in the agricultural market has been an imbalance of supply and demand. For a number of years, the production capacity for prilled ammonium nitrate has exceeded the demand, resulting in low selling prices compared to the cost of production. As a result of certain plant closures in our geographical markets, an overall reduction in the world grain stocks-to-use ratio and current industry forecasts for an increasing demand for grain production in 2005, current selling prices are relatively strong. In summary, the balance of supply vs. demand appears to be improving.

Liquidity and Capital Resources

We are a diversified holding Company. Our wholly-owned subsidiary ThermaClime, through its subsidiaries, owns substantially all of our core businesses consisting of the Climate Control and Chemical Businesses. Our cash requirements are primarily dependent upon credit agreements and our ability to obtain funds from our subsidiaries.

Historically, ThermaClime's primary cash needs have been for working capital and capital expenditures. ThermaClime and its subsidiaries depend on credit agreements, internally generated cash flows, and secured equipment financing in order to fund operations and pay obligations. ThermaClime is restricted by its credit agreements as to the funds that it may transfer to the non-ThermaClime companies and certain ThermaClime companies.

ThermaClime and its subsidiaries depend upon the five-year Senior Secured Loan that was completed in September 2004 and upon the four-year Working Capital Revolver Loan, in addition to internally generated cash flows, to fund operations and pay their obligations. The Senior Secured Loan and the Working Capital Revolver Loan both have financial covenants that are

described along with other details of the loans in "Loan Agreements -Terms and Conditions".

ThermaClime's ability to maintain an adequate amount of borrowing availability under its Working Capital Revolver Loan depends on its ability to comply with the terms and conditions of such agreements and its ability to generate cash flow from operations. As discussed in "Dividends" under Item 5, ThermaClime is restricted under its credit agreements as to the funds it may transfer to LSB and its affiliates. This limitation does not prohibit payment of amounts due under a Services Agreement, Management Agreement and a Tax Sharing Agreement. As of December 31, 2004, ThermaClime had availability under its working capital revolver of $9.3 million plus cash on hand of $.9 million.

Management expects to utilize the net borrowing availability provided by the Working Capital Revolver Loan at a relatively high level during the spring agricultural season of 2005. After that period, the net borrowing is forecasted to decrease throughout the remainder of 2005 to normal borrowing levels. This forecast is based upon information currently available. The current outlook is subject to changes in economic conditions as well as market pricing of our products and costs of the various raw materials consumed.

The Chemical Business in recent years has been unable to generate significant positive cash flows due to lower than optimum sales volume levels, margin problems and extensive capital expenditure requirements to maintain plants and to comply with changing environmental regulations.

The ability to generate a positive margin on Chemical sales is affected by the volatility of the raw material feedstocks of natural gas and anhydrous ammonia, as well as the necessity to produce at the optimum production levels to fully absorb the fixed plant costs. The predominant costs of a process chemical plant are fixed costs.

The majority, approximately 70%, of the Chemical Business' sales are made pursuant to sales agreements that provide for the pass through of raw material costs, variable costs, and certain fixed costs, plus in most cases, a profit margin. Even though 70% of our sales are based upon the above described sales agreements, our Chemical Business has sustained losses due, in part, to the sales volume not being sufficient to run the plants at optimum production levels.

Management's plan for the Chemical Business is to continue their efforts to improve the cash flow by:

- increasing the sales volume of the Alabama and Arkansas plants to more fully absorb the fixed costs of each plant,
- obtaining new customers that will accept the commodity risk of the raw materials, natural gas and anhydrous ammonia and will agree to long-term commitments, and
- managing capital expenditures to those projects necessary to execute our business plans and those required to maintain environmental and safety compliance.

The 2004 and fourth quarter results were, adversely affected as a result of a mechanical failure in one of the four nitric acid plants at the El Dorado, Arkansas plant. The failure, which resulted in major damage to a gas

expander, caused the plant that normally produces 10,000 tons per month of nitric acid to go down on October 7, 2004. Management estimates that the plant will not be back to normal production until the end of April 2005. We estimate that approximately $4.5 million will be required to repair and rebuild the plant to allow it to resume normal production. Our property insurance is subject to a $1 million deductible. Our business interruption insurance is subject to a forty-five day waiting period before covering losses resulting from this incident. We are unable, at this point, to estimate the exact cash flow and earnings impact resulting from the incident. However preliminary indications, considering our deductibles, are that the negative impact on earnings resulting from the lost production was approximately $2 million from October 7, 2004 through December 31, 2004. At December 31, 2004, we are unable to determine the proceeds to be received from our business interruption insurance, therefore, we have not made an adjustment to record any business interruption insurance recovery. The receivable for business interruption recovery from the insurance company will be recorded in 2005 when the amount is agreed to.

Capital Expenditures

Our Chemical Business has historically required significant investment to fund capital expenditures, while our Climate Control Business has been much less capital intensive. We believe we have approximately $7.1 million of committed capital expenditures for 2005 related to our Chemical Business, not including $4.5 million for the repairs required by the mechanical failure of one of the four nitric acid plants as discussed above. The $7.1 million includes $6.4 million relating to operations, and $.7 million for environmental compliance.

Other capital expenditures 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.

As fully discussed in "Environmental Matters" under Item 1, we currently expect to incur capital expenditures of approximately $3 to $4 million over the next three years to construct a new water treatment collection and discharge facility. In addition our pro-rata portion of engineering and construction costs for the City to build a pipeline for the discharged water is approximately $1.8 million. Certain additional expenditures will be required to bring the sulfuric acid plant's air emissions to lower limits. The ultimate cost is believed to be between $1.5 million and $3 million, to be expended over a six-year period, which began with minimal expenditures in 2004.

Dividends

Due to previous operating losses and limited borrowing ability under credit facilities, we discontinued payment of cash dividends on Common Stock for periods subsequent to January 1, 1999. Although dividends on all of our outstanding series of preferred stock are payable if and when declared by the Board of Directors, the terms of each outstanding series of preferred stock provide that dividends are cumulative, except for the redeemable, non-cumulative, convertible preferred stock. As of December 31, 2004 there is approximately $12.4 million of accrued and unpaid dividends on our

outstanding preferred stocks. We do not anticipate having funds available to pay dividends on our stock for the foreseeable future.

Summary

Cash flow and liquidity will continue to be managed very carefully with close oversight by corporate executives. Management believes, based upon current forecasts, that we will have adequate cash in 2005 from internal cash flows and financing sources to enable us to satisfy our cash requirements as they are due in 2005. However, due to the volatility of the cost for major raw materials used in our Chemical Business, we have historically experienced revisions to financial forecasts on a frequent basis during the course of a year. As a result, actual results may be significantly different than our forecast, which could have a material adverse impact on our liquidity and future operating results.

One of our non-ThermaClime subsidiaries continues to actively market its investment in a chemical plant located in Pryor, Oklahoma. We do not currently have a contract for the sale of this plant.

Loan Agreements - Terms and Conditions

Working Capital Revolver Loan

ThermaClime finances it working capital requirements through borrowings under a Working Capital Revolver Loan. Under the Working Capital Revolver Loan, ThermaClime and its subsidiaries may borrow on a revolving basis up to $50 million based on specific percentages of eligible accounts receivable and inventories. Effective February 28, 2005 the Working Capital Revolver Loan was amended which, among other things, extended the maturity date to April 2009 and removed a subjective acceleration clause. As of December 31, 2004 borrowings outstanding were $27.5 million and the net credit available for additional borrowings was $9.3 million. The Working Capital Revolver Loan requires that ThermaClime and its Climate Control Business meet certain financial covenants. The required EBITDA amounts are measured quarterly on a trailing twelve-months basis beginning March 31, 2005. The trailing twelve-months EBITDA requirements for 2005 range from $13.7 million to $17.7 million for ThermaClime and is fixed at $10 million for the Climate Control Business. The EBITDA requirements were set at amounts based upon our forecasts which are presently considered by management to be achievable.

We have the ability to set our financial covenants under the Working Capital Revolver Loan agreement with our lenders on an annual basis each January. In setting these covenants, we provide the lenders with a forecast that we believe to be a very conservative estimate of our operating results for the coming year. For 2005, we have established mutually agreeable limits that we believe are well within our ability to achieve.

Senior Secured Loan

In September 2004, ThermaClime and certain of its subsidiaries (the "Borrowers") completed a $50 million term loan ("Senior Secured Loan") with a certain lender (the "Lender"). The Senior Secured Loan is to be repaid as follows:

- quarterly interest payments which began September 30, 2004;
- quarterly principal payments of $312,500 beginning September 30, 2007;
- a balloon payment of the remaining outstanding principal of $47.5 million and accrued interest on September 16, 2009.

The Senior Secured Loan accrues 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. At December 31, 2004 the effective interest rate was 10.56%.

The Borrowers are subject to numerous affirmative and negative covenants under the Senior Secured Loan 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 Borrowers are also subject to a minimum fixed charge coverage ratio, measured quarterly on a trailing twelve-month basis. The Borrowers'fixed charge coverage ratio exceeded the required ratio for the twelve-month period ended December 31, 2004. The maturity date of the Senior Secured Loan can be accelerated by the Lender upon the occurrence of a continuing event of default, as defined.

The Senior Secured Loan agreement includes a prepayment fee equal to 3% of the principal amount should the Borrowers elect to prepay any principal amount prior to September 15, 2005. This fee is reduced to 2% during the second twelve-month period and to 1% during the third twelve-month period and 0% thereafter.

The Senior Secured Loan is secured by (a) a first lien on (i) certain real property and equipment located at the El Dorado Facility, (ii) certain real property and equipment located at the Cherokee Facility, (iii) certain equipment of the Climate Control Business, and (iv) the equity stock of certain of ThermaClime's subsidiaries, and (b) a second lien on the assets upon which ThermaClime's Working Capital Revolver lender has a first lien. The Senior Secured Loan is guaranteed by the Company and is also secured with the stock of ThermaClime.

The proceeds of the Senior Secured Loan were used as follows:

- repaid the outstanding principal balance due 2005 under the Financing Agreement discussed below, including accrued interest, of $36.8 million;
- repurchased a portion of ThermaClime's 10 3/4% Senior Unsecured Notes due 2007, held by the Lender, including accrued interest, of $5.2 million;
- paid certain fees and expenses of $2.4 million including the cost of an interest cap which sets a maximum annual interest rate of 11% or 11.5% depending on the leverage ratio;
- repaid the outstanding principal balance of a term loan of $.4 million;
- paid down the Working Capital Revolver Loan with the remaining balance.

For 2005, ThermaClime will incur interest expense of approximately $5 million relating to the Senior Secured Loan.

Cross -Default Provisions

The Working Capital Revolver Loan agreement and the Senior Secured Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of the Senior Secured 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 as discussed above. These actions could result in the recognition of losses that may be material.

Critical Accounting Policies

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 contingent liabilities. The more significant areas of financial reporting impacted by management's judgment, estimates and assumptions include the following:

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, two customers account for approximately 10% of our total receivables at December 31, 2004. We do not believe this concentration in these two customers represents a significant credit risk due to the financial stability of the two customers. At December 31, 2004 and 2003, our trade accounts receivable were net of allowance for doubtful accounts of $2.3 million and $3.2 million, respectively.

Inventory Valuations - Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out basis. At December 31, 2003 certain heat pump products were carried at the lower of cost or market, with cost being determined using the last-in, first-out basis. At December 31, 2004 and 2003, the carrying value of certain nitrogen-based inventories produced by our Chemical Business was reduced to the market price because the current cost exceeded the market price by $1.3 million and $.6 million, respectively.

Impairment of Long-Lived Assets including Goodwill - We have considered impairment of our long-lived assets and related goodwill including our Chemical operations as a result of its'unfavorable operating results over the last several years. We obtained third party appraisals of the fair values associated with the El Dorado and Cherokee Facilities and made estimates of fair values for others. The timing of impairments cannot be predicted with any certainty and are primarily dependent on market conditions outside our control. Should sales prices drop 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." During 2004 and 2003, based on these estimates and assumptions, we recognized impairments of $375,000 and $300,000, respectively, relating to Corporate assets and $362,000 and $200,000, respectively, relating to the Chemical Business. These impairments are included in other expense in the consolidated statements of income.

Product Warranty - Our Climate Control Business sells equipment for which we provide warranties covering defects in materials and workmanship. Generally the warranty coverage for 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, an extended warranty may be purchased. 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. At December 31, 2004 and 2003, our accrued warranty obligations were $2 million and $1.7 million, respectively and are included in accrued and other noncurrent liabilities in the consolidated balance sheets.

Accrued Turnaround Costs -We accrue in advance the cost expected to be incurred in the next planned major maintenance activities ("Turnarounds") of our Chemical Business. Turnaround costs are accrued on a straight-line basis over the expected period of benefit, which generally ranges from 12 to 18 months. At December 31, 2004 and 2003, accrued and other noncurrent liabilities include $1.5 million and $2.7 million, respectively, relating to turnarounds. We are currently considering changing our accounting policy relating to Turnarounds to a more preferable accounting method which is to expense these costs as incurred. However, this change requires approval from certain lenders.

Compliance with Long-Term Debt Covenants - As fully discussed in Note 7 of Notes to Consolidated Financial Statements, the Senior Secured Loan and Working Capital Revolver Loan, as amended, of ThermaClime and its subsidiaries require that ThermaClime meet certain lender defined earnings before interest, income taxes, depreciation and amortization ("EBITDA"), capital expenditure limitation amounts and achieve minimum fixed charge coverage ratios quarterly, on a trailing twelve-month basis. ThermaClime's forecasts for 2005 indicate that ThermaClime will be able to meet all required covenant tests for all quarters and the year ending in December 2005.

Environmental and Regulatory Compliance - As fully discussed in Item 1 "Business-Environmental Matters", 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, 2004 a reserve of $133,000 has been established relating to a new CAO and $208,000 relating to the Slurry Consent Order. These reserves are based on current estimates that may be revised in the near term based on results of our investigation and remediation pursuant to the new CAO and Slurry Consent Order. In addition, we will be required to make expenditures as it relates to the NPDES permit and Air CAO.

Asset Retirement Obligations -If we should decide to no longer operate the El Dorado Facility and if such facility is retired, we may be required to continue to operate equipment relating to discharge water, the cost and timing of which is presently unknown. Thus, we currently have not accrued any amounts for asset retirement obligations.

Income Tax Accruals -Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. Valuation allowances are provided against deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. We are able to realize deferred tax assets up to an amount equal to the future reversals of existing taxable temporary differences. The taxable temporary differences will turn around in the loss carry forward period as the differences reverse. Other differences will turn around as the assets are realized or liabilities are paid in the normal course of business. At December 31, 2004 and 2003, our deferred tax assets were net of a valuation allowance of $27.9 million and $28.3 million, respectively (See Note 8 of Notes to Consolidated Financial Statements).

Contingencies - 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 Senior Secured 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. If revenue relates to construction contracts, we recognize revenue 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.

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. Our significant accounting policies are discussed in greater detail in Note 2 of Notes to Consolidated Financial Statements.

Recently Issued Pronouncement -FASB Interpretation No.46

Prior to 2003, we, through our subsidiaries, entered into loan agreements where we loaned funds to the parent company of MultiClima, S.A. ("MultiClima") a French manufacturer of HVAC equipment, whose product line is compatible with our Climate Control Business. Under the loan agreements, one of our subsidiaries has the option ("Option") to exchange its rights under the loan agreements for 100% of the borrower's outstanding common stock. This subsidiary also obtained a security interest in the stock of MultiClima to secure its loans. At December 31, 2003 the outstanding notes receivable balance, net of reserve, was $2.6 million which was included in other assets in the accompanying consolidated balance sheet. Based on our assessment of

the parent company and MultiClima in relation to FIN 46, as revised, we were required to consolidate this entity effective March 31, 2004.

As a result of consolidating the consolidated assets and liabilities of the parent company of MultiClima, at March 31, 2004 we recorded a cumulative effect of accounting change of $.5 million primarily relating to the elimination of embedded profit included in the cost of inventory which was purchased from MultiClima by certain of our subsidiaries.

For the three months ended June 30, 2004 the parent company of MultiClima had consolidated net sales of $3.8 million and a net loss of $.6 million (after all material intercompany transactions have been eliminated) which are included in the accompanying consolidated statements of income for 2004.

Based on our assessment of the parent company and MultiClima's historical and forecasted liquidity and results of operations during 2004, we concluded that the outstanding notes receivable were not collectable. As a result, effective July 1, 2004 we forgave and canceled the loan agreements in exchange for extending the Option's expiration date from June 15, 2005 to June 15, 2008. We recognized a provision for loss of $1.4 million in 2004. As a result of the cancellation and our valuation of this Option, we no longer have a variable interest in this entity and are no longer required to consolidate this entity.

Results of Operations

Our Consolidated Financial Statements reflect the operations of two of our former subsidiaries, Slurry Explosive Corporation ("Slurry") and Universal Technology Corporation ("UTeC"), as discontinued operations in 2002. Therefore, the operations of Slurry and UTeC are excluded from the results of our Chemical Business. The following table contains certain information about our continuing operations in different industry segments for each of the three years ended December 31:

	2004	2003	2002
		(In thousands)	
Net sales:			
Climate Control (1)	$ 140,638	$ 119,032	$ 128,128
Chemical (2)	216,709	193,770	151,358
Other	6,706	4,461	4,325
	$ 364,053	$ 317,263	$ 283,811
Gross profit: (3)			
Climate Control (1)	$ 41,957	$ 35,737	$ 37,454
Chemical (2) (4) (5)	8,577	12,204	6,207
Other	2,145	1,491	1,332
	$ 52,679	$ 49,432	$ 44,993
Operating profit (loss): (6)			
Climate Control (1)	$ 12,878	$ 11,736	$ 14,705
Chemical (2) (4) (5) (7)	1,948	3,754	(44)
	14,826	15,490	14,661
General corporate expense and other business operations, net (8)	(7,849)	(6,578)	(5,773)
Interest expense	(6,784)	(5,559)	(7,590)
Gains on extinguishment of debt	4,400	258	1,458

Provision for loss on notes receivable	(1,447)	-	-
Provision for impairment on long-lived assets	(737)	(500)	-
Income from continuing operations before provision for income taxes and cumulative effect of accounting changes	$ 2,409	$ 3,111	$ 2,756

(1) As discussed above under "Recently Issued Pronouncement", for the three months ended June 30, 2004 we were required to consolidate the parent company of a French manufacturer ("MultiClima") of HVAC equipment. Therefore the operating results include net sales of $3.8 million, gross profit of $.8 million and an operating loss of $.6 million relating to MultiClima (after all material intercompany transactions have been eliminated) for 2004.

(2) In April 2002, a portion of the El Dorado Facility experienced damage from high winds and a likely tornado, which affected the ammonium nitrate production facilities, certain acid plants, a large cooling tower and other equipment. The repairs were completed in 2002. During the repair time, we were not able to produce industrial grade ammonium nitrate until the middle of May 2002. Production of our other products, agricultural grade ammonium nitrate and industrial acids, continued without material

interruption. Our property insurance covering the chemical plant entitled us to receive approximate replacement value for the damaged property less an aggregate $1 million deductible. We also had a thirty-day waiting period before our business interruption insurance coverage became effective. In October of 2002, a final settlement of $2.5 million, net of the $1 million deductible, was reached for the property and business interruption insurance claims. The net proceeds relating to our property insurance claim exceeded the cash expenditures for repairs and the depreciated value of the damaged assets. As a result, a net gain relating to property damage of approximately $1.4 million is classified as other income and a business interruption insurance recovery of approximately $.3 million is classified as a reduction of cost of sales and is included in the Consolidated Statement of Income for 2002.

(3) Gross profit by industry segment represents net sales less cost of sales.

(4) During 2003, a cost recovery was recognized of $1.6 million of precious metals used in the manufacturing process at the El Dorado Facility for metals accumulated from several operating units over the last several years. During 2004 and 2002, we wrote down the carrying value of certain nitrogen-based inventories by $.7 million and $.9 million, respectively. In addition, we recognized a loss on firm sales commitments of $.1 million and $.7 million in 2003 and 2002, respectively.

(5) Beginning in 2001 through 2003, a sulfuric acid plant at the El Dorado Facility experienced several mechanical problems with a boiler that had been repaired by one of our vendors. As a result, other equipment was also damaged at the plant. During 2004, net settlements of $1.5 million were reached with the vendor's insurance carrier and our insurance carriers. These settlements are classified as a reduction of cost of sales and are included in the Consolidated Statement of Income for 2004.

(6) Operating profit (loss) represents operating income (loss) plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net (including unallocated portions of other income and other expense). In computing operating profit (loss) from operations, none of the following items have been added or deducted: general corporate expense and other business operations (including unallocated portions of other income and other expense), interest expense, gains on extinguishment of debt, provision for loss on notes receivable, provision for impairment on long-lived assets, benefit from termination of firm purchase commitments, income taxes, loss from discontinued operations and cumulative effect of accounting changes.

(7) During 2004, we recognized a gain of $2.1 million from the sales of certain assets purchased in 2003.

(8) During 2004, we incurred professional fees and other costs aggregating $.9 million relating to a proposed unregistered offering of Senior Secured Notes which was terminated in June 2004.

Year Ended December 31, 2004 vs. Year Ended December 31, 2003

Net Sales

Net sales for 2004 were $364.1 million compared to $317.3 million for 2003 or an increase of $46.8 million. This increase includes increased sales in our Chemical Business of $22.9 million reflecting, in part, higher sales prices resulting from the increased cost of the raw material feedstocks (anhydrous ammonia and natural gas). Sales prices increased overall by 9% in 2004 while volume of tons sold increased 4%. Our Climate Control sales increased $21.6 million due largely to increased demand for our heat pump products, net sales of MultiClima consolidated in the second quarter of 2004 (see discussion above under "Recently Issued Pronouncement"), and continued growth in sales of large custom air handlers and certain start-up operations.

Gross Profit

Gross profit was $52.7 million or 14.5% as a percentage of net sales for 2004 compared to $49.4 million or 15.6% for 2003. The net increase in gross profit includes an increase of $6.2 million in our Climate Control Business primarily as the result of increased sales as discussed above offset in part due to increased raw material costs relating to our hydronic fan coil products which were not passed through to our customers in the form of price increases. The net increase in gross profit was partially offset by a decrease of $3.6 million in our Chemical Business due primarily to the lost production at the El Dorado Facility as a result of the mechanical failure discussed above in "Liquidity and Capital Resources", our inability to fully pass on to our customers the effect of the increased costs of our primary raw material feedstocks (anhydrous ammonia and natural gas) and a recovery of precious metals of $1.6 million during 2003 that did not reoccur in 2004 offset in part by insurance settlements of $1.5 million in 2004 as discussed above.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $49.1 million for 2004 compared to $41.7 million for 2003. The increase is due primarily to operating expenses of MultiClima in the second quarter of 2004 as discussed above under "Recently Issued Pronouncement", increased employee compensation and shipping costs in the Climate Control Business, professional fees incurred relating to a proposed unregistered offering of Senior Secured Notes which was terminated during the second quarter of 2004 and increased warranty and advertising costs in the Climate Control Business.

Other Income

Other income for 2004 includes a gain of $2.1 million from the sales of certain non-operating assets by a non-ThermaClime subsidiary.

Gains on Extinguishment of Debt

As discussed below under "Loan Agreements-Terms and Conditions", in September 2004, ThermaClime and certain of its subsidiaries completed a $50 million term loan. A portion of the proceeds were used to payoff the loans and accrued interest of $36.8 million under a Financing Agreement. In May 2002 ClimaChem, Inc. later ThermaClime, entered into a Financing Agreement pursuant to which it borrowed $35 million. The proceeds were used to

repurchase $52.3 million face value aggregate principal amount of its'Senior Unsecured Notes. The transaction was accounted for as a debt restructuring. As a result, the gain on the transaction was deferred and all of the interest payments associated with the Financing Agreement was accounted for as long-term debt. All subsequent interest payments on the Financing Agreement up to and including the early repayment of the loan in September 2004 were charged against the debt balance as accrued on the balance sheet.

Due to the repayment of the Financing Agreement prior to the maturity date of June 30, 2005 we recognized the remaining unearned interest of $4.4 million as a gain on extinguishment of debt.

Interest Expense

Interest expense was $6.8 million in 2004 compared to $5.6 million in 2003. The increase of $1.2 million relates primarily to interest expense incurred on the $50 million term loan that was completed in September 2004 as discussed above. There was no interest expense recognition on the Financing Agreement indebtedness since that transaction was accounted for as a voluntary debt restructuring in 2002 as discussed above. The increase was partially offset due to the repurchase of $5 million of the Senior Unsecured Notes as discussed in below under "Loan Agreements-Terms and Conditions".

Provision for Loss on Notes Receivable

As discussed above under "Recently Issued Pronouncement", based on our assessment of the current and projected liquidity and results of operations of MultiClima and its'parent company, we concluded that the outstanding notes receivable were not recoverable. As a result, effective July 1, 2004 we forgave and canceled the loan agreements in exchange for extending the Option's expiration date from June 15, 2005 to June 15, 2008. We have recognized a provision for loss of $1.4 million for 2004.

Cumulative Effect of Accounting Change

Effective March 31, 2004 we included in our condensed consolidated balance sheet the consolidated assets and liabilities of the parent company of MultiClima as required under FIN 46 (See "Recently Issued Pronouncements"). As a result, we recorded a cumulative effect of accounting change of $.5 million primarily relating to the elimination of embedded profit included in the cost of inventory which was purchased from MultiClima by certain of our subsidiaries.

Year Ended December 31, 2003 vs. Year Ended December 31, 2002

Net Sales

Net sales for 2003 were $317.3 million compared to $283.8 million for 2002 or an increase of $33.5 million. This increase is attributed to increased sales in our Chemical Business of $42.4 million caused primarily by the increased cost of the raw material feedstock, as discussed elsewhere, which resulted in higher sales prices. Sales prices increased overall by 25% in 2003 while volume of tons sold increased 4%. The increased cost of the raw material feedstock is substantially reflected in the higher cost of sales. The increase in sales in the Chemical Business was partially offset by decreased sales of $9.1 million in our Climate Control Business due largely

to the decrease in sales of our hydronic fan coil products as a result of a softening in demand primarily in the lodging sector market.

Gross Profit

Gross profit was $49.4 million or 15.6% as a percentage of net sales for 2003, compared to $45 million or 15.9% for 2002. The increase in gross profit is due primarily to our Chemical Business caused, in part, to the improvement in our ability to pass on to our customers the effect of the increased costs of our primary raw material feedstocks (natural gas and anhydrous ammonia) as discussed in "Liquidity and Capital Resources." In addition, we follow the practice of expensing precious metals used as a catalyst in the Chemical Business manufacturing processes as they are used, because the amount and timing of recovery is not predictable. Periodically, we recover a portion of the amount previously expensed. During 2003, a recovery of $1.6 million also contributed to an increase in gross profit.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $41.7 million for 2003, compared to $39.4 million for 2002. The increase is primarily the result of increased shipping and handling costs of the Climate Control Business and costs relating to insurance.

Other Income

Other income was $1.8 million for 2003 compared to $3.9 million for 2002. Other income for 2002 includes the recognition of $1.5 million from a property insurance claim.

Gains on Extinguishment of Debt

As discussed in Notes 7 and 17 of Notes to Consolidated Financial Statements, in December 2002, we sold the remaining assets that comprised all of the explosives manufacturing and distribution business. Approximately $3.5 million of the sales proceeds were used as a prepayment on borrowings under a Financing Agreement entered into in May 2002. Due to this prepayment, ThermaClime recognized a gain on extinguishment of debt of $1.5 million representing accrued interest through maturity on the prepaid principal.

Interest Expense

Interest expense was $5.6 million in 2003 compared to $7.6 million in 2002. The decrease of $2 million primarily resulted from the elimination of interest expense recognition on the Financing Agreement indebtedness, since that transaction for the repurchase of Senior Unsecured Notes was accounted for as a voluntary debt restructuring during the second quarter of 2002 and at that time all future interest payments associated with the Financing Agreement indebtedness were recognized in long-term debt.

Income (Loss) from Discontinued Operations

As discussed in Note 17 of Notes to Consolidated Financial Statements, in December 2002, the remaining assets that comprised all of the explosives manufacturing and distribution business of Slurry and UTeC were sold which operations are reflected as discontinued

operations. These operations were formerly included in the Chemical Business. The loss from discontinued operations of $3.5 million for 2002 is net of a gain on disposal of $1.6 million.

Cumulative Effect of Accounting Change

Upon adoption of Statement No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002 we recognized $.9 million of negative goodwill as a cumulative effect of accounting change for 2002.

Cash Flow From Operations

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."

Cash provided by operations from net income plus depreciation and amortization less other non-cash adjustments was $12.5 million.

Cash used by operations included $9.1 million for increases in accounts receivable, inventories and prepaid supplies and a net decrease of $1.8 million in accrued liabilities. The decrease in accrued liabilities included $4.7 million reduction in deferred rent expense, $1.1 million decrease in customer deposits and $1.6 million reduction in other accruals offset by a $5.6 million increase in accounts payable.

Net cash provided by continuing operating activities was $1.6 million.

The increase in accounts payable relates primarily to:

- increased volume and cost of production of Climate Control products in November and December of 2004 compared to the same period in 2003 and
- costs accrued at the El Dorado Facility as a result of a mechanical failure relating to a gas expander in the Chemical Business as discussed above in "Liquidity and Capital Resources".

The change in deferred rent expense is due, in part, to lease payments under a long-term lease of the Baytown Facility, which increased to $13 million in 2004 from $7.7 million in 2003 in the Chemical Business.

The increase in accounts receivable resulted, in part, from:

- increased net sales of Climate Control products in November and December of 2004 compared to the same period in 2003,
- an insurance claim settlement relating to a sulfuric acid plant as discussed above under "Results of Operations",
- an account receivable for accumulated repair costs to be recovered from an insurance claim as a result of a mechanical failure of a gas expander as discussed above relating to the Chemical Business,
- increased net sales of Chemical products from the El Dorado Facility in December 2004 compared to the same period in 2003 and
- a temporary increase in the number of days our receivables were outstanding at EDNC related to one customer in the Chemical Business.

The increase in inventories relates primarily to:

- increased volume and cost of production of Climate Control products as discussed above and
- increased cost of production of Chemical products.

The increase in inventories relating to the Chemical Business was partially offset by:

- decreased production as a result of a mechanical failure of the gas expander as discussed above and
- decreased production at the Cherokee Facility as a result of repairs being performed during December 2004.

The decrease in other accrued liabilities includes:

- decrease in accrued turnaround costs in the Chemical Business and
- decrease in accrued compensation expenses.

The decrease in other accrued liabilities was partially offset by an increase in accrued warranty costs in the Climate Control Business.

The decrease in customer deposits relates to the decrease in the amount of prepaid sales of our agricultural products in the Chemical Business.

Cash Flow from Investing and Financing Activities

Net cash used by investing activities for 2004 included $9.6 million for capital expenditures of which $8.7 million is for the benefit of our Chemical Business.

Net cash provided by financing activities primarily consisted of the net proceeds of $47.7 million from the $50 million Senior Secured Loan completed in September 2004. The net proceeds were used to repay the Financing Agreement of $38.5 million, to repurchase a portion of the Senior Unsecured Notes of $5 million and the remaining balance as working capital.

Other cash provided by financing activities included a net increase in the Working Capital Revolver Loan of $3.6 million and other long-term borrowings for equipment financing of $2.7 million, offset in part by payments on long-term debt of $4.9 million.

Off-Balance Sheet Arrangements

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

Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2004 are summarized in the following table. See discussion in "Liquidity and Capital Resources" and Notes 3, 7 and 9 of Notes to Consolidated Financial Statements.

Payments Due in the Year Ending December 31,

Contractual Obligations	Total	2005	2006	2007	2008	2009	Thereafter
				(in thousands)			
Long-term debt:							
Working Capital Revolver Loan	$ 27,489	$ -	$ -	$ -	$ -	$ 27,489	$ -
Senior Unsecured Notes due 2007	13,300	-	-	13,300	-	-	-
Senior Secured Loan due 2009	50,000	-	-	625	1,250	48,125	-
Other	15,718	4,833	2,907	2,018	1,134	984	3,842
Total long-term debt	106,507	4,833	2,907	15,943	2,384	76,598	3,842
Interest payments on long-term debt (1)	38,496	9,084	8,691	8,533	6,895	4,341	952
Capital expenditures (2)	8,278	8,278	-	-	-	-	-

Operating leases:							
Baytown lease	35,707	2,250	8,175	9,227	11,173	4,882	-
Other operating leases	12,867	2,975	2,231	1,625	1,036	843	4,157
Exchange-traded futures contracts	2,967	2,967	-	-	-	-	-
Purchase obligations	5,528	976	976	976	976	976	648
Other long-term liabilities	4,178	-	1,295	631	501	324	1,427
Total	$ 214,528	$ 31,363	$ 24,275	$ 36,935	$ 22,965	$ 87,964	$ 11,026

(1) The estimated interest payments relating to variable interest rate debt are based on the effective interest rates at December 31, 2004 except for the Working Capital Revolver Loan, which rates were was amended February 28, 2005. In addition, we used the balance at December 31, 2004 as the average outstanding balance of the Working Capital Revolver Loan through maturity.

(2) Capital expenditures include only non-discretionary amounts in our 2005 capital expenditure budget. These amounts do not include (a) an estimated $4.5 million required to repair one of the nitric acid plants as discussed in "Liquidity and Capital Resources" and (b) as discussed in "Environmental Matters" under Item 1, an estimated $3 to $4 million over the next three years as required under a NPDES permit based on current assumptions; an estimated $1.8 million over the next three years for our pro-rata portion of pipeline engineering and construction costs; and an estimated $1.5 to $3 million over the next three to six years relating to the Air CAO.

Availability of Company's Loss Carry-Overs

For a discussion on our net operating loss carry-overs, see Note 8 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 Chemical Business enters into forward firm sales commitments of chemical 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. To minimize this risk, our Chemical Business enters into exchange-traded futures for natural gas as discussed below. At December 31, 2004 our sales commitments were for 16,716 tons of UAN, 280 tons of HDAN and 3,398 tons of ammonia through May 2005.

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. At December 31, 2004 our purchase commitments under these contracts were for 1 million pounds of copper through December 2005 at a weighted average cost of $1.23 per pound ($1,229,000) and a weighted average market value of $1.38 per pound ($1,381,000) and for 260,000 MMBtu of natural gas through May 2005 at a weighted average cost of $6.69 per MMBtu ($1,738,000) and a weighted average market value of $6.08 per MMBtu ($1,580,000).

Interest Rate Risk

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

The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive financial instruments as of December 31, 2004.

	YEARS ENDING DECEMBER 31, (Dollars in thousands)						
	2005	**2006**	**2007**	**2008**	**2009**	**THEREAFTER**	**TOTAL**
Expected maturities of long-term debt:							
Variable rate debt	$ 995	$ 1,170	$ 1,226	$ 1,941	$ 75,830	$ 578	$ 81,740
Weighted average interest rate (1)	8.90%	8.95%	8.99%	9.01%	8.99%	5.34%	8.96%
Fixed rate debt (2)	$ 3,838	$ 1,737	$ 14,717	$ 722	$ 694	$ 3,059	$ 24,767
Weighted average interest rate (2)	9.39%	9.48%	9.06%	6.77%	6.65%	6.57%	8.70%

(1) Interest rate is based on the aggregate amount of debt outstanding as of December 31, 2004. On ThermaClime's Working Capital Revolver Loan, the interest rate is based on the lender's prime rate plus 2% per annum, or at its option, LIBOR plus 4.5% per annum. As discussed in "Loan Agreements -Terms and Conditions" under Item 7, effective February 28, 2005, the Working Capital Revolver Loan was amended which, among other things, lowered the interest rate to the lenders prime rate plus .75% or LIBOR plus 2%.

(2)

(2) The fixed rate debt and weighted average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2004.

	December 31, 2004		December 31, 2003	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(in thousands)			
Variable Rate:				
Senior Secured Loan	$ 50,000	$ 50,000	$ -	$ -
Bank debt and equipment financing	31,740	31,740	29,392	29,392
Fixed Rate:				
Bank debt and equipment financing	12,574	11,467	13,727	12,588
Financing Agreement (including accrued interest)	-	-	35,893	42,995
	94,314	93,207	$ 79,012	84,975
Senior Unsecured Notes due 2007 (1)	6,071	13,300		18,300
	$ 100,385	$ 106,507		$ 103,275

(1) At December 31, 2004 estimated fair value was based on market quotations. At December 31, 2003, there was no active market for the Senior Unsecured Notes due 2007. Therefore the fair value was not determinable.

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the periodic reports filed by us with the Securities and Exchange Commission (the "SEC") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management. Based on their most recent evaluation, which was completed as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures (as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended) do not contain material weaknesses and ensure that material information relating to us is made known to us by others within our consolidated entities. There were no significant changes in our internal controls or in other factors that could significantly affect these internal controls subsequent to the date of the most recent evaluation.

We face new corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the Securities and Exchange Commission, the Public Company Accounting Oversight Board and the American Stock Exchange. These laws, rules and regulations

continue to evolve and may become increasingly stringent in the future. In particular, we may be required to include management and auditor reports on internal controls as part of our annual report for the year ended December 31, 2005 pursuant to Section 404 of the Sarbanes-Oxley Act depending on the aggregate market value of our voting common equity held by non-affiliates of the Company as of June 30, 2005. We cannot assure you that we will be able to fully comply with these laws, rules and regulations that address corporate governance, internal control reporting and similar matters. Our failure to comply with these laws, rules and regulations may materially adversely affect our reputation, financial condition and the value of our securities.

We are in the process of documenting and testing our system of internal controls to provide the basis for our report. In the course of this process, management has identified certain areas requiring improvement, which we are addressing. Management routinely reviews potential internal control issues with our Audit Committee. Therefore at this time, due to the ongoing evaluation and testing process, no assurance can be given that there may not be reportable conditions or material weaknesses that would be required to be reported.

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,

- the demand for our geothermal products will increase,
- the extensive network of wholesale and retail distribution centers for nitrogen-based fertilizer provides geographic advantages,
- the impact on our hydronic fan coil operations due to the decline in major lodging and hospitality construction projects is not a long-term trend and will return to historical levels,
- the "E-2" brand ammonium nitrate fertilizer is recognized as a premium product,
- the agricultural products are the only seasonal products,
- competition within the Chemical and Climate Control Businesses is primarily based on price, location of production and distribution sites, service, warranty and product performance,
- the market and revenues for commercial water source heat pumps will continue to grow,
- the backlog of confirmed orders for Climate Control products at December 31, 2004 will be filled during 2005,

- similar cost-plus arrangements in 2005,
- as it relates to the Chemical Business, we will continue to sell products on a basis whereby the customer accepts the risk of price volatility of anhydrous ammonia and natural gas, and running the plants at optimum rates,
- we expect to obtain our requirements for raw materials in 2005 in the Climate Control Business, however, changes in the market supply and demand could result in increased costs. We believe the majority of cost increases, if any, will be passed to our customers in the form of higher prices and while we believe we will have sufficient materials, a shortage of steel could impact production of Climate Control products. We do not expect to have any difficulties in obtaining any other necessary materials for our Climate Control Business,
- the anticipated consent order for Slurry will not have a material adverse effect on the Company,
- the amount of committed capital expenditures related to our Chemical Business,
- amounts to be spent relating to compliance with federal, state and local environmental laws at the El Dorado Facility including matters relating to the sulfuric acid plant,
- liquidity and availability of funds,
- anticipated financial performance,
- adequate cash in 2005 from internal cash flows and financing sources to meet our presently anticipated working capital requirements,
- adequate resources to meet our obligations as they come due,
- the Plea Agreement will not have a material adverse effect on the Company,
- the 2005 production levels for nitrogen products sold as fertilizers will

- approximate the 2004 production levels,
- ability to make planned capital improvements,
- amount of and ability to obtain financing for the Discharge Water disposal project,
- 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,
- we could obtain anhydrous ammonia from other sources in the event of a termination or interruption of service under our existing purchase agreement,
- under the terms of an agreement with a supplier, EDC purchasing substantially all of its requirements of purchased ammonia through December 31, 2005,
- under the terms of an agreement with a customer, EDC supplying this customer with approximately 190,000 tons of industrial grade ammonium nitrate per year through at least March 2007,
- under the terms of an agreement with a customer, our subsidiary supplying this customer its requirements of 83% ammonium nitrate through at least September 2006,
- under the terms of an agreement, Bayer purchasing from EDNC all of its requirements for nitric acid at its Baytown operation through at least May 2009,
- the outlook for nitrogen fertilizer products for spring 2004, however, adverse weather conditions could recur,
- one of the nitric acid plants will return to production by the end of April 2005,
- sales volume of chemical products sold pursuant to cost-plus agreements will continue in 2005 at or about the same volume level as in 2004,

  IEC has meritorious defenses to its lawsuit,
- ThermaClime's forecasts for 2005 for ThermaClime's operating results meeting all required covenant tests for all quarters and the year ending in 2005,
- management anticipation that these contingent claims will result in no substantial adverse impact on our operating results and/or liquidity,
- the permit governing the Discharge Water provides appropriate credits and effluent guidelines that are acceptable to EDC,
- the amount of additional expenditures required under the Discharge Water permit,
- EDC's ability to comply with the terms of the Discharge Water permit,
- the amount of additional expenditures relating to the Air CAO,
- the good likelihood that Cherokee will recover monies from Dynegy over and above any monies which may be recovered by the plaintiff or owed to Dynegy,
- emphasis to move Climate Control's new product lines into an operating profit, and
- management utilizing the net borrowing availability under the Working Capital Revolver at a relatively high level during the spring agricultural season of 2005.

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,

- declines 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 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, and
- other factors described in "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in this report.

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 AND EXECUTIVE OFFICERS OF THE COMPANY

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 12. As of the date of this report, the Board of Directors currently has set the number of directors at 12.

The By-laws of the Company further provide that only persons nominated by or at the direction of: (a) the Board of Directors of the Company, or (b) any stockholder of the Company entitled to vote for the election of the directors that complies with certain notice procedures, shall be eligible for election as a director of the Company. Any stockholder desiring to nominate any person as a director of the Company must give written notice to the Secretary of the Company at the Company's principal executive office not less than 50 days prior to the date of the meeting of stockholders to elect directors; except, if less than 60 day's notice or prior disclosure of the date of such meeting is given to the stockholders, then written notice by the stockholder must be received by the Secretary of the Company not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. In addition, if the stockholder proposes to nominate any person, the stockholder's written notice to the Company must provide all information relating to the person whom the stockholder desires to nominate that is required to be disclosed in solicitation of proxies pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Series 2 Preferred The terms of the $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred") provide that whenever dividends on the Series 2 Preferred are in arrears and unpaid in an amount equal to at least six quarterly dividends: (a) 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; (b) 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 Preferred Stockholders for the purpose of electing such two additional directors; and (c) the Preferred Stockholders have the exclusive right to vote for and elect such two additional directors. In March 2002, the holders of the Company's Series 2 Preferred elected Dr. Allen Ford and Mr. Grant Donovan to serve as members of the Company's Board of Directors pursuant to the terms of the Series 2 Preferred.

The terms of the Series 2 Preferred provide that the right of the holders of the Series 2 Preferred to vote for such two additional directors shall terminate, subject to re-vesting in the event of a subsequent similar arrearage, when all cumulative and unpaid dividends on the Series 2 Preferred have been declared and set apart for payment. Also, pursuant to the terms of

the Series 2 Preferred, the term of office for such 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. The Series 2 Preferred holders have the right to remove without cause at any time and replace either of the two directors that the Series 2 Preferred holders have elected.

Directors Information regarding the Company's directors is as follows:

Raymond B. Ackerman, age 82. Mr. Ackerman first became a director in 1993. His term will expire in 2005. From 1972 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.

Bernard G. Ille, age 78. Mr. Ille first became a director in 1971. His term will expire in 2005. Mr. Ille served as President and CEO of United Founders Life from 1966 to 1988. He served as President and Chief Executive Officer of First Life Assurance Company from May 1988, until it was acquired by another company in March 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 is 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 72. Mr. Munson first became a director in 1997. His term will expire in 2005. From January 1988, until his retirement in August 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.

Tony M. Shelby, age 63. Mr. Shelby first became a director in 1971. His term will expire in 2005. Mr. Shelby, a certified public accountant, is Executive Vice President of Finance and Chief Financial Officer of the Company, a position he has held for more than five years. Prior to becoming Senior Vice President of Finance and Chief Financial Officer of the Company, 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.

Barry H. Golsen, J.D., age 54. Mr. Golsen first became a director in 1981. His term will expire in 2006. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as Vice Chairman of the Board of the Company since August 1994, and has been the President of the Company's Climate Control Business for more than five years. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

David R. Goss, age 64. Mr. Goss first became a director in 1971. His term will expire in 2006. Mr. Goss, a certified public accountant, is Executive Vice President of Operations of the Company and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University.

Robert C. Brown, M.D., age 74. Dr. Brown first became a director in 1969. His term will expire in 2006. Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. and President and CEO of ClaimLogic L.L.C. Dr. Brown is a graduate of Tufts University and received his medical degree 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.

Jack E. Golsen, age 76. Mr. Golsen first became a director in 1969. His term will expire in 2007. Mr. Golsen, founder of the Company, is Chairman of the Board of Directors and Chief Executive Officer of the Company and has served in that capacity since the inception of the Company in 1969. 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 degree from the University of New Mexico in biochemistry.

Horace G. Rhodes, age 77. Mr. Rhodes first became a director in 1996. His term will expire in 2007. 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 more than five 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.

Charles A. Burtch, age 69. Mr. Burtch first became a director in 1999. His term will expire in 2007. 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.

Grant J. Donovan, age 48. Mr. Donovan first became a director in 2002. Mr. Donovan is President and founder of Galehead, Inc. a company specializing on the collections of accounts receivable in the international maritime trade business. Prior to forming Galehead, Inc., Mr. Donovan was a partner in a real estate development firm specializing in revitalizing functionally obsolete industrial buildings. 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, a 50 year old international aid organization focused on improving women's healthcare.

Dr. N. Allen Ford, age 62. Dr. Ford first became a director in 2002. Dr. Ford joined the University of Kansas in 1976 where his teaching and research duties focus mainly on taxation. At the University of Kansas, Professor Ford has won several teaching awards and is the Larry D. Horner/KPMG Peat Marwick Distinguished Professor of Accounting. Dr. Ford teaches the following courses

in taxation: individual, corporate, partnership, S corporation, gift and estate tax. He is active in professional organizations such as the American Taxation Association and the American Accounting Association. He received his Ph.D. in Accounting from the University of Arkansas.

Family Relationships Jack E. Golsen is the father of Barry H. Golsen and the brother-in-law of Robert C. Brown, M.D. Robert C. Brown, M.D. is the uncle of Barry H. Golsen. David M. Shear is the nephew by marriage to Jack E. Golsen and son-in-law of Robert C. Brown, M.D.

Executive Officers See information regarding the Company's executive officers under Item 4A.

Audit Committee The Company has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (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 American Stock Exchange ("AMEX") as of the Company's fiscal year end. During 2004, the Audit Committee had five meetings.

Audit Committee Financial Expert While the Board of Directors endorses the effectiveness of the Company's Audit Committee, its membership does not presently include a director that qualifies for designation as an "Audit Committee Financial Expert", a new concept under federal regulations. However, each of our 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 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, the Company's Board of Directors has concluded that the ability of the Company's Audit Committee to perform its duties would not be impaired by the absence of an "Audit Committee Financial Expert."

Section 16(a) Beneficial Ownership Reporting Compliance Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 2004, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 2004 all directors and officers of the Company and beneficial owners of more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act filed their required Forms 3, 4, or

5, as required by Section 16(a) of the Exchange Act of 1934, as amended, on a timely basis, except for Linda F. Rappaport filed two late Form 4s to report twenty transactions by her spouse and Michael G. Adams filed one late Form 4 to report three transactions.

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 Company's subsidiaries, or persons performing similar functions, are subject to the Company's Code of Ethics. In addition, the Company and all of its subsidiary companies have adopted a Statement of Policy Concerning Business Conduct applicable to their employees. The Company's Code of Ethics and the Statement of Policy Concerning Business Conduct are available on the Company's website at www.lsb-okc.com. We will post any amendments to these

documents, as well as any waivers that are required to be disclosed pursuant to the rules of either the Securities and Exchange Commission or the AMEX on our website.

Item 11. EXECUTIVE COMPENSATION

The following table shows the aggregate compensation which the Company and its subsidiaries paid or accrued to the Chief Executive Officer and each of the other four most highly-paid executive officers of the Company (which includes the Vice Chairman of the Board who also serves as President and President of the Company's Climate Control Business). The table includes compensation for services rendered during 2004, plus any compensation paid during 2004 for services rendered in a prior year, less any amount relating to those services previously included in the summary compensation table for a prior year.

Summary Compensation Table

		Annual Compensation		
Name and Position	Year	Salary ($) (1)	Bonus ($) (2)	All Other Compensation ($) (3)
Jack E. Golsen,	2004	495,762	-	61,133
Chairman of the Board of Directors and	2003	477,400	- -	23,000
Chief Executive Officer	2002	477,400	- -	- -
Barry H. Golsen,	2004	339,162	85,000	-
Vice Chairman of the Board of Directors, President,	2003	326,600	85,000	- -
and President of the Climate Control Business	2002	326,600	85,000	- -
David R. Goss,	2004	239,366	30,000	-
Executive Vice President of Operations	2003	209,577	- -	- -
	2002	190,500	75,000	- -
Tony M. Shelby,	2004	249,231	30,000	-
Executive Vice President of Finance	2003	214,108	- -	- -
and Chief Financial Officer	2002	190,500	85,000	- -
David M. Shear,	2004	212,885	30,000	-
Senior Vice President and	2003	184,077	- -	- -
General Counsel	2002	165,000	50,000	- -

(1) The Company pays the executive officers on a bi-weekly basis. For 2004, there were 27 bi-weekly payments compared to 26 in 2003 and 2002.

(2) Bonuses are paid for services rendered in the prior year.

(3) Life insurance premiums paid by the Company under a $3 million split dollar endorsement life insurance policy purchased in 1996 by the Company on the life of Mr. Golsen. The proceeds of the policy will be used to pay the Company an amount equal to the total premiums paid by the Company and the remaining proceeds will be paid to Mr. Golsen's

estate. Mr. Golsen has no obligation to repay the Company any amounts paid by the Company under such policy. The Company is currently considering terminating this policy in connection with a proposed new death benefit plan with Mr. Golsen. See "Other Plans" under this Item 11.

Option Grants in 2004 The Company did not grant stock options to any of the named executive officers in the above Summary Compensation table during 2004.

Aggregated Option Exercises in 2004 and Year-End Option Values

The following table sets forth information concerning the number and year-end value of unexercised options held by each of the named executive officers during 2004.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at FY End (1) Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year End (1) (2) Exercisable/Unexercisable
Jack E. Golsen	(3)	$ 495,163	176,500 / -	$ 1,182,550 / $ -
Barry H. Golsen	(4)	$ 559,503	69,000 / 6,000	$ 439,926 / $ 30,611
David R. Goss	-	-	195,500 / 4,500	$ 1,046,185 / $ 23,490
Tony M. Shelby	-	-	195,500 / 4,500	$ 1,046,185 / $ 23,490
David M. Shear	(5)	$ 82,399	160,044 / 4,500	$ 869,755 / $ 23,490

(1) The stock options granted under the Company's stock option plans become exercisable 20% after one year from date of grant, an additional 20% after two years, an additional 30% after three years, and the remaining 30% after four years.

(2) The values are based on the difference between (a) the price of the Company's Common Stock on the AMEX at the close of trading on December 31, 2004 of $7.95 per share and (b) the exercise price of the option. The actual value realized by a named executive officer on the exercise of these options depends on the market value of the Company's Common Stock on the date of exercise.

(3) Mr. Jack E. Golsen exercised his right to purchase shares of the Company's common stock under the Company's stock option plans by acquiring 88,500 shares at an aggregate purchase price of $121,688. These 88,500 shares were acquired at an option price per share of $1.375 under the 1998 Stock Option Plan granted to Mr. Golsen on July 8, 1999. As consideration for the acquisition of such shares, Mr. Golsen transferred to the Company 17,458 shares of the Company's common stock owned by him, having a value per share of $6.97 on June 29, 2004, the date of such exercise, for an aggregate fair market value of $121,688.

(4) Mr. Barry H. Golsen exercised his right to purchase shares of the Company's common stock under the Company's stock option plans by acquiring 100,000 shares at an aggregate purchase price of $137,500. These 100,000 shares were acquired at an option price per share of $1.375 under the 1998 Stock Option Plan granted to Mr. Golsen on July 8, 1999. As consideration for the acquisition of such shares, Mr. Golsen transferred to the Company 19,727

shares of the Company's common stock owned by him, having a value per share of $6.97 on June 29, 2004, the date of such exercise, for an aggregate fair market value of $137,500.

(5) Mr. Shear exercised his right to purchase shares of the Company's common stock under the Company's stock option plans by acquiring 14,456 shares at an aggregate purchase price of $18,070. These 14,456 shares were acquired at an option price per share of $1.25 under the 1998 Stock Option Plan granted to Mr. Shear on July 8, 1999. As consideration for the acquisition of such shares, Mr. Shear transferred to the Company 2,600 shares of the Company's common stock owned by him, having a value per share of $6.95 on January 30, 2004, the date of such exercise, for an aggregate fair market value of $18,070.

Our Board of Directors is considering a plan to accelerate the vesting schedule of both qualified and non-qualified stock options currently outstanding. At December 31, 2004 there were 158,500 shares (including the unexercisable shares shown in the above table) that were not fully vested. If the plan to accelerate is executed, at June 30, 2005 all outstanding stock options will be fully vested and no cumulative effect of accounting change adjustment will be required on our financial statements when FASB statement No. 123(revised 2004) becomes effective on July 1, 2005.

Other Plans The Board of Directors has adopted an LSB Industries, Inc., Employee Savings Plan (the "401(k) Plan") for the employees (including executive officers) of the Company and its subsidiaries, excluding employees covered under union agreements and certain other employees. The 401(k) Plan is funded by employee contributions, and the Company and its subsidiaries make no contributions to the 401(k) Plan, (with limited matching exceptions at three subsidiary locations). The amount that an employee may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the employee'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 employee's compensation each pay period, in accordance with the employee's instructions, and pays the amount into the 401(k) Plan for the employee's benefit. The salary and bonus set forth in the Summary Compensation Table above includes any amounts contributed during the 2004, 2003, and 2002 fiscal years pursuant to the 401(k) Plan by the named executive officers of the Company.

The Company has a death benefit plan (the "Plan") for certain key employees. Under the Plan, the designated beneficiary of an employee covered by the Plan will receive a monthly benefit for a period of ten years if the employee dies while in the employment of the Company or a wholly-owned subsidiary of the Company. The Plan provides, in addition to being subject to other terms and conditions set forth in the Plan, that the Company may terminate the Plan as to any employee at anytime prior to the employee's death. The Company has purchased life insurance on the life of each employee covered under the Plan to provide, in large part, a source of funds for the Company's obligations under the Plan. The Company also will fund a portion of the benefits by investing the proceeds of such insurance policy received by the Company upon the employee's death. The Company is the owner and sole beneficiary of each the insurance policies and the proceeds are payable to the Company upon the death of the employee. The following table sets forth the amounts of annual benefits payable to the designated beneficiary or

beneficiaries of the executive officers named in the Summary Compensation Table under the current Plan.

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

During 1991 the Company entered into a non-qualified arrangement with certain key employees of the Company and its subsidiaries 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 "Retirement Plan"). Under the Retirement Plan, the employee is eligible to receive for the life of such employee, upon reaching age 65, a designated benefit as set forth in the Retirement Plan. If prior to attaining the age 65, the employee dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the employee will receive a monthly benefit for a period of ten years. The Retirement Plan provides, in addition to being subject to other terms and conditions set forth in the Retirement Plan, that the Company may terminate the Retirement Plan as to any employee at any time prior to the employee's death. The Company has purchased insurance on the life of each employee covered under the Retirement Plan where the Company is the owner and sole beneficiary of the insurance policy, and the proceeds are payable to the Company to provide a source of funds for the Company's obligations under the Retirement Plan. The Company may also fund a portion of the benefits by investing the proceeds of such insurance policies. Under the terms of the Retirement Plan, if the employee becomes disabled while in the employment of the Company or a wholly-owned subsidiary of the Company, the employee may request the Company to cash-in any life insurance on the life of such employee purchased to fund the Company's obligations under the Retirement Plan. Jack E. Golsen does not participate in the Retirement Plan. The following table sets forth the amounts of annual benefits payable to the executive officers named in the Summary Compensation Table under the Retirement Plan.

Name of Individual	Amount of Annual Payment
Barry H. Golsen	$ 17,480
David R. Goss	$ 17,403
Tony M. Shelby	$ 15,605
David M. Shear	$ 17,822

The Compensation Committee has issued a preliminary report to the Board of Directors recommending that the Company enter into an unfunded deferred compensation agreement to provide a death benefit to Jack E. Golsen (the "Proposed Death Benefit Agreement"). This would replace certain existing life insurance benefits. If completed, the Proposed Death Benefit Agreement would provide that, upon Mr. Golsen's death, the Company would pay to Mr. Golsen's designated beneficiary the amount equal to 50% of the net proceeds received by the Company under certain whole life insurance policies on Mr. Golsen's life that would be purchased and owned by the Company. The proposed life insurance policies would provide a stated death benefit of $5 million, resulting in an estimated payment by the Company, upon Mr. Golsen's death, of

$2.5 million under the Proposed Death Benefit Agreement. If the Proposed Death Benefit Agreement is approved by the Compensation Committee and the Board of Directors, the Company would terminate existing life insurance policies on Mr. Golsen's life that are owned by the Company. The Compensation Committee is in the process of finalizing its recommendation regarding this proposed plan.

Compensation of Directors

In 2004, the Company compensated eight non-employee directors $10,000 each for their services as directors on the Company's Board. Certain non-employee directors also served on the Board of Directors of the Company's subsidiary, ThermaClime, Inc. The non-employee directors of the Company also received $500 for every meeting of the Board of Directors attended during 2004.

Mr. Ackerman received an additional $20,000 for his services on the Audit and Public Relations and Marketing Committees in 2004. Mr. Ille received an additional $20,000 for his services on the Audit, Public Relations and Marketing, and Executive Salary Review Committees in 2004. Mr. Rhodes received an additional $20,000 for his services on the Audit and Executive Salary Review Committees in 2004. Mr. Burtch received an additional $20,000 for his services on the Audit Committee in 2004. Dr. Brown received an additional $44,000 for his services on the Executive Salary Review Committee (through July 2004) and the Benefits and Programs Committee and as a Medical Director in 2004. During 2004, Mr. Munson was paid $40,397 for consulting services in connection with developing the Company's European business.

As discussed in Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters," the Company maintains the 1993 Non-Employee Director Stock Option Plan and the Outside Directors Stock Purchase Plan. The Company did not grant options under these plans during 2004. See "Certain Relationships and Related Transactions" for information concerning compensation paid to an affiliate of Dr. Brown.

Employment Contracts and Termination of Employment and Change in Control Arrangements

(a) Termination of Employment and Change in Control Agreements The Company has entered into severance agreements with each of Jack E. Golsen, Barry H. Golsen, Tony M. Shelby, David R. Goss, David M. Shear.

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 Securities and Exchange Commission and, in any event, would mean

when: (a) 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 (i) any person, firm, corporation, entity, or group which, as of the date of the severance agreement, has that ownership, or (ii) 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; (b) 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 (c) 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: (a) 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; (b) the conviction of a felony; (c) the embezzlement by the officer of Company assets resulting in substantial personal enrichment of the officer at the expense of the Company; or (d) 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: (a) the conviction of Mr. Golsen of a felony involving moral turpitude after all appeals have been completed; or (b) 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 (i) 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 (ii) 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 (a) 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; (b) the relocation of the officer; (c) any purported termination by the Company of the officer's employment with the Company otherwise than as permitted by the severance agreement; or (d) 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 of 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 annual 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.

(b) Employment Agreement The Company has an employment agreement with Jack E. Golsen, the Chairman of the Board and President of the Company, which requires the Company to employ Mr. Golsen as an executive officer of the Company. The current term of the employment agreement will expire March 21, 2008; however, pursuant to an amendment to the employment agreement approved by the Board of Directors, the term will be automatically renewed for up to three additional three-year periods. 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. Under the terms of such employment agreement, Mr. Golsen shall be paid (a) an annual base salary at his 1995 base rate, as adjusted from time to time by the Executive Salary Review Committee, but such shall never be adjusted to an amount less than Mr. Golsen's 1995 base salary, (b) an annual bonus in an amount as determined by the Executive Salary Review Committee, and (c) receive from the Company certain other fringe benefits.

The employment agreement provides that Mr. Golsen's employment may not be terminated, except (a) upon conviction of a felony involving moral turpitude after all appeals have been exhausted, (b) 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, and (c) Mr. Golsen's death. However, no such termination under (a) or (b) above 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 (a) or (b) above.

If Mr. Golsen's employment is terminated in breach of the employment agreement, then he shall, in addition to his other rights and remedies, receive and the Company shall pay to Mr. Golsen (a) in a lump sum 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 (b) 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) 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.

Compensation Committee Interlocks and Insider Participation The Company's Executive Salary Review Committee has the authority to set the compensation of all officers of the Company. 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. The members of the Executive Salary Review Committee are the following non-employee directors: Bernard G. Ille and Horace G. Rhodes. Neither Mr. Ille nor Mr. Rhodes is, or ever has been, an officer or employee of the Company or any of its subsidiaries. During 2004, the Executive Salary Review Committee had one meeting.

See "Compensation of Directors" for information concerning compensation paid to each non-employee director of the Company during 2004 for services as a director to the Company.

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

The following table sets forth the information as of December 31, 2004, with respect to our equity compensation plans.

Equity Compensation Plan Information

	Number of securities	Weighted-average	Number of securities remaining available for future issuance under

Plan Category	to be issued upon exercise of outstanding options, warrants and rights (a)	exercise price of outstanding options, warrants and rights (b)	equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders (1)	1,011,204	$ 2.53	356,500
Equity compensation plans not approved by stockholders (2)	924,000	$ 2.08	- -
Total	1,935,204	$ 2.31	356,500

(1) Stockholder Approved Plans. The Company's equity compensation plans which are approved by the Company's stockholders are the following:

- 1993 Stock Option and Incentive Plan (the "1993 Plan"). As of December 31, 2004, 443,500 shares are issuable under outstanding options granted under the 1993 Plan, and no additional shares are available for future issuance.
- 1998 Stock Option Plan (the "1998 Plan"). As of December 31, 2004, 477,704 shares are issuable under outstanding options granted under the 1998 Plan, and 61,500 additional shares are available for future issuance.
- Outside Directors Stock Option Plan (the "Outside Directors Plan"). As of December 31, 2004, 90,000 shares are issuable under outstanding options granted under the Outside Directors Plan and 295,000 additional shares are available for future issuance. The Outside Directors Plan authorizes the Company to grant options to purchase common stock to each member of our Board of Directors who is not an officer or employee of the Company or its subsidiaries. These options become fully exercisable after six months and one day from the date of grant and lapse at the end of ten years. The exercise price of options granted under the Outside Directors Plan is equal to the market value of our common stock at the date of grant.

The 1993 Plan and 1998 Plan each authorize the Company to grant options to purchase common stock to our employees. All outstanding options granted to employees under these plans have a term of ten years and become exercisable as to 20% of the underlying shares after one year from date of grant, 40% after two years, 70% after three years, and 100% after four years. The exercise price of outstanding options granted under these plans is equal to the market value of the Company's common stock at the date of grant. However, with respect to participants who own 10% or more of our common stock at the date of grant, the options have a term of five years, and the exercise price is 110% of the market value at the date of grant.

(2) Non-Stockholder Approved Plans. From time to time, our Board of Directors has approved the grants of certain nonqualified stock options as the Board has determined to be in the best interest of the Company to compensate directors, officers, or employees for service to the Company. Unless otherwise indicated below, (a) the price of each such option is equal to the market value of our common stock at the date of grant, (b) the options become exercisable as to 20% of the underlying shares after one year from the date of grant, 40% after two years, 70% after three years, and 100% after four years, and (c) each option expires ten years from the grant date. The Company's equity compensation plans which have not been approved by the stockholders are the following:

- Effective December 1, 2002, the Company 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, 2004, 14,000 shares are issuable under the following options: 5,000 have an exercise price of $4.188 per share and expire from June 8, 2005 through April 22, 2008, 4,000 have an exercise price of $2.73 per share and expire November 21, 2011 and 5,000 have an exercise price of $1.25 and expire July 8, 2009.
- On November 7, 2002, the Company 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, 2004, 30,000 shares are issuable at an exercise price of $2.62 per share.
- On November 29, 2001, the Company 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, 2004, 74,500 shares are issuable at an exercise price of $2.73 per share.
- On July 20, 2000, the Company 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. The following are the exercise prices per share for these options: 5,000 shares at $5.362; 80,000 shares at $4.538; 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, as to 100,000 shares, nine years from the date of grant and as to the remaining 85,000 shares, seven years from the date of grant.
- On July 8, 1999, in consideration of services to the Company, the Company 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, 2004, 516,500 shares are issuable.

- On April 22, 1998 the Company granted to certain employees and to each member of our Board of Directors who was not an officer or employee of the Company or its subsidiaries nonqualified stock options to acquire shares of common stock at an exercise price of $4.1875 per share in consideration of services to the Company. As of December 31, 2004 104,000 shares are issuable under outstanding options under these agreements.

Security Ownership of Certain Beneficial Owners The following table shows the total number and percentage of the outstanding shares of the Company's voting common stock and voting preferred stock beneficially owned as of the close of business on March 15, 2005 with respect to each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that the Company knows to have beneficial ownership of more than 5% of the Company's voting common stock or voting preferred stock. A person is deemed to be the beneficial owner of voting shares of common stock or preferred stock of the Company which the beneficial owner could acquire within 60 days of March 15, 2005.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may beneficially own, the amounts shown below for an individual or entity may include shares also considered beneficially owned by others.

Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially owned (1)	Percent of Class
Jack E. Golsen and members of his family (2)	Common	4,608,388 (3) (5) (6)	30.5 %
	Voting Preferred	1,020,000 (4) (6)	99.9 %
Kent C. McCarthy and affiliates (7)	Common	2,387,785 (7)	16.1 %
Paul J. Denby (8)	Common	1,154,090 (8)	8.3 %
James W. Sight (9)	Common	897,165 (9)	6.5 %

(1) The Company 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 and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen (a Director, Vice Chairman of the Board of Directors, President and President of the Climate Control Business of the Company); son, Steven J. Golsen (Executive officer of several subsidiaries of the Company); and daughter, Linda F. Rappaport. The address of Jack E. Golsen, Sylvia H. Golsen, Barry H. Golsen, and Linda F. Rappaport is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th Street, Oklahoma City, Oklahoma 73179.

(3) Includes (a) the following shares over which Jack E. Golsen ("J. Golsen") has the sole voting and dispositive power: (i) 25,000 shares that he owns of record, (ii) 4,000 shares that he has the right to acquire upon

conversion of a promissory note, (iii) 133,333 shares that he has the right to acquire upon the conversion of 4,000 shares of the Company's Series B 12% Cumulative Convertible Preferred Stock (the "Series B Preferred") owned of record by a trust, of which he is the sole trustee, (iv) 119,929 shares owned of record by a trust, of which he is the sole trustee, and (v) 176,500 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (b) 838,747 shares owned of record by a trust, of which Sylvia H. Golsen is the sole trustee, over which she and her husband, J. Golsen share voting and dispositive power; (c) 301,889 shares over which Barry H. ("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 69,000 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (d) 239,165 shares over which Steven J. Golsen ("S. Golsen") has the sole voting and dispositive power and 49,000 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (e) 176,606 shares held in trust for the grandchildren and great grandchild of J. Golsen and Sylvia H. Golsen of which B. Golsen, S. Golsen and Linda F. Rappaport ("L. Rappaport") jointly share voting and dispositive power; (f) 82,552 shares owned of record by L. Rappaport over which she has sole voting and dispositive power; (g) 1,306,199 shares owned of record by SBL Corporation ("SBL"), 39,177 shares that SBL has the right to acquire upon conversion of 9,050 shares of the Company's non-voting $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 (the "Series 2 Preferred"), 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 Company's Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") owned of record by SBL and (h) 88,100 shares owned of record by Golsen Petroleum Corporation ("GPC"), which is a wholly-owned subsidiary of SBL, 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 and 175,325 shares that GPC has the right to acquire upon conversion of 40,500 shares of Series 2 Preferred owned of record by GPC. SBL is wholly-owned by Sylvia H. Golsen (40% owner), B. Golsen (20% owner), S. Golsen (20% owner), and L. Rappaport (20% owner) and, as a result, SBL, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen, and L. Rappaport share the voting and dispositive power of the shares beneficially owned by SBL. SBL's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.

(4) Includes: (a) 4,000 shares of Series B Preferred owned of record by a trust, of which J. Golsen is the sole trustee, over which he has the sole voting and dispositive power; (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, Sylvia H. Golsen, B. Golsen, S. Golsen, and L. Rappaport share the voting and dispositive power and (d) 1,000,000 shares of Series D Preferred owned of record by SBL.

(5) Does not include 70,200 shares of Common Stock that L. Rappaport's husband owns of record and 185,000 shares which he has the right to acquire within the next 60 days under the Company's stock option plans, all of which L. Rappaport disclaims beneficial ownership. Does not include 256,120 shares of Common Stock owned of record by certain trusts for the benefit of B. Golsen, S. Golsen, and L. Rappaport over which B. Golsen, S. Golsen and L. Rappaport have no voting or dispositive power. Heidi Brown Shear, an officer

of the Company and the niece of J. Golsen, is the Trustee of each of these trusts.

(6) J. Golsen disclaims beneficial ownership of the shares that B. Golsen, S. Golsen, and L. Rappaport each have the sole voting and investment power over as noted in footnote (3) above. B. Golsen, S. Golsen, and L. Rappaport disclaim beneficial ownership of the shares that J. Golsen has the sole voting and investment power over as noted in footnotes (3) and (4) and the shares owned of record by Sylvia H. Golsen. Sylvia H. Golsen disclaims beneficial ownership of the shares that J. Golsen has the sole voting and dispositive power over as noted in footnotes (3) and (4) above.

(7) Kent C. McCarthy, manager of Jayhawk Capital Management, L.L.C. ("Jayhawk"), a Delaware limited liability company and investment advisor, is deemed to beneficially own 2,387,785 shares of the Company's Common Stock (which includes 1,164,285 shares of Common Stock receivable upon conversion of 268,950 shares of Series 2 Preferred and 112,500 shares of Common Stock that may be acquired upon exercise of warrants). This number of shares includes the shares Mr. McCarthy personally owns, as well as the shares he controls as manager and sole member of Jayhawk. As manager and sole member of Jayhawk, Mr. McCarthy has sole voting and dispositive power over the Common Stock beneficially owned by Jayhawk. Jayhawk is deemed to have beneficial ownership of 2,113,754 shares of the Company's Common Stock (which includes 1,061,254 shares of Common Stock receivable upon conversion of 245,150 shares of Series 2 Preferred and 112,500 shares of Common Stock that may be acquired upon exercise of warrants), all of which shares are held in portfolios of (a) Jayhawk Institutional Partners, L.P. ("Jayhawk Institutional"), a Delaware limited partnership, (1,745,192 shares of Common Stock which includes 690,692 shares of Common Stock receivable upon conversion of 159,550 shares of Series 2 Preferred and 112,500 shares of Common Stock that may be acquired upon exercise of warrants) and (b) Jayhawk Investments, L.P. ("Jayhawk Investments"), a Delaware limited partnership, (370,562 shares of Common Stock receivable upon conversion of 85,600 shares of Series 2 Preferred). Jayhawk is the general partner and manager of Jayhawk Institutional and Jayhawk Investments and, as such, has sole voting and dispositive power over these shares. Mr. McCarthy disclaims beneficial ownership of all such shares other than his personal holdings. Mr. McCarthy's address is 8201 Mission Road, Suite 110, Prairie Village, Kansas 66208. See "Item 13. Certain Relationships and Related Transactions."

(8) Paul J. Denby advised the Company that he has voting and dispositive power over 1,154,090 shares of Common Stock (which includes 216,450 shares of Common Stock receivable upon conversion of 50,000 shares of Series 2 Preferred). This number of shares includes 53,640 shares beneficially owned by Mr. Denby's spouse over which Mr. Denby shares voting and dispositive power. Mr. Denby's address is 4613 Redwood Court, Irving, Texas 75038.

(9) James W. Sight has sole voting and dispositive power over 897,165 shares of Common Stock (which includes 175,012 shares of Common Stock receivable upon conversion of 40,428 shares of Series 2 Preferred). Mr. Sight's address is 8500 College Boulevard, Overland Park, Kansas 66210.

Security Ownership of Management The following table sets forth information obtained from the directors of the Company and the directors and executive officers of the Company as a group as to their beneficial ownership of the Company's voting Common Stock and voting Preferred Stock as of March 15, 2005.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown below 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 March 15, 2005 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.

Name of Beneficial Owner	Title of Class	Amount of Shares Beneficially Owned (1)		Percent of Class
Raymond B. Ackerman	Common	21,000	(2)	*
Robert C. Brown, M.D.	Common	208,329	(3)	1.5 %
Charles A. Burtch	Common	15,000	(4)	*
Grant J. Donovan	Common	42,451	(5)	*
Dr. N. Allen Ford	Common	432	(6)	*

Barry H. Golsen	Common	2,940,162	(7)	20.0 %
	Voting Preferred	1,016,000	(7)	99.6 %
Jack E. Golsen	Common	3,689,643	(8)	24.6 %
	Voting Preferred	1,020,000	(8)	99.9 %
David R. Goss	Common	307,572	(9)	2.2 %
Bernard G. Ille	Common	45,000	(10)	*
Donald W. Munson	Common	16,432	(11)	*
Horace G. Rhodes	Common	20,000	(12)	*
Tony M. Shelby	Common	354,229	(13)	2.6 %
Directors and Executive Officers as a group number (14 persons)	Common	5,675,004	(14)	35.7 %
	Voting Preferred	1,020,000		99.9 %

* Less than 1%.

(1) The Company based the information, with respect to beneficial ownership, on information furnished by each director or officer, contained in filings made with the Securities and Exchange Commission, or contained in the Company's records.

(2) This amount includes the following shares over which Mr. Ackerman shares voting and dispositive power: (a) 2,000 shares held by Mr.

Ackerman's trust, and (b) 4,000 shares held by the trust of Mr. Ackerman's wife. The remaining 15,000 shares of Common Stock included herein are shares that Mr. Ackerman may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(3) The amount shown includes 15,000 shares of Common Stock that Dr. Brown may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company. The shares, with respect to which Dr. Brown shares the voting and dispositive power, consists of 122,516 shares owned by Dr. Brown's wife, 50,727 shares owned by Robert C. Brown, M.D., Inc., a corporation wholly-owned by Dr. Brown, and 20,086 shares held by the Robert C. Brown M.D., Inc. Employee Profit Sharing Plan, of which Dr. Brown serves as the trustee. The amount shown does not include 19,914 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) Mr. Burtch has sole voting and dispositive power over these shares, which may be acquired by Mr. Burtch pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(5) The amount includes (a) 41,951 shares of common stock including 30,251 shares that Mr. Donovan has the right to acquire upon conversion of 6,988 shares of Series 2 Preferred, over which Mr. Donovan has the sole voting and dispositive power, and (b) 500 shares owned of record by Mr. Donovan's wife, voting and dispositive power of which are shared by Mr. Donovan and his wife.

(6) Dr. Ford has sole voting and dispositive power over these shares that Dr. Ford has the right to acquire upon conversion of 100 shares of Series 2 Preferred.

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

(8) See footnotes (3), (4), and (6) of the table under "Security Ownership of Certain Beneficial Owners" of this item for a description of the amount and nature of the shares beneficially owned by J. Golsen.

(9) Mr. Goss has the sole voting and dispositive power over these shares, which include 195,500 shares that Mr. Goss has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans.

(10) 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.

(11) Mr. Munson has the sole voting and dispositive power over these shares, which include (a) 432 shares of Common Stock that Mr. Munson has the right to acquire upon conversion of 100 shares of Series 2 Preferred and (b) 15,000 shares that Mr. Munson may purchase pursuant to currently exercisable non-qualified stock options.

(12) 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 granted to him by the Company.

(13) Mr. Shelby has the sole voting and dispositive power over these shares, which include 195,500 shares that Mr. Shelby has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans and 15,151 shares that Mr. Shelby has the right to acquire upon conversion of 3,500 shares of Series 2 Preferred.

(14) The amount shown includes 1,061,044 shares of Common Stock that executive officers, directors, or entities controlled by executive officers and directors of the Company have the right to acquire within 60 days.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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. Under such agreement, Northwest is paid $2,000 a month to perform all such examinations. Dr. Robert C. Brown (a director of the Company) is Vice President and Treasurer of Plaza Medical Group, P.C.

LSB Chemical In 1983, LSB Chemical Corp. ("LSB Chemical"), a subsidiary of the Company, acquired all of the outstanding stock of El Dorado Chemical Company ("EDC") from its then four stockholders ("Ex-Stockholders"). A substantial portion of the purchase price consisted of an earnout based primarily on the annual after-tax earnings of EDC for a ten-year period. During 1989, two of the Ex-Stockholders received LSB Chemical promissory notes for a portion of their earnout, in lieu of cash, totaling approximately $896,000, payable $496,000 in January 1990, and $400,000 in May 1994. LSB Chemical agreed to a buyout of the balance of the earnout from the four Ex-Stockholders for an aggregate purchase amount of $1,231,000. LSB Chemical purchased for cash the earnout from two of the Ex-Stockholders and issued multi-year promissory notes totaling $676,000 to the other two Ex-Stockholders. The remaining balance of these notes of $400,000 was paid during 2004.

Prime At October 15, 2001 Prime Financial Corporation ("Prime"), a subsidiary of the Company, had a note with an outstanding principal balance of $1,350,000 (the "Prime Note") owed to SBL Corporation ("SBL"), a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company. The Prime Note was issued in connection with a loan from SBL to Prime of funds borrowed by SBL from SBL's lender. In order to obtain the loan from SBL, Prime was required to (a) issue to SBL's lender a limited guaranty of the lender's loan to SBL, and (b) pledge to SBL's lender 1,973,461 shares of the Company's common stock owned by Prime as security for the limited guaranty.

On October 18, 2001 the Company, Prime, and SBL entered into an agreement (the "Agreement") whereby the Company issued to SBL 1,000,000 shares of a newly created series of Series D Convertible Preferred Stock in the Company ("Series D Preferred Stock"). In consideration of the issuance of the Series D Preferred stock, SBL (a) reduced the principal amount of the Prime Note by $1,000,000, (b) caused Prime's limited guaranty to be reduced to an amount not to exceed $350,000, and (c) caused the shares of LSB common stock pledged by Prime to SBL's lender to be reduced by 1,000,000 shares. In February 2003, SBL's lender terminated Prime's limited guaranty and released all shares of LSB common stock pledged by Prime to secure the limited guaranty. The remaining balance of $50,000 under the Prime Note was paid during 2004.

Each share of Series D Preferred Stock issued to SBL has, among other things, .875 votes and the right to vote as a class with the Company's common stock, a liquidation preference of $1.00 per share, cumulative dividends at the rate of 6% per annum, and is convertible into LSB common stock on the basis of four shares of Preferred Stock into one share of common stock. Dividends on the Series D Preferred Stock issued to SBL will be paid only after accrued and unpaid dividends are paid on the Company's Series 2 Preferred. At December 31, 2004, there were $.2 million in accrued but unpaid dividends due on the Series D Preferred Stock.

Jayhawk Effective March 25, 2003, the Company completed a private placement to Jayhawk Institutional Partners, L.P. ("Jayhawk Institutional") of 450,000 shares of the Company's common stock and a five-year warrant to purchase up to 112,500 shares of the Company's common stock at an exercise price of $3.49 per share, subject to anti-dilution adjustments under certain conditions. The total price paid by Jayhawk to the Company for the shares of common stock and the warrant was $1,570,500. The average closing price of the Company's common stock over the 30-day period prior to the transaction was $3.49. Jayhawk has certain registration rights. See "Security Ownership of Certain Beneficial Owners" for a description of the beneficial ownership of our common stock by Kent C. McCarthy and affiliates, including Jayhawk Institutional.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Registered Public Accounting Firm

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, 2004 and 2003, 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 Securities and Exchange Commission for those fiscal years were approximately $602,500 and $737,250, respectively.

Audit-Related Fees

Ernst & Young LLP billed the Company $99,100 and $63,600 during 2004 and 2003, respectively, for audit-related services, which included benefit plan audit and accounting consultations.

Tax Fees

Ernst & Young LLP billed $106,573 and $94,000 during 2004 and 2003, respectively, for tax services to the Company, which 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, 2004 and 2003.

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, 2004 and 2003 is compatible with maintaining its independence.

Audit Committee's Pre-Approval Policies and Procedures All audit and non-audit services that may be provided by our principal accountant, Ernst & Young LLP to the Company require pre-approval by the Audit Committee. Further, Ernst & Young LLP shall not provide those services to the Company specifically prohibited by the Securities and Exchange Commission, including bookkeeping or other services related to the accounting records or financial statements of the audit client; financial information systems design and implementation; appraisal or valuation services, fairness opinion, or contribution-in-kind reports; actuarial services; internal audit outsourcing services; management functions; human resources; broker-dealer, investment adviser, or investment banking services; legal services and expert services unrelated to the audit; and any other service that the Public Company Oversight Board determines, by regulation, is impermissible.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

a. (1) Financial Statements

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

(a) (2) Financial Statement Schedule

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

3.1 Restated Certificate of Incorporation, the Certificate of Designation dated February 17, 1989 and certificate of Elimination dated April 30, 1993 which the Company hereby incorporates by reference

from Exhibit 4.1 to the Company's Registration Statement, No. 33-61640; Certificate of Designation for the Company's $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 4.6 to the Company's Registration Statement, No. 33-61640.

3.2 Certificate of Designations of LSB Industries, Inc., relating to the issuance of a new series of Class C Preferred Stock, which the Company hereby incorporates by reference form Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2001.

3.3 Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1998

4.1 Specimen Certificate for the Company's Non-cumulative Preferred Stock, having a par value of $100 per share, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 1983.

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 Certificate for the Company's Series 2 Preferred, which the Company hereby incorporates by reference from Exhibit 4.5 to the Company's Registration Statement No. 33-61640.

4.4 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.

4.5 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.

4.6 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.

4.7 Indenture, dated as of November 26, 1997 by and among ThermaClime, Inc., the Subsidiary Guarantors and Bank One, NA, as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated November 26, 1997.

4.8 First Supplemental Indenture, dated February 8, 1999 by and among ThermaClime, Inc., the Guarantors, and Bank One N.A., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the year ended December 31, 1998.

4.9 Fifth Supplemental Indenture, dated May 24, 2002 among the Company, the Guarantors, and Bank One, N.A, which the Company hereby incorporates by reference from Exhibit 4.3 to the Company's Form 8-K, dated May 24, 2002.

4.10 Form of 10 3/4% Series B Senior Notes due 2007 which the Company hereby incorporates by reference from Exhibit 4.3 to the ThermaClime Registration Statement, No. 333-44905.

4.11 Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ThermaClime and each of its Subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 10.51 to ThermaClime, Inc.'s amendment No. 1 to Form 10-K for the fiscal year ended December 31, 2000.

4.12 Second Amendment to Loan and Security Agreement, dated May 24, 2002 by and among the Company, LSB, certain subsidiaries of the Company, Foothill Capital Corporation and Congress Financial Corporation (Southwest), which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated May 24, 2002. Omitted are exhibits and schedules attached thereto. The Agreement contains a list of such exhibits and schedules, which the Company agrees to file with the Commission supplementally upon the Commission's request.

4.13 Third Amendment, dated as of November 18, 2002 to the Loan and Security Agreement dated as of April 13, 2001 as amended by the First Amendment dated as of August 3, 2001 and the second Amendment dated as of May 24, 2002 by and among LSB Industries, Inc., ThermaClime, Inc., and certain subsidiaries of ThermaClime, Congress Financial Corporation (Southwest) and Foothill Capital Corporation 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, 2002.

4.14 Fourth Amendment, dated as of March 3, 2003 to the Loan and Security Agreement dated as of April 13, 2001 as amended by the First, Second, and Third Amendments, by and among LSB Industries, Inc., ThermaClime, Inc., and certain subsidiaries of ThermaClime, Inc., Congress Financial Corporation (Southwest) and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 4.18 to the Company's Form 10-K for the fiscal year ended December 31, 2002.

4.15 Fifth Amendment, dated as of December 31, 2003 to the Loan and Security Agreement dated as of April 13, 2001 as amended by the First, Second, Third and Fourth Amendments, by and among LSB Industries, Inc., ThermaClime, Inc., and certain subsidiaries of ThermaClime, Inc., Congress Financial Corporation (Southwest) and Wells Fargo Foothill, Inc.

4.16 Waiver and Consent, dated March 25, 2004 to the Loan and Security Agreement, dated as of April 13, 2001 (as amended to date), by and among LSB Industries, Inc., ThermaClime, Inc., and certain subsidiaries of ThermaClime, Inc. and Wells Fargo Foothill, Inc.

4.17 Sixth Amendment, dated as of June 29, 2004 to the Loan and Security

Agreement dated as of April 13, 2001 as amended, by and among LSB Industries, Inc., ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Congress Financial Corporation (Southwest) and Wells Fargo Foothill, Inc., 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, 2004.

4.18

Seventh Amendment, dated as of September 15, 2004 to the Loan and Security Agreement dated as of April 13, 2001 as amended, by and among LSB Industries, Inc., ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Congress Financial Corporation (Southwest) 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, 2004.

4.19 Eighth Amendment to Loan and Security Agreement, dated February 28, 2005, between LSB Industries, Inc., ThermaClime, Inc., the subsidiaries of ThermaClime, Inc. that are signatories thereto, and Wells Fargo Foothill, Inc., as arranger and administrative agent for various lenders, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 8-K, dated February 28, 2005.

4.20 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.

4.21 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.

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.

10.2 Form of Death Benefit Plan Agreement between the Company and the employees covered under the plan, which the Company hereby incorporates by reference from Exhibit 10(c) (1) to the Company's Form 10-K for the year ended December 31, 1980.

10.3 The Company's 1993 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 1993.

10.4 The Company's 1993 Non-employee Director Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1993.

10.5 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.

10.6 Non-Qualified Stock Option Agreement, dated April 22, 1998 between the Company and Robert C. Brown, M.D. 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.

10.7 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.

10.8 LSB Industries, Inc. 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit "B" to the LSB Proxy Statement, dated May 24, 1999 for Annual Meeting of Stockholders.

10.9 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.

10.10 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.

10.12 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.

10.13 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.

10.14 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), Stephen J. Golsen (35,000 shares), David R. Goss (35,000 shares), Tony M. Shelby (35,000 shares), David M. Shear (35,000 shares) and five other employees (165,000 shares), copies of which will be provided to the Commission upon request.

10.16 Severance Agreement, dated January 17, 1989 between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.48 to the Company's Form 10-K for fiscal year ended December

31, 1988. 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.

10.17 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.

10.18 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.

10.19 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.**

10.20 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.**

10.21 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.**

10.22 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.**

10.23 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.**

10.24 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.

10.25 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.

10.26 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.

10.27 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.

10.28 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.

10.29 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.

10.30 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.

10.31 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.

10.32 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.

10.33 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 A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.34 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 A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.35 Ammonium Nitrate Sales Agreement between Nelson Brothers, L.L.C. and Cherokee Nitrogen Company, which the Company hereby incorporates by reference from Exhibit 99.3 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 A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.36 Agreement, dated August 1, 2004, between El Dorado Chemical Company and Paper, Allied-Industrial, Chemical and Energy Workers International Union AFL-CIO and its Local 5-434.

10.37 Agreement, dated October 17, 2004, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224.

10.38 Agreement, dated November 12, 2004, between The United Steelworkers of America International Union, AFL-CIO, CLC, Cherokee Local No. 417-G and Cherokee Nitrogen Division of El Dorado Chemical Company.

10.39 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.

10.40 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 herewith, and the Registrant agrees to furnish supplementally a copy of the omitted schedules and exhibits to the commission upon request.

10.41 Anhydrous Ammonia Sales Agreement, dated effective January 3, 2005 between Koch Nitrogen Company and El Dorado Chemical Company. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.**

10.42 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.

10.43 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.

10.44 10.54 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 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.

10.46 Debt Forgiveness Agreement, effective July 1, 2004, by and between Companie Financiere du Taraois, a French corporation and LSB Holding, Inc., an Oklahoma corporation 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, 2004.

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.

(b) REPORTS ON FORM 8-K. We filed the following reports on Form 8-K during the fourth quarter of 2004.

(i) Form 8-K, dated October 12, 2004. The item reported was Item 8.01 -"Other Events", discussing the Company's subsidiary, EDC, has entered into a Plea Agreement with the United States.

(ii) Form 8-K, dated November 17, 2004. The item reported was Item 2.02 -"Results of Operations and Financial Condition", discussing the issuance of our earnings release for the quarter ended September 30, 2004.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 25th day of March 2005.

LSB INDUSTRIES, INC.

By:

/s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

By:

/s/ Tony M. Shelby

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

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, the undersigned have signed this report on behalf of the Company, in the capacities and on the dates indicated.

Dated: March 25, 2005	By: /s/ Jack E. Golsen Jack E. Golsen, Director
Dated: March 25, 2005	By: /s/ Tony M. Shelby Tony M. Shelby, Director
Dated: March 25, 2005	By: /s/ David R. Goss David R. Goss, Director
Dated: March 25, 2005	By: /s/ Barry H. Golsen Barry H. Golsen, Director
Dated: March 25, 2005	By: /s/ Robert C. Brown MD Robert C. Brown MD, Director
Dated: March 25, 2005	By: /s/ Bernard G. Ille Bernard G. Ille, Director
Dated: March 25, 2005	By: /s/ Raymond B. Ackerman Raymond B. Ackerman, Director
Dated: March 25, 2005	By: /s/ Horace G. Rhodes Horace G. Rhodes, Director
Dated: March 25, 2005	By: /s/ Donald W. Munson Donald W. Munson, Director
Dated: March 25, 2005	By: /s/ Charles A. Burtch Charles A. Burtch, Director
Dated: March 25, 2005	By: /s/ Grant Donovan Grant Donovan, Director

Dated:
March 25, 2005

By: /s/ Dr. Allen Ford
Dr. Allen Ford, Director

LSB Industries, Inc.

Consolidated Financial Statements
for Inclusion in Form 10-K

Years ended December 31, 2004, 2003 and 2002

CONTENTS

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, 2004 and 2003, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2004. 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, effective March 31, 2004 and January 1, 2002, the Company adopted FASB Interpretation No. 46, Consolidation of Variable Interest Entities and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, respectively.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 23, 2005

LSB Industries, Inc.

Consolidated Balance Sheets

	December 31, 2004	2003
	(In Thousands)	
Assets		
Current assets:		
Cash	**$ 1,020**	$ 3,189
Restricted cash	**158**	-
Accounts receivable, net	**41,888**	35,357
Inventories	**28,657**	26,939
Supplies, prepaid items and other:		
Deferred rent expense	**938**	-
Precious metals	**5,616**	4,169
Other	**5,261**	5,056
Total current assets	**83,538**	74,710
Property, plant and equipment, net	**70,219**	71,934
Other assets:		
Notes receivable, net	**-**	2,558
Debt issuance costs, net	**1,977**	934
Investment in affiliate	**3,111**	2,690

Other, net	**4,557**	5,468
	$ 163,402	$ 158,294

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	December 31, 2004	2003
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts and drafts payable	**$ 27,892**	$ 22,027
Accrued liabilities:		
Customer deposits	**3,421**	4,576
Deferred rent expense	**-**	3,766
Other	**13,006**	14,830
Current portion of long-term debt:		
Secured revolving credit facility	**-**	24,027
Other	**4,833**	7,603
Total current liabilities	**49,152**	76,829
Long-term debt:		
Secured revolving credit facility	**27,489**	-
Other	**74,185**	71,645
Other noncurrent liabilities	**4,178**	4,139
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding; aggregate liquidation preference of $3,200,000 in 2004 ($2,960,000 in 2003)	**2,000**	2,000
Series 2 $3.25 convertible, exchangeable Class C preferred stock, $50 stated value; 623,550 shares issued (628,550 in 2003); aggregate liquidation preference of $42,234,000 in 2004 ($40,547,000 in 2003)	**31,177**	31,427
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued; aggregate liquidation preference of $1,180,000 in 2004 ($1,120,000 in 2003)	**1,000**	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 16,400,985 shares issued (15,820,234 in 2003)	**1,640**	1,582
Capital in excess of par value	**57,352**	56,223
Accumulated other comprehensive loss	**(1,280)**	(1,570)
Accumulated deficit	**(66,840)**	(68,713)
	25,049	21,949
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares	**200**	200
Common stock, 3,321,607 shares (3,272,426 in 2003)	**16,451**	16,068
Total stockholders' equity	**8,398**	5,681
	$ 163,402	$ 158,294

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Income

	Year ended December 31, 2004	2003	2002
	(In Thousands, Except Per Share Amounts)		
Net sales	**$ 364,053**	$ 317,263	$ 283,811
Cost of sales	**311,374**	267,831	238,818
Gross profit	**52,679**	49,432	44,993
Selling, general and administrative	**49,104**	41,745	39,428
Operating income	**3,575**	7,687	5,565
Other income (expense):			
Other income	**3,935**	1,815	3,886
Gains on extinguishment of debt (Note 7)	**4,400**	258	1,458
	(6,784	(5,550	(7,500

Interest expense (Note 7)	**(6,784)**	(5,559)	(7,590)
Provision for loss on notes receivable (Note 2)	**(1,447)**	-	-
Other expense	**(1,270)**	(1,090)	(563)
Income from continuing operations before provision for income taxes and cumulative effect of accounting changes	**2,409**	3,111	2,756
Provision for income taxes	**-**	-	(56)
Income from continuing operations before cumulative effect of accounting changes	**2,409**	3,111	2,700
Net loss from discontinued operations	**-**	-	(3,461)
Cumulative effect of accounting changes (Note 2)	**(536)**	-	860
Net income	**1,873**	3,111	99
Preferred stock dividend requirements	**(2,322)**	(2,327)	(2,327)
Net income (loss) applicable to common stock	**$ (449)**	$ 784	$ (2,228)
Income (loss) per common share:			
Basic:			
Income from continuing operations before cumulative effect of accounting change	**$ .01**	$ .06	$ .03
Loss from discontinued operations, net	**-**	-	(.29)
Cumulative effect of accounting change	**(.04)**	-	.07
Net income (loss)	**$ (.03)**	$ .06	$ (.19)
Diluted:			
Income from continuing operations before cumulative effect of accounting change	**$ .01**	$ .05	$ .03
Loss from discontinued operations, net	**-**	-	(.29)
Cumulative effect of accounting change	**(.04)**	-	.07
Net income (loss)	**$ (.03)**	$ .05	$ (.19)

See accompanying notes.

LSB Industries, Inc.

Consolidated Statement of Stockholders' Equity (Deficit)

	Common Stock Shares	**Non-Redeemable Preferred Stock**	**Common Stock Par Value**	**Capital in Excess of Par Value**	**Accumulated Other Comprehensive Income (Loss)**	**Accumulated Deficit**	**Treasury Stock-Preferred**	**Treasury Stock - Common**	**Total**
				(In Thousands)					
Balance at December 31, 2001	15,206	$ 34,427	$ 1,521	$ 52,430	$ (2,149)	$ (71,923)	$ (200)	$ (16,068)	$ (1,962)
Net income						99			99
Reclassification to operations					290				290
Total comprehensive income									389
Issuance of 595,585 common stock purchase warrants (Note 7)				1,983					1,983
Grant of 115,000 stock options to former employees				48					48
Exercise of stock options	25		3	30					33
Conversion of 128 shares of redeemable preferred stock to common stock	5			12					12
Balance at December 31, 2002	15,236	34,427	1,524	54,503	(1,859)	(71,824)	(200)	(16,068)	503
Net income						3,111			3,111
Reclassification to operations					289				289
Total comprehensive income									3,400
Issuance of 450,000 shares of common stock	450		45	1,526					1,571
Exercise of stock options	131		13	186					199
Conversion of 83 shares of redeemable preferred stock to common stock	3			8					8
Balance at December 31, 2003	15,820	34,427	1,582	56,223	(1,570)	(68,713)	(200)	(16,068)	5,681
Net income						**1,873**			**1,873**
Reclassification to operations					**290**				**290**
Total comprehensive income									**2,163**
Exercise of stock options	**579**		**58**	**1,145**				**(383)**	**820**
Acquisition of 5,000 shares of non-redeemable preferred stock		**(250)**		**(21)**					**(271)**
Conversion of 57 shares of redeemable preferred stock to common stock	**2**			**5**					**5**
Balance at December 31, 2004	**16,401**	**$ 34,177**	**$ 1,640**	**$ 57,352**	**$ (1,280)**	**$ (66,840)**	**$ (200)**	**$ (16,451)**	**$ 8,398**

See accompanying notes.

LSB Industries, Inc.

Consolidated Statement of Cash Flows

	Year ended December 31,		
	2004	**2003**	**2002**
	(In Thousands)		
Cash flows from operating activities			
Net income	$ **1,873**	$ 3,111	$ 99
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Loss from discontinued operations, net	**-**	-	3,461
Cumulative effect of accounting changes	**536**	-	(860)
Gains on extinguishment of debt	**(4,400)**	(258)	(1,458)
Gain on restructuring of debt	**-**	-	(99)
Losses (gains) on sales of property and equipment	**(340)**	4	(47)
Provision for losses on (realization and reversal of) firm sales commitments	**(106)**		704
Depreciation of property, plant and equipment	**10,194**	(589)	9,497
Amortization	**1,101**	10,312	1,066
Provision for losses on accounts receivable	**211**	904	618
Provision for losses on (realization and reversal of) inventory	**548**	1,031	1,268
Provision for loss on notes receivable	**1,447**	(436)	-
Provision for impairment on long-lived assets	**737**	-	-
Net loss of variable interest entity (Note 2)	**575**	500	-
Other	**121**	-	(15)
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):		(14)	
Accounts receivable	**(5,901)**	(1,871)	6,269
Inventories	**(2,266)**	473	658
Supplies, prepaid items and other	**(950)**	(1,003)	(1,143)
Accounts payable	**5,688**	(1,968)	(137)
Customer deposits	**(1,155)**	1,107	2,643
Deferred rent expense	**(4,704)**	631	632
Other accrued and noncurrent liabilities	**(1,612)**	1,265	(906)
Net cash provided by continuing operating activities	**1,597**	13,199	22,250
Cash flows from investing activities			
Capital expenditures	**(9,600)**	(7,177)	(10,029)
Proceeds from sales of property and equipment	**262**	84	1,092
Proceeds from (payment of) restricted cash	**(158)**	1,838	(1,488)
Other assets	**(530)**	598	986
Net cash used by investing activities	**(10,026)**	(4,657)	(9,439)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statement of Cash Flows (continued)

	Year ended December 31,		
	2004	**2003**	**2002**
	(In Thousands)		
Cash flows from financing activities			
Payments on Financing Agreement	**$ (38,531)**	$ (3,375)	$ (5,633)
Payments on other long-term and other debt	**(4,886)**	(4,282)	(5,191)
Acquisition of 10 3/4% Senior Unsecured Notes	**(5,000)**	-	(30,065)
Proceeds from Senior Secured Loan, net of fees	**47,708**	-	-
Other long-term and other borrowings, net of fees	**2,666**	1,890	2,550
Proceeds from Financing Agreement, net of fees	**-**	-	32,155
Net change in revolving debt facilities	**3,577**	(3,424)	(9,694)
Net change in drafts payable	**177**	(23)	(50)
Net proceeds from issuance of common stock and warrants	**820**	1,770	33
Acquisition of non-redeemable preferred stock	**(271)**	-	-
Net cash provided (used) by financing activities	**6,260**	(7,444)	(15,895)

Net cash provided by discontinued operations	**-**	-	4,547
Net increase (decrease) in cash	**(2,169)**	1,098	1,463
Cash at beginning of year	**3,189**	2,091	628
Cash at end of year	**$ 1,020**	$ 3,189	$ 2,091

Supplemental cash flow information includes:

	2004	**2003**	**2002**
		(In Thousands)	
Cash payment (receipts) for:			
Interest on long-term debt and other	**$ 6,294**	$ 5,691	$ 7,924
Income taxes, net of refunds	**$ -**	$ (43)	$ 32
Noncash investing and financing activities:			
Receivable from sale of property and equipment	**$ 202**	$ -	$ -
Provision for loss on notes receivables	**$ (1,447)**	$ -	$ -
Provision for impairment on long-lived assets	**$ (737)**	$ (500)	$ -
Debt issuance costs	**$ 2,315**	$ -	$ 9
Long-term debt issued for property, plant and equipment	**$ -**	$ 639	$ 13
Gains on extinguishment of long-term debt	**$ 4,400**	$ 258	$ 1,458
Long-term debt extinguished in exchange for the extinguishment of a note receivable	**$ -**	$ (1,276)	$ -
Grant of warrants to purchase common stock in connection with debt restructuring	**$ -**	$ -	$ 1,983

See accompanying notes

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 diversified holding company which is engaged, through our subsidiaries, in the manufacture and sale of a broad range of air handling and heat pump products (the "Climate Control Business") and the manufacture and sale of chemical products (the "Chemical Business"). See Note 18 - Segment Information. In December 2002, we sold all of the remaining assets comprising our explosives manufacturing and distribution business of Slurry Explosive Corporation ("Slurry") and Universal Technology Corporation ("UTeC") which operations were formerly included in the Chemical Business. Our consolidated financial statements and notes reflect Slurry and UTeC as discontinued operations for all periods presented. See Note 17 - Discontinued Operations. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. See Note 6 - - Investment in Affiliate. All material intercompany accounts and transactions have been eliminated.

Certain reclassifications have been made in our consolidated financial statements for 2003 and 2002 to conform to our consolidated financial statement presentation for 2004.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

Receivables and Credit Risk

Our accounts receivable includes the following at:

	December 31,	
	2004	**2003**
	(In Thousands)	
Trade receivables	**$ 41,578**	$ 37,198
Insurance claims	**1,787**	-
Receivable from sale of assets	**-**	600
Other	**855**	784
	44,220	38,582
Allowance for doubtful accounts	**(2,332)**	(3,225)
	$ 41,888	$ 35,357

Sales to contractors and independent sales representatives are generally subject to a mechanics 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 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, two customers account for approximately 10% of our total receivables at

December 31, 2004. We do not believe this concentration in these two customers represents a significant credit risk due to the financial stability of the two customers.

Inventories

Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out basis (See Note 4 - Inventories). At December 31, 2004 and 2003, the carrying value of certain nitrogen-based inventories produced by our Chemical Business was reduced to the market price because the current cost exceeded the market price by $1,277,000 and $563,000, respectively.

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. Property, plant and equipment leases which are deemed to be installment purchase obligations have been capitalized and included in property, plant and equipment. No provision for depreciation is made on construction in progress or spare parts until such time as the relevant assets are put into service (See Note 5 -Property, Plant and Equipment). Maintenance, repairs and minor renewals are charged to operations while major renewals and improvements are capitalized. We accrue in advance the costs expected to be incurred in the next planned major maintenance activities ("Turnarounds") of our Chemical Business. As of December 31, 2004 and 2003, we accrued $1,517,000 and $2,678,000 respectively, related to these planned activities which are included in accrued liabilities and other noncurrent liabilities in the accompanying balance sheets. We are currently considering changing our accounting policy relating to Turnarounds to a more preferable accounting method which is to expense these costs as incurred. However, this change requires approval from certain lenders.

Goodwill

As of December 31, 2004 and 2003, goodwill, which is included in other assets in the accompanying balance sheets, was $1,724,000. Goodwill is reviewed for impairment at least annually.

In July 2001, the FASB issued Statement No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets" which requires that goodwill and intangible assets with indefinite lives no longer be amortized but be tested for impairment at least annually. SFAS 142 became effective for us on January 1, 2002. Upon adoption of SFAS 142, we recognized $860,000 of negative goodwill as a cumulative effect of accounting change.

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. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of the assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets. Assets to be disposed are reported at the lower of the carrying amounts of the assets or fair values less costs to sell.

We have made estimates of the fair values of our Chemical Business and certain other long-lived assets in order to determine recoverability of our carrying amounts. During 2004 and 2003, based on these estimates and assumptions, we recognized impairments of $375,000 and $300,000, respectively, relating to Corporate assets and $362,000 and $200,000, respectively, relating to the Chemical Business which are included in other expense in the accompanying consolidated statements of income.

Debt Issuance Costs
Debt issuance costs are amortized over the term of the associated debt instrument using the straight-line method except for the cost of the interest cap (discussed below) which is being amortized using the effective interest rate method. Such costs, which are included in supplies, prepaid items and other and other assets in the accompanying balance sheets, were $2,675,000 and $934,000, net of accumulated amortization, of $2,215,000 and $1,665,000 as of December 31, 2004 and 2003, respectively. In 2004, our wholly-owned subsidiary ThermaClime, Inc. ("ThermaClime") (formerly ClimaChem, Inc.) incurred debt issuance costs of $2,464,000 including the cost of an interest cap relating to the Senior Secured Loan (See Note 7 (B)).

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 warranty coverage for 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. In most cases, equipment is required to be returned to the factory or its' authorized representative and the warranty is

limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business do not make any warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, an extended warranty may be purchased. The above discussion is generally applicable but variations do occur depending upon specific contractual obligations, certain system components and local laws.

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

The carrying amounts of the warranty obligation, which are included in accrued liabilities and other noncurrent liabilities in the accompanying balance sheets, are as follows:

Description		Balance at Beginning of Year	Additions-Charged to Costs and Expenses	Deductions-Costs Incurred	Balance at End of Year
			(In Thousands)		
Product warranty:					
	2004	**$ 1,693**	**$ 1,736**	**$ 1,430**	**$ 1,999**
	2003	$ 1,922	$ 576	$ 805	$ 1,693

Deferred Compensation

Costs associated with deferred compensation agreements are accrued over the estimated remaining terms of active employment (assuming retirement at 65 years of age). Total costs accrued equal the present value of specified payments to be made after retirement (See Note 13 - - Deferred Compensation and Employee Benefit Plans).

Stock Options

At December 31, 2004 we have several Qualified and Non-Qualified Stock Option Plans, which are described more fully in Note 11-Stockholders' Equity. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. See discussion below under "Recently Issued Pronouncements." No stock-based compensation cost is usually reflected in results of operations, as the majority of 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.

The following table illustrates the effect on net income (loss) and net income (loss) per share if we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based compensation. 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 2002 (there were no stock options granted in 2004 or 2003): risk-free interest rates of 3.60%; a dividend yield of 0; volatility factors of the expected market price of our common stock of .85; and a weighted average expected life of the options of 7.4 years.

For purposes of pro forma disclosures, the estimated fair value of the qualified and non-qualified stock options is amortized to expense over the options' vesting period.

	Year ended December 31,		
	2004	**2003**	**2002**
		(In Thousands)	
Net income (loss) applicable to common stock, as reported	**$ (449)**	$ 784	$ (2,228)
Add: Stock-based compensation expense included in reported net income (loss), net of related tax effects	**-**	-	48
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	**(235)**	(380)	(624)
Pro forma net income (loss) applicable to common stock	**$ (684)**	$ 404	$ (2,804)
Net income (loss) per share:			
Basic-as reported	**$ (.03)**	$ .06	$ (.19)
Basic-pro forma	**$ (.05)**	$ .03	$ (.24)
Diluted-as reported	**$ (.03)**	$ .05	$ (.19)
Diluted-pro forma	**$ (.05)**	$ .03	$ (.24)

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. If revenue relates to construction contracts, we recognize revenue 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.

Shipping and Handling Costs

For 2004, 2003 and 2002, shipping costs of $8,122,000, $8,138,000 and $7,774,000, respectively, are included in net sales and handling costs of $3,208,000, $2,994,000 and $2,999,000, respectively, are included in selling, general and administrative expense for the Chemical Business. For the Climate Control Business, shipping and handling costs of $5,416,000, $4,043,000 and $3,385,000 are included in selling, general and administrative expense for 2004, 2003 and 2002, respectively.

Advertising Costs

Costs in connection with advertising and promotion of our products are expensed as incurred. Such costs amounted to $1,023,000 in 2004, $692,000 in 2003 and $700,000 in 2002.

Raw Materials Price Risk Management

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. Gains and losses on such contracts have not been material in the last three years. See Note 9 - Commitments and Contingencies.

Income (Loss) per Share

Net income (loss) applicable to common stock is computed by adjusting net income (loss) by the amount of preferred stock dividends. Basic income (loss) per common share is based upon net income (loss) applicable to common stock and the weighted average number of common shares outstanding during each year. Diluted income (loss) per share, if applicable, is based on the weighted average number of common shares and dilutive common equivalent shares outstanding, if any, and the assumed conversion of dilutive convertible securities outstanding, if any. See Note 10 - Redeemable Preferred Stock, Note 11 - Stockholders' Equity, and Note 12 - Non-Redeemable Preferred Stock for a full description of securities which may have a dilutive effect in future years.

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

(Dollars in thousands, except per share amounts)

	2004	2003	2002
Numerator:			
Net income	**$ 1,873**	$ 3,111	$ 99
Preferred stock dividend requirements	**(2,322)**	(2,327)	(2,327)
Numerator for basic and diluted net income (loss) per share - net income (loss) applicable to common stock	**$ (449)**	$ 784	$ (2,228)
Denominator:			
Denominator for basic net income (loss) per share - weighted average shares	**12,888,136**	12,352,613	11,948,772
Effect of dilutive securities:			
Employee stock options	**1,462,596**	1,293,262	-
Warrants	**650,804**	604,286	-
Convertible preferred stock	**42,155**	44,375	-
Convertible note payable	**4,000**	4,000	-
Dilutive potential common shares	**2,159,555**	1,945,923	-
Denominator for dilutive net income (loss) per share - adjusted weighted average shares and assumed conversions	**. 15,047,691**	14,298,536	11,948,772
Basic net income (loss) per share	**$ (.03)**	$ .06	$ (.19)
Diluted net income (loss) per share	**$ (.03)**	$ .05	$ (.19)

The following shares of securities were not included in the computation of diluted net income (loss) per share as their effect would have been antidilutive.

	2004	2003	2002
Employee stock options	**-**	249,625	2,779,325
Warrants	**-**	-	359,293
Convertible preferred stock	**3,592,444**	3,597,931	3,646,939
Convertible note payable	**-**	-	4,000
	3,592,444	3,847,556	6,789,557

Recently Issued Pronouncements

On December 16, 2004 the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted no later than July 1, 2005. We expect to adopt Statement 123(R) on July 1, 2005. Our Board of Directors is considering a plan to accelerate the vesting schedule of both qualified and non-qualified stock options currently outstanding. At December 31, 2004 there were 158,500 shares that were not fully vested. If the plan is executed, at June 30, 2005, all outstanding stock options will be fully vested and no cumulative effect of accounting change adjustment will be required on our financial statements when Statements 123(R) is adopted.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." FIN 46 addresses the consolidation of variable interest entities which meet certain characteristics. In December 2003, the FASB revised FIN 46 that included changes to the effective dates depending on the characteristics of the variable interest entities and the date of involvement.

Prior to 2003, we, through our subsidiaries, entered into loan agreements where we loaned funds to the parent company of MultiClima, S.A. ("MultiClima") a French manufacturer of HVAC equipment, whose product line is compatible with our Climate Control Business. Under the loan agreements, one of our subsidiaries has the option ("Option") to exchange its rights under the loan agreements for 100% of the borrower's outstanding common stock. This subsidiary also obtained a security interest in the stock of MultiClima to secure its loans. At December 31, 2003, the outstanding notes receivable balance, net of reserve, was $2,558,000 which was included in other assets in the accompanying consolidated balance sheet. Based on our assessment of the parent company and MultiClima in relation to FIN 46, as revised, we were required to consolidate this entity effective March 31, 2004.

As a result of consolidating the consolidated assets and liabilities of the parent company of MultiClima, at March 31, 2004 we recorded a cumulative effect of accounting change of $536,000 primarily relating to the elimination of embedded profit included in the cost of inventory which was purchased from MultiClima by certain of our subsidiaries.

For the three months ended June 30, 2004, the parent company of MultiClima had consolidated net sales of $3,791,000 and a net loss of $575,000 (after all material intercompany transactions

have been eliminated) which are included in the accompanying consolidated statements of income for 2004.

Based on our assessment of the parent company and MultiClima's historical and forecasted liquidity and results of operations during 2004, we concluded that the outstanding notes receivable were not collectable. As a result, effective July 1, 2004 we forgave and canceled the loan agreements in exchange for extending the Option's expiration date from June 15, 2005 to June 15, 2008. We recognized a provision for loss of $1,447,000 in 2004. As a result of the cancellation and our valuation of this Option, we no longer have a variable interest in this entity and are no longer required to consolidate this entity.

3. Liquidity and Management's Plan

We are a diversified holding company. Our wholly-owned subsidiary ThermaClime, through its subsidiaries, owns substantially all of our core businesses consisting of the Climate Control and Chemical Businesses. Our cash requirements are primarily dependent upon credit agreements and our ability to obtain funds from our subsidiaries. ThermaClime is restricted under its credit agreements as to the funds it can transfer to LSB and its non-ThermaClime subsidiaries. This limitation does not prohibit payments to us of amounts due under a Services Agreement, a Management Agreement and a Tax Sharing Agreement.

ThermaClime and its subsidiaries debt structure consists of a $50 million Senior Secured Loan due 2009, a $50 million Working Capital Revolver recently renewed through April 2009 both guaranteed by LSB, $13.3 million Senior Unsecured Notes due in 2007 and certain equipment and real estate loans of $4.7 million. As of December 31, 2004 ThermaClime and its subsidiaries had availability under its Working Capital Revolver of $9.3 million plus cash on hand of $.9 million.

ThermaClime has consistently managed their debt leverage and maintains the confidence of its lenders as evidenced by the $50 million Senior Secured loan closed in September 2004 with a lender that previously owned a portion of ThermaClime's Senior Unsecured notes and the recent renewal of the four-year Working Capital Revolver Loan scheduled to mature in April 2005 for an additional four years at more favorable terms and conditions. This debt structure provides ThermaClime with working capital that should provide adequate liquidity to execute its 2005 business plan, assuming no unforeseen event occurs. ThermaClime's Senior Secured Loan and the Working Capital Revolver Loan agreements include certain financial covenants as discussed in Note 7 - Long-Term Debt.

The Climate Control Business has significant market share, significant sales growth and has historically generated consistent annual profits and positive cash flows.

The Chemical Business in recent years has been unable to generate significant positive cash flows due to lower than optimum sales volume levels, margin problems and extensive capital

expenditure requirements to maintain plants and to comply with changing environmental regulations.

The ability to generate a positive margin on Chemical sales is affected by the volatility of the raw material feedstocks of natural gas and anhydrous ammonia, as well as the necessity to produce at the optimum production levels to fully absorb the fixed plant costs. The predominant costs of a process chemical plant are fixed costs.

The majority, approximately 70%, of the sales are made pursuant to sales agreements that provide for the pass through of raw material costs, variable costs, and certain fixed costs, plus in most cases, a profit margin. Even though 70% of our sales are based upon the above described sales agreements, the Chemical Business has sustained losses due, in part, to sales volume not being sufficient to run the plants at optimum production levels.

Management's plan for the Chemical Business is to continue their efforts to improve the cash flow by:

- increasing the sales volume of the Alabama and Arkansas plants to more fully absorb the fixed costs of each plant,
- obtaining new customers that will accept the commodity risk of the raw materials, natural gas and anhydrous ammonia and will agree to long-term commitments, and
- managing capital expenditures to those projects necessary to execute our business plans and those required to maintain environmental and safety compliance.

4. Inventories

Inventories at December 31, 2004 and 2003 consist of:

	Finished Goods	Work-in-Process	Raw Materials	Total
		(In Thousands)		
2004:				
Climate Control products	$ 5,295	$ 2,364	$ 7,059	$ 14,718
Chemical products	10,768	-	2,054	12,822
Industrial machinery and components	1,260	-	-	1,260
	17,323	2,364	9,113	28,800
Less amount not expected to be realized within one year	143	-	-	143
	$ 17,180	**$ 2,364**	**$ 9,113**	**$ 28,657**
2003 total	$ 18,300	$ 1,643	$ 7,276	$ 27,219
Less amount not expected to be realized within one year	280	-	-	280
	$ 18,020	$ 1,643	$ 7,276	$ 26,939

5. Property, Plant and Equipment

Property, plant and equipment consists of:

	Useful lives in years	December 31, 2004	2003
		(In Thousands)	
	N/A	**$ 2,252**	

Land and improvements			$ 2,244
Buildings and improvements	3-30	21,505	21,528
Machinery, equipment and automotive	3-25	126,623	124,379
Furniture, fixtures and store equipment	3-10	6,085	5,996
Construction in progress	N/A	5,018	4,137
Spare parts	N/A	1,742	1,614
		163,225	159,898
Less accumulated depreciation		93,006	87,964
		$ 70,219	$ 71,934

6. Investment in Affiliate (Unaudited)

One of our subsidiaries has a 50% equity interest in an energy conservation joint venture which is accounted for on the equity method. At December 31, 2004 and 2003, our investment was $3,111,000 and $2,690,000, respectively. For the three years ended December 31, 2004, our equity in the joint-venture earnings were $668,000, $19,000 and $40,000, respectively, and included in other income in the accompanying consolidated statements of income.

Summarized financial information of the joint venture is as follows (in thousands):

	December 31,	
	2004	2003
Current assets	$ 2,575	$ 2,323
Noncurrent assets	$ 9,333	$ 10,338
Current liabilities	$ 1,815	$ 2,112
Noncurrent liabilities	$ 7,019	$ 8,060
Partners' capital	$ 3,074	$ 2,489

	Year ended December 31,		
	2004	2003	2002
Total revenues	$ 4,311	$ 3,311	$ 3,282
Operating income	$ 2,166	$ 959	$ 1,067
Net income	$ 1,335	$ 37	$ 79

7. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2004	2003
	(In Thousands)	
Secured revolving credit facility - ThermaClime (A)	$ 27,489	$ 24,027
Financing Agreement (B)	-	31,700
Accrued interest on Financing Agreement (B)	-	11,295
10-3/4% Senior Unsecured Notes due 2007 (C)	13,300	18,300
Senior Secured Loan due 2009 (B)	50,000	-
Other, with interest at rates of 2% to 14.13%, most of which is secured by machinery, equipment and real estate	15,718	17,953
	106,507	103,275
Less current portion of long-term debt	4,833	31,630
Long-term debt due after one year	$ 101,674	$ 71,645

(A) In April 2001, ThermaClime and its subsidiaries ("the Borrowers") entered into 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. Effective February 28, 2005 the Working Capital Revolver Loan was amended which, among other things, extended the maturity date to April 2009 and removed a subjective acceleration clause. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .75% or LIBOR plus 2% (formerly base rate plus 2% or LIBOR plus 4.50%). The effective rate at December 31, 2004 was 7%. 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. Amounts available for additional borrowing under the Working Capital Revolver Loan at December 31, 2004 were $9.3 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% (formerly 2.75%) per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .5% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding due and payable in full. The Working Capital Revolver Loan is secured by receivables, inventories and intangibles of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries ("EDNC") and a second lien on certain real property and equipment. EDNC is neither a borrower nor guarantor of the Working Capital Revolver Loan.

A prepayment premium equal to 3% of the facility is due to the lender should the borrowers elect to prepay the facility prior to April 13, 2006. This premium is reduced to 2% during the second twelve-month period and to 1% during the third twelve-month period and 0%

thereafter.

The Working Capital Revolver Loan, as amended, requires ThermaClime to maintain quarterly earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined, for ThermaClime and its Climate Control Business on a trailing twelve-month basis. ThermaClime and its Climate Control Business's EBITDA for the twelve-month period ended December 31, 2004 was in excess of the required amounts. The trailing twelve-months EBITDA requirements for 2005 range from $13.7 million to $17.7 million for ThermaClime and is fixed at $10 million for the Climate Control Business. The Working Capital Revolver Loan also requires ThermaClime to achieve an annual fixed charge coverage ratio and limits capital expenditures, as defined, measured quarterly on a trailing twelve-month basis. The Working Capital Revolver Loan also contains covenants that, among other things, limit the borrowers' ability to: (a) incur additional indebtedness, (b) incur liens, (c) make restricted payments or loans to affiliates who are not Borrowers, (d) engage in mergers, consolidations or other forms of recapitalization, (e) dispose of assets, or (f) repurchase ThermaClime's 10-3/4% Senior Unsecured Notes. The Working Capital Revolver Loan also requires all collections on accounts receivable be made through a bank account in the name of the lender or their agent.

(B) In September 2004, ThermaClime and certain of its subsidiaries (the "Borrowers") completed a $50 million term loan ("Senior Secured Loan") with a certain lender (the "Lender"). The Senior Secured Loan is to be repaid as follows:

- quarterly interest payments which began September 30, 2004;
- quarterly principal payments of $312,500 beginning September 30, 2007;
- a balloon payment of the remaining outstanding principal of $47.5 million and accrued interest on September 16, 2009.

The Senior Secured Loan accrues 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. At December 31, 2004 the effective interest rate was 10.56%.

The Borrowers are subject to numerous covenants under the Senior Secured Loan 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 Borrowers are also subject to a minimum fixed charge coverage ratio, measured quarterly on a trailing twelve-month basis. The Borrowers'fixed charge coverage ratio exceeded the required ratio for the twelve-month period ended December 31, 2004. The maturity date of the Senior Secured Loan can be accelerated by the Lender upon the occurrence of a continuing event of default, as defined.

The Senior Secured Loan agreement includes a prepayment fee equal to 3% of the principal amount should the Borrowers elect to prepay any principal amount prior to September 15, 2005. This fee is reduced to 2% during the second twelve-month period and to 1% during the third twelve-month period and 0% thereafter.

The Senior Secured Loan is secured by (a) a first lien on (i) certain real property and equipment located at the El Dorado Facility, (ii) certain real property and equipment located at the Cherokee Facility, (iii) certain equipment of the Climate Control Business, and (iv) the equity stock of certain of ThermaClime's subsidiaries, and (b) a second lien on the assets upon which ThermaClime's Working Capital Revolver lender has a first lien. The Senior Secured Loan is guaranteed by the Company and is also secured with the stock of ThermaClime.

The proceeds of the Senior Secured Loan were used as follows:

- repaid the outstanding principal balance due 2005 under the Financing Agreement discussed below, plus accrued interest, of $36.8 million;
- repurchased a portion of ThermaClime's 10 3/4% Senior Unsecured Notes due 2007 (discussed in (C) below), held by the Lender, plus accrued interest, of $5.2 million;
- paid certain fees and expenses of $2.4 million including the cost of an interest cap which sets a maximum annual interest rate of 11% or 11.5% depending on the leverage ratio;
- repaid the outstanding principal balance of a term loan of $.4 million;
- paid down the Working Capital Revolver Loan with the remaining balance.

Due to the repayment of the Loans (discussed below) prior to the maturity date of June 30, 2005 with the proceeds of the Senior Secured Loan and since the Lender is not an affiliate of the lenders of the Loans, we recognized a gain on extinguishment of debt of $4.4 million in 2004.

In May 2002, ThermaClime entered into a financing agreement ("Financing Agreement") with certain lenders in order to fund the repurchase of a portion of the Senior Unsecured Notes at a substantial discount to the face value. Based upon certain criteria, including but not limited to, unfavorable changes in ThermaClime's financial condition since the Senior Unsecured Notes were originally sold and the high interest rates on the loans (the "Loans") under the Financing Agreement, the Financing Agreement transaction was accounted for as a debt restructuring. As a result, we were required to recognize all of the interest payments associated with the Loans in long-term debt. Subsequent interest payments on the Loans were charged against the debt balance.

As required by the lenders of the Loans, as a condition precedent to the completion of the lenders and the transactions contemplated by the Financing Agreement, we granted to the lenders warrants to purchase 595,585 shares of our common stock subject to certain anti-

dilution adjustments. The exercise price of the warrants is $0.10 per share and contains a provision for cashless exercise. The warrants have a ten-year exercise period expiring on May 23, 2012. The warrants provide for certain demand registration rights and piggyback registration rights. See Note 19 - Subsequent Event relating to the cashless exercise of these warrants in March 2005. The estimated fair value of the warrants at the grant date ($1,983,000) was accounted for as debt issuance costs.

The net gain recognizable in 2002 relating to this debt restructuring was limited to only $.1 million and is included in other income in the accompanying consolidated statement of income for 2002.

As discussed in Note 17 - Discontinued Operations, in December 2002, we sold all of the remaining assets comprising our explosives manufacturing and distribution business. Approximately $3.5 million of the sales proceeds were used as a prepayment on the Loans. Due to this prepayment, ThermaClime did not incur the interest accrued on the Loans prepaid and recognized a gain on extinguishment of debt of $1.5 million which is included in the accompanying consolidated statement of income for 2002.

(C) In 1997, ThermaClime completed the sale of its 10-3/4% Senior Unsecured Notes due 2007 (the "Notes"). The Notes bear interest at an annual rate of 10-3/4% payable semiannually in arrears on June 1 and December 1 of each year. The Notes are senior unsecured obligations of ThermaClime and rank equal in right of payment to all existing and future senior unsecured indebtedness of ThermaClime and its subsidiaries. The Notes are effectively subordinated to all existing and future secured indebtedness of ThermaClime.

Prior to the repurchase of the Notes in May 2002, as discussed in (B) above, ThermaClime and the trustee under the Indenture (as defined below), with the consent of the holders of at least 66 2/3% of the aggregate principal amount of the outstanding Notes (the "Holders"), entered into a Fifth Supplemental Indenture, dated May 24, 2002 (the "Supplement"), to the Indenture dated November 27, 1997 as amended (the "Indenture"), which governs ThermaClime's Notes. The Supplement amends the Indenture by, among other things, (a) deleting most of the restrictive covenants, (b) deleting the requirements upon a change of control of ThermaClime or sale of all or substantially all of the assets of ThermaClime, (c) specifying ThermaClime's subsidiaries which are guarantors of the Notes and deleting the requirement that certain future subsidiaries of ThermaClime be guarantors, (d) deleting certain events from the definition of "Event of Default," and (e) providing for conforming changes to the Indenture and the promissory note executed by ThermaClime pursuant to the terms of the Indenture.

The Notes are subject to redemption at the option of ThermaClime, in whole or in part, at the redemption prices set forth in the Indenture, plus accrued and unpaid interest thereon, plus liquidated damages, if any, to the applicable redemption date.

ThermaClime owns substantially all of the companies comprising our Climate Control and Chemical Businesses. ThermaClime is a holding company with no significant assets or operations other than its investments in its subsidiaries, and each of its subsidiaries is wholly-owned, directly or indirectly, by ThermaClime. ThermaClime's payment obligations under the Notes are fully, unconditionally and joint and severally guaranteed by all of the existing subsidiaries of ThermaClime, except for EDNC ("Non-Guarantor Subsidiaries").

Set forth below is consolidating financial information of ThermaClime's Guarantor Subsidiaries, the Non-Guarantor Subsidiaries, and ThermaClime.

ThermaClime, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2004
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Assets					
Current assets:					
Cash	$ 174	$ -	$ 676		$ 850
Restricted cash	-	-	158		158
Accounts receivable, net	36,075	4,716	17		40,808
Inventories	27,345	195	-		27,540
Supplies, prepaid items and other	4,349	887	1,494		6,730
Deferred rent expense	-	938	-		938
Deferred income taxes	-	-	4,675		4,675
Total current assets	67,943	6,736	7,020		81,699
Property, plant and equipment, net	62,482	2,393	32		64,907
Investment in and advances to affiliates	-	-	96,127	$ (96,127)	-
Receivable from Parent	39,163	8,364	-	(47,527)	-
Other assets, net	5,271	25	2,243		7,539
	$ 174,859	$ 17,518	$ 105,422	$ (143,654)	$154,145
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 22,560	$ 2,663	$ 390		$ 25,613
Accrued liabilities	11,592	2,279	1,178		15,049
Due to LSB and affiliates, net	-	-	1,480		1,480
Current portion of long-term debt	444	353	-		797
Total current liabilities	34,596	5,295	3,048		42,939
Long-term debt	6,353	853	87,538		94,744
Deferred income taxes	-	-	1,735		1,735
Other non-current liabilities	2,449	457	-		2,906
Stockholders' equity:					
Common stock	66	1	1	$ (67)	1
Capital in excess of par value	166,212	-	13,052	(166,212)	13,052
Accumulated other comprehensive loss	-	(1,280)	-		(1,280)
Due from LSB and affiliates	-	-	(2,558)		(2,558)
Retained earnings (deficit)	(34,817)	12,192	2,606	22,625	2,606
Total stockholders' equity	131,461	10,913	13,101	(143,654)	11,821
	$ 174,859	$ 17,518	$ 105,422	$ (143,654)	$154,145

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

ThermaClime, Inc.
Condensed Consolidating Balance Sheet
As of December 31, 2003
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Assets					
Current assets:					
Cash	$ 208	$ -	$ 2,712		$ 2,920
Accounts receivable, net	30,838	3,187	25		34,050
Inventories	25,901	143	-		26,044
Supplies, prepaid items and other	3,389	669	1,607		5,665
Deferred income taxes	-	-	5,470		5,470
Total current assets	60,336	3,999	9,814		74,149
Property, plant and equipment, net	65,147	1,940	83		67,170
Investment in and advances to affiliates	-	-	88,901	$ (88,901)	-
Receivable from Parent	-	13,194	-	(13,194)	-
Other assets, net	7,876	35	1,218		9,129
	$ 133,359	$ 19,168	$ 100,016	$ (102,095)	$ 150,448
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 17,017	$ 2,589	$ 344		$ 19,950
Accrued liabilities	14,791	5,982	1,173		21,946
Due to LSB and affiliates, net	-	-	585		585
Current portion of long-term debt	2,405	353	26,553		29,311
Total current liabilities	34,213	8,924	28,655		71,792
Long-term debt	4,789	1,206	56,419		62,414
Deferred income taxes	-	-	1,605		1,605
Other non-current liabilities	2,280	590	-		2,870
Payable to Parent	44,817	-	-	$ (44,817)	-
Stockholders' equity:					
Common stock	67	1	1	(68)	1
Capital in excess of par value	78,194	-	12,652	(78,194)	12,652
Accumulated other comprehensive loss	-	(1,570)	-		(1,570)
Retained earnings (deficit)	(31,001)	10,017	684	20,984	684
Total stockholders' equity	47,260	8,448	13,337	(57,278)	11,767
	$ 133,359	$ 19,168	$ 100,016	$ (102,095)	$ 150,448

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

ThermaClime, Inc.
Condensed Consolidating Statement of Operations
Year ended December 31, 2004
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Net sales	$ 307,946	$ 45,609			$353,555
Cost of sales	264,734	41,508	$ 669		306,911
Gross profit (loss)	43,212	4,101	(669)		46,644
Selling, general and administrative	39,156	412	3,084	$ (7)	42,645
Operating income (loss)	4,056	3,689	(3,753)	7	3,999
Other income (expense):					
Interest and other income (expense), net	431	(90)	10,651	(10,380)	612
Gain on extinguishment of debt	-	-	4,400		4,400
Interest expense	(10,742)	(34)	(5,361)	10,373	(5,764)
Income (loss) from operations before benefit (provision) for income taxes	(6,255)	3,565	5,937	-	3,247
Equity in losses of subsidiaries	-	-	(1,641)	1,641	-
Benefit (provision) for income taxes	2,439	(1,390)	(2,374)		(1,325)

Net income (loss)	$ (3,816)	$ 2,175	$ 1,922	$ 1,641	$ 1,922

ThermaClime, Inc.
Condensed Consolidating Statement of Operations
Year ended December 31, 2003
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Net sales	$ 269,855	$ 42,947			$ 312,802
Cost of sales	228,729	38,829	$ 717	$ (5)	268,270
Gross profit (loss)	41,126	4,118	(717)	5	44,532
Selling, general and administrative	34,882	437	2,709	(7)	38,021
Operating income (loss)	6,244	3,681	(3,426)	12	6,511
Other income (expense):					
Interest and other income (expense), net	1	(78)	11,906	(10,466)	1,363
Interest expense	(10,993)	(39)	(4,688)	10,454	(5,266)
Income (loss) from operations before benefit (provision) for income taxes	(4,748)	3,564	3,792	-	2,608
Equity in losses of subsidiaries	-	-	(722)	722	-
Benefit (provision) for income taxes	1,852	(1,390)	(1,412)		(950)
Net income (loss)	$ (2,896)	$ 2,174	$ 1,658	$ 722	$ 1,658

ThermaClime, Inc.
Condensed Consolidating Statement of Operations
Year ended December 31, 2002
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Net sales	$ 244,737	$ 34,749			$ 279,486
Cost of sales	206,220	31,142	$ 591	$ (5)	237,948
Gross profit (loss)	38,517	3,607	(591)	5	41,538
Selling, general and administrative	33,040	387	1,472	(7)	34,892
Operating income (loss)	5,477	3,220	(2,063)	12	6,646
Other income (expense):					
Interest and other income (expense), net	2,599	(79)	11,504	(10,882)	3,142
Gain on extinguishment of debt	-	-	1,458		1,458
Benefit from termination of firm purchase commitments	290	-	-		290
Interest expense	(10,744)	(59)	(6,908)	10,870	(6,841)
Income (loss) from continuing operations before benefit (provision) for income taxes	(2,378)	3,082	3,991	-	4,695
Equity in losses of subsidiaries	-	-	(3,032)	3,032	-
Benefit (provision) for income taxes	927	(1,202)	(172)		(447)
Loss from discontinued operations, net	(3,461)	-			(3,461)
Net income (loss)	$ (4,912)	$ 1,880	$ 787	$ 3,032	$ 787

ThermaClime, Inc.
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2004
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non-Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Cash flows provided (used) by operating activities	$ (784)	$ (3,739)	$ 4,243		$ (280)
Cash flows from investing activities:					

Capital expenditures	(8,183)	(742)	(3)	(8,928)
Proceeds from sales of property and equipment	862	-		862
Payment of restricted cash	-	-	(158)	(158)
Other assets	(418)	4	(156)	(570)
Net cash used by investing activities	(7,739)	(738)	(317)	(8,794)
Cash flows from financing activities:				
Payments on Financing Agreement	-	-	(38,531)	(38,531)
Payments on long-term debt	(909)	(353)	(601)	(1,863)
Acquisition of 10 3/4% Senior Unsecured Notes	-	-	(5,000)	(5,000)
Proceeds from Senior Secured Loan, net of fees	-	-	47,708	47,708
Net change in revolving debt	1,791	-	1,671	3,462
Net change in due to/from LSB and affiliates	-	-	1,228	1,228
Advances to/from affiliates	7,607	4,830	(12,437)	-
Net cash provided (used) by financing activities	8,489	4,477	(5,962)	7,004
Net decrease in cash from all activities	(34)	-	(2,036)	(2,070)
Cash at the beginning of year	208	-	2,712	2,920
Cash at the end of year	$ 174	$ -	$ 676	$ 850

ThermaClime, Inc.
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2003
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non- Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Cash flows provided by operating activities	$ 3,358	$ 3,524	$ 5,528		$ 12,410
Cash flows from investing activities:					
Capital expenditures	(6,988)	(162)	(91)		(7,241)
Proceeds from sales of property and equipment	81	-	-		81
Proceeds from restricted cash held in escrow	-	-	1,838		1,838
Other assets	48	-	50		98
Net cash provided (used) by investing activities	(6,859)	(162)	1,797		(5,224)
Cash flows from financing activities:					
Payments on Financing Agreement	-	-	(3,375)		(3,375)
Payments on long-term debt	(694)	(353)	(198)		(1,245)
Long-term and other borrowings, net of fees	-	-	800		800
Net change in revolving debt	353	-	(3,535)		(3,182)
Net change in due to/from LSB and affiliates	-	-	1,376		1,376
Advances to/from affiliates	3,640	(3,009)	(631)		-
Net cash provided (used) by financing activities	3,299	(3,362)	(5,563)		(5,626)
Net increase (decrease) in cash from all activities	(202)	-	1,762		1,560
Cash at the beginning of year	410	-	950		1,360
Cash at the end of year	$ 208	$ -	$ 2,712		$ 2,920

ThermaClime, Inc.
Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2002
(In Thousands)

	Combined Guarantor Subsidiaries	Consolidated Non- Guarantor Subsidiaries	ThermaClime, Inc. (Parent)	Eliminations	Consolidated
Cash flows provided (used) by continuing operating activities	$ 18,767	$ 2,744	$ (1,697)		$ 19,814
Cash flows from investing activities:					
Capital expenditures	(9,511)	(456)	(8)		(9,975)
Proceeds from sales of property and equipment	227	-	1		228
Payment of restricted cash held in escrow	-	-	(1,838)		(1,838)

Other assets	275	(1)	(15)	259
Net cash used by investing activities	(9,009)	(457)	(1,860)	(11,326)
Cash flows from financing activities:				
Payments on Financing Agreement	-	-	(5,633)	(5,633)
Payments on long-term debt	(2,171)	(353)	(17)	(2,541)
Acquisition of 10 3/4 % Senior Unsecured Notes	-	-	(30,065)	(30,065)
Proceeds from Financing Agreement net of fees	-	-	32,155	32,155
Net change in revolving debt	(332)	-	(8,730)	(9,062)
Net change in due to/from LSB and affiliates	-	-	3,162	3,162
Advances to/from affiliates	(11,656)	(1,950)	13,606	-
Net cash provided (used) by financing activities	(14,159)	(2,303)	4,478	(11,984)
Net cash provided by discontinued operations	4,547	-	-	4,547
Net increase (decrease) in cash from all activities	146	(16)	921	1,051
Cash at the beginning of year	264	16	29	309
Cash at the end of year	$ 410	$ -	$ 950	$ 1,360

Maturities (in thousands) of long-term debt for each of the five years after December 31, 2004 are: 2005--$4,833; 2006--$2,907; 2007--$15,943; 2008--$2,384; 2009--$76,598 and thereafter--$3,842.

8. Income Taxes

The tax effects of each type of temporary difference and carryforward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 2004 and 2003 are as follows:

	2004	2003
	(In Thousands)	
Deferred tax assets		
Amounts not deductible for tax purposes:		
Allowance for doubtful accounts	**$ 1,367**	$ 2,414
Asset impairment	**837**	6,611
Accrued liabilities	**1,484**	1,320
Other	**1,926**	2,116
Excess of tax gain over book gain resulting from debt refinancing	**-**	5,346
Capitalization of certain costs as inventory for tax purposes	**1,151**	899
Net operating loss carryforwards	**27,983**	16,490
Alternative minimum tax credit carryforwards	**793**	793
Total deferred tax assets	**35,541**	35,989
Less valuation allowance on deferred tax assets	**27,928**	28,273
Net deferred tax assets	**$ 7,613**	$ 7,716
Deferred tax liabilities		
Accelerated depreciation used for tax purposes	**$ 7,031**	$ 7,215
Excess of book gain over tax gain resulting from sale of land	**434**	501
Other	**148**	-
Total deferred tax liabilities	**$ 7,613**	$ 7,716

We are able to realize deferred tax assets up to an amount equal to the future reversals of existing taxable temporary differences. The taxable temporary differences will turn around in the loss carry forward period as the differences reverse. Other differences will turn around as the assets are disposed in the normal course of business.

The differences between the amount of the provision for income taxes (consisting solely of current state 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 and cumulative effect of accounting change" for each of the three years in the period ended December 31, 2004 are detailed below:

	2004	2003	2002
		(In Thousands)	
Provision for income taxes at federal statutory rate	**$ 656**	$ 1,089	$ 944
Changes in the valuation allowance related to deferred tax assets, net of rate differential	**(345)**	(359)	392
Effect of discontinued operations and other on valuation allowance	**(350)**	(792)	(1,332)
State income taxes, net of federal benefit	**-**	-	35
Permanent differences	**39**	62	17

Provision for income taxes	$ -	$ -	$ 56

At December 31, 2004 we have regular-tax net operating loss ("NOL") carryforwards of approximately $71.8 million ($51.8 million alternative minimum tax NOLs) that begin expiring 2009.

9. Commitments and Contingencies

Operating Leases

We and our subsidiaries lease certain property, plant and equipment under non-cancelable operating leases. Future minimum payments on operating leases, including the Nitric Acid Plant lease discussed below with initial or remaining terms of one year or more at December 31, 2004 are as follows:

	(In Thousands)
2005	$ 5,225
2006	10,406
2007	10,852
2008	12,209
2009	5,725
Thereafter	4,157
	$ 48,574

Rent expense under all operating lease agreements, including month-to-month leases, was $12,313,000 in 2004, $12,022,000 in 2003 and $12,547,000 in 2002. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts.

Nitric Acid Plant

Our wholly owned subsidiary, El Dorado Nitric Company and its subsidiaries ("EDNC"), operates a nitric acid plant (the "Baytown Plant") 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 Plant pursuant to a leveraged lease from an unrelated third party with an initial lease term of ten years. The schedule of future minimum payments on operating leases above includes $2,250,000 in 2005, $8,175,000 in 2006, $9,227,000 in 2007, $11,173,000 in 2008 and $4,882,000 in 2009 related to lease payments on the Baytown Plant. Upon expiration of the initial ten-year term, 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 Bayer Agreement 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 credited or charged to deferred rent expense which is included in current assets and accrued liabilities in the accompanying balance sheets. The Company and its subsidiaries have not provided a residual value guarantee on the value of the equipment related to the leveraged 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.

Purchase and Sales Commitments

As of December 31, 2004, EDC's agreement with its principal supplier of anhydrous ammonia terminated and since that date EDC and this supplier have been in negotiations concerning a new purchase agreement. Since December 31, 2004 until a new contract was finalized, the supplier continued to provide EDC with its requirements of anhydrous ammonia. In March 2005, EDC reached an agreement with this supplier. Under a new agreement effective January 3, 2005 EDC will purchase substantially all of its requirements of purchased ammonia using a market price-based formula plus transportation to the manufacturing facility in El Dorado, Arkansas through December 31, 2005.

In 1995, one of our subsidiaries entered into a product supply agreement with a third party whereby the subsidiary is required to make monthly facility fee and other payments which aggregate $81,000. In return for this payment, the subsidiary 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 the subsidiary. The term of this agreement is for fifteen years; however, the subsidiary can currently terminate the agreement without cause at a cost of approximately $4.5 million. Based on the subsidiary'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 $988,000, $960,000, and $947,000 in 2004, 2003, and 2002, respectively.

At December 31, 2004 our Climate Control Business had purchase commitments under exchange-traded futures for 1 million pounds of copper through December 2005 at a weighted average cost of $1.23 per pound and a weighted average market value of $1.38 per pound. In addition, our Chemical Business had purchase commitments under exchange-traded futures for 260,000 MMBtu of natural gas through May 2005 at a weighted average cost of $6.69 per MMBtu and a weighted average market value of $6.08 per MMBtu.

At December 31, 2004, we also have standby letters of credit outstanding of $2 million of which $1.3 million relates to our Climate Control Business.

At December 31, 2004, we had deposits from customers of $3.4 million for forward sales commitments of chemical products with customers for deliveries in 2005.

Effective October 1, 2001, our subsidiary, Cherokee Nitrogen Holding, Inc. ("CNH") entered into a long term 83% ammonium nitrate solution supply agreement with a third party ("Solution Agreement"). Under the Solution Agreement, CNH will supply to the third party its requirements of 83% ammonium nitrate solution from CNH's Cherokee, Alabama manufacturing plant for a term through at least September 2006 on a cost-plus basis.

On November 1, 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, EDC will supply from it's El Dorado, Arkansas plant approximately 190,000 tons of industrial grade ammonium nitrate per year, which is approximately 90% of the plant's manufacturing capacity for that product, for a term through at least March 2007.

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 $8 million at December 31, 2004.

Legal Matters

Following is a summary of certain legal actions 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 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 pollutants or other substances 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, including, but not limited to, EDC at its El Dorado, Arkansas plant (the "El Dorado Facility"), in order to comply with the Environmental Laws and Health Laws. Our Chemical Business could be required to make significant additional site or operational modifications at this or other facilities involving substantial expenditures. In addition, if we should decide to no longer operate the El Dorado Facility and if such facility is retired, we may be required to continue to operate discharge water equipment, the cost and time to operate this equipment is presently unknown.

1. Water Matters

Discharge Water Issues

The El Dorado Facility generates process wastewater. This wastewater is transported at the El Dorado Facility to a small pond for pH adjustment and then to a larger pond for biological oxidation. The process water discharge and storm-water run off are governed by a state NPDES water discharge permit renewed every five years. During 2004, EDC entered into a settlement agreement with the state of Arkansas Department of Environmental Quality ("ADEQ") that provided, in part, for effluent limits which EDC believes are acceptable. Pursuant to the settlement agreement, the ADEQ issued the final revised NPDES water discharge permit, which became effective on June 1, 2004. In order to release EDC's discharge water, we plan for EDC to utilize a pipeline to be built by the City of El Dorado, Arkansas (the "City").

We believe that the NPDES permit, as issued, will require additional expenditures by EDC, estimated to be approximately $3 to $4 million, which would be expended over the next three years, plus reimbursement to the City for our pro-rata portion of pipeline engineering and construction costs as those costs are incurred. It is anticipated that EDC will be required to pay approximately $1.8 million over the next three years of the City's engineering and construction costs to build the pipeline. This estimate assumes that the City timely builds its own discharge pipeline to a nearby river and we are permitted to tie our pipeline into the City's pipeline. The City council has approved the joint pipeline. We do not have any reliable estimates of the cost of an alternative solution in the event that the pipeline is not built, or timely built, by the City.

In addition, EDC 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 is being completed to address the shallow groundwater contamination, which will include an evaluation of the current conditions and remediation based upon a risk assessment. 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. There are no known users of this shallow groundwater in the area, and preliminary risk assessments have not identified any public health risk that would require remediation. At December 31, 2004 a liability of $133,000 has been established for the estimated investigation and remediation costs. However, this estimate may be revised in the near term based on the final remedy selected pursuant to the new CAO.

Drainage of Pond at El Dorado Facility and Plea Agreement

In response to a maintenance emergency and to prevent an uncontrolled release, the equalization pond located at the El Dorado Facility was drained to accommodate repairs to an underground discharge pipe in September 2001. Although, no adverse environmental conditions were noted at the time of discharge, the sustained discharge was out of compliance with the mass effluent limits contained in the facility's permit. An environmental compliance employee of EDC determined that proper procedure would be to notify the state of Arkansas in the month-end report. The state disagreed and took the position that they should have been notified immediately. EDC and the state of Arkansas have agreed to a Consent Administrative Order to settle any civil penalty claims relating to this discharge event whereby EDC paid a $50,000 civil penalty and has funded $50,000 on supplemental environmental projects.

In January 2002, the United States began a criminal investigation as a result of the drainage of the pond. EDC and one of its employees have entered into a Plea Agreement with the United States, with EDC and the employee pleading guilty to one misdemeanor count for negligently violating a permit, to wit: failing to report a discharge within 24 hours, a misdemeanor. Under the Plea Agreement, EDC paid a fine of $45,000 and is placed on probation for one year, and the employee is placed on probation for one year. The Plea Agreement was approved by the United States District Court during February 2005. Although there are no assurances, as of the date of this report, the Company does not believe that the Plea Agreement will have a material adverse effect on the Company.

2. Air Matters

EDC and the ADEQ have entered into a consent administrative order ("AirCAO") resolving certain air regulatory alleged violations associated with EDC's sulfuric acid plant and certain other alleged air emission violations. The AirCAO became effective during February 2004. The AirCAO requires EDC to implement additional air emission controls at the El Dorado Facility and to install a continuous air monitoring system. The air monitoring system is to operate for twelve months. The ultimate cost of any technology changes required cannot presently be determined but is believed to cost between $1.5 million to $3 million. The implementation of the technological change and related expenditures will be made over the next three to six years.

3. Other Environmental Matters

In April 2002, Slurry Explosive Corporation ("Slurry"), a subsidiary within our Chemical Business, entered into a Consent Administrative Order ("Slurry Consent Order") with the state of Kansas, 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 state of Kansas for review and approval, and agree with the state as to any required corrective actions to be performed at the Hallowell Facility.

In connection with the sale of substantially all of the operating assets of Slurry and UTeC, both subsidiaries within our Chemical Business, in December 2002, UTeC leased the Hallowell Facility 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. Slurry has placed the prior owners (Chevron/Texaco) of the Hallowell Facility on notice of their responsibility for contribution towards the costs to investigate and remediate this site. Representatives of the prior owner have agreed to pay for one-half of the costs of the investigation on an interim, non-binding basis. At December 31, 2004 a liability of $208,000 has been established for our share of the estimated investigation and remediation costs. However, these estimates may be revised in the near term based on the results of our investigation and remediation.

Grand Jury Investigation - Slurry -Hallowell Facility

The U.S. Alcohol Tobacco and Firearms Agency ("AT&F") previously conducted an investigation at Slurry. In August 2003, the Company learned that a federal grand jury for the District of Kansas was investigating Slurry and certain of its former employees relating to the conduct at Slurry's commercial explosives manufacturing plant at the Hallowell, Kansas facility ("Hallowell Facility") related to compliance with federal explosives statutes. Active operations at the Hallowell Facility were discontinued in February 2002 after its license to possess explosives was revoked by the AT&F. Thereafter, as stated above, Slurry's business was sold to a third party. As of the date of this report, no target letters indicating a decision by the United States to seek criminal charges in connection with this investigation have been received.

B. Other Pending or Threatened Litigation

1. Climate Control Business

A lawsuit was filed in August 2002, against Trison Construction, Inc. ("Trison"), a subsidiary within our Climate Control Business, in the District Court, State of Oklahoma, Pontotoc County, in the case styled Trade Mechanical Contractors, Inc., et al. v. Trison Construction, Inc. In this

lawsuit, the plaintiff alleges that Trison breached its contract with the plaintiff by delaying contract performance and refusal of payment, and that the actions by Trison damaged the plaintiff. The plaintiff alleges that Trison owes it approximately $231,000, inclusive of overhead, cost and profit; approximately $94,000 in extended overhead and expenses. Trison has asserted a counterclaim against the plaintiff for recovery of its costs and attorneys fees associated with the defense of this case and approximately $306,000 in damages due to plaintiff's breach of contract. In June 2004, Johnson Controls, Inc. ("JCI") filed a formal demand for arbitration against Trison and its bonding company. JCI is alleging that it has sustained damages of approximately $1.7 million as a result of alleged defects in Trison's work in connection with a facility located in Pontotoc County, Oklahoma. In addition, in accordance with demands by the Company's bonding company, the Company has agreed to increase the security deposited with the bonding company from a $1 million letter of credit to $1.5 million letter of credit.

International Environmental Corporation ("IEC"), a subsidiary within our Climate Control Business, has been sued, together with 18 other defendants and 8 other parties added by the original named defendants, in the case styled Hilton Hotels, et al. v. International Environmental Corporation, et al., pending in the First Circuit Court of Hawaii. The plaintiffs'claims arise out of construction of a hotel in Hawaii. The plaintiffs claim that it was necessary to close the hotel approximately one year after it was opened due to an infestation of mold, requiring the hotel owner to undertake a mold remediation project. The owner of the hotel sued many of the parties involved in the design and construction, or supply of equipment, for the hotel, alleging the improper design, construction, installation and/or air conditioning equipment. IEC supplied certain portions of the air conditioning equipment, which the plaintiffs allege was defective. IEC believes that it has meritorious defenses to this lawsuit. The plaintiffs have not specified the amount of damages. The Company has notified its insurance carrier, which is providing a defense under a reservation of rights.

2. Chemical Business

Cherokee Nitrogen, Inc. ("Cherokee"), a subsidiary within our Chemical Business, has been sued for an undisclosed amount of money based on a claim that the subsidiary breached an agreement by overcharging the plaintiff for ammonium nitrate as a result of inflated prices for natural gas used to manufacture the ammonium nitrate. The suit is Nelson Brothers, LLC v. Cherokee Nitrogen v. Dynegy Marketing, and is pending in Alabama state court in Colbert County. Cherokee has filed a third party complaint against Dynegy and a subsidiary asserting that Dynegy was the party responsible for fraudulently causing artificial natural gas prices to exist and seeking an undisclosed amount from Dynegy, including any amounts which may be recovered by the plaintiff. Dynegy has filed a counterclaim against Cherokee for monies allegedly owed on account, which is alleged by Dynegy to be $600,000. Although there is no assurance, counsel for Cherokee has advised the company that, at this time, they believe that there is a good likelihood that Cherokee will recover monies from Dynegy over and above any monies which may be recovered by the plaintiff or owed to Dynegy.

3. Other

Zeller Pension Plan

In February 2000, the Company's Board of Directors authorized management to proceed with the sale of the automotive business, since the automotive business was no longer a "core business" of the Company. In May 2000, the Company sold substantially all of its assets in its automotive business. After the authorization by the board, but prior to the sale, the automotive business purchased the assets and assumed certain liabilities of Zeller Corporation ("Zeller"). The liabilities of Zeller assumed by the automotive 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 business was contacted by a representative of the Pension Benefit Guaranty Corporation ("PBGC") regarding the plan. The Owner has been informed by the PBGC of a possible under-funding of the plan and a possible takeover of the plan by the PBGC. The Owner has notified the Company of these events. The Company has also been contacted by the PBGC and has been advised that the PBGC considers the Company to be potentially liable for the under-funding of the Zeller Plan in the event that the plan is taken over by the PBGC and has alleged that the under-funding is approximately $.6 million. The Company has been advised by ERISA counsel that, based upon numerous representations made by the Company and the assumption that the trier of fact determining the Company's obligations with respect to the plan would find that: we disposed, in May 4, 2000 of interest in the automotive business including the Zeller assets and business pursuant to a bona fide purchase agreement under the terms of which the purchaser assumed all obligations with respect to the operation, including funding of the Zeller plan, the purpose of the sale of the automotive business did not include an attempt to evade liability for funding the Zeller plan, at the time we disposed or our interest in the automotive business, the Zeller plan was adequately funded, on an ongoing basis and all required contributions had been made, and the Zeller plan did not terminate at anytime that any member of the Company's controlled group of entities was a contribution sponsor to the Zeller plan, that the possibility of an unfavorable outcome to us in a lawsuit if the PBGC attempts to hold us liable for the under-funding of the Zeller plan is remote.

Asserting Financing Fee

On December 4, 2003, the Company and Southwest Securities, Inc. ("Southwest") entered into a letter agreement whereby the Company agreed to retain Southwest to assist the Company in obtaining financing for the Company. Southwest's right to a fee under the Agreement is limited to a refinancing occurring during "a period of sixty days, to be extended if a transaction is ongoing." A financing did not occur within sixty days of the date of the Agreement, nor was a funding transaction "ongoing" at the end of that period. In September 2004, more than ten months after the date of the Agreement between the Company and Southwest, ThermaClime borrowed $50 million from Orix Capital Markets, LLC ("Orix"). It is the Company's position that the Orix financing transaction was not the result of any efforts by Southwest, nor was it the

culmination of any negotiations or transaction commenced during the sixty-day term of the Agreement. Nonetheless, Southwest has asserted that it is entitled to a fee of $1.7 million pursuant to the Agreement. The Company brought an action against Southwest in Oklahoma state court in a lawsuit styled LSB Industries, Inc. v. Southwest Securities, Inc. pending in the Oklahoma District Court, Oklahoma County, for a declaratory judgment that the Company is not liable to Southwest under the Agreement as a result of the Orix financing transaction. The Company intends to vigorously defend itself against the claim by Southwest.

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.

10. Redeemable Preferred Stock

At December 31, 2004 and 2003, we had 1,027 shares and 1,084 shares, respectively, outstanding of noncumulative redeemable preferred stock. Each share of redeemable preferred stock, $100 par value, is convertible into 40 shares of our common stock or redeemable at par at any time and entitles the holder to one vote. The redeemable preferred stock provides for a noncumulative annual dividend of 10%, payable when and as declared and is classified as other accrued liabilities in the accompanying consolidated balance sheets.

11. Stockholders' Equity

Qualified Stock Option Plans

At December 31, 2004, we have a 1993 Stock Option and Incentive Plan (850,000 shares) and a 1998 Stock Option Plan (1,000,000 shares). Under these plans, we are authorized to grant options to purchase up to 1,850,000 shares of our common stock to our key employees. The 1993 Stock Option and Incentive 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. At December 31, 2004, there are 443,500 options outstanding related to the 1993 Stock Option and Incentive Plan and 477,704 options outstanding relating to the 1998 Stock Option Plan. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options granted under these plans were 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 option price is 110% of the market value at the date of grant and the options lapse after five years from the date of grant.

Activity in our qualified stock option plans during each of the three years in the period ended December 31, 2004 is as follows:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**1,283,800**	**$ 2.37**	1,424,600	$ 2.34	1,655,800	$ 2.39
Granted	**-**	**$ -**	-	$ -	-	$ -
Exercised	**(346,596)**	**$ 1.59**	(127,800)	$ 1.53	(90,300)	$ 2.84
Canceled, forfeited or expired	**(16,000)**	**$ 2.72**	(13,000)	$ 7.21	(140,900)	$ 2.65
Outstanding at end of year	**921,204**	**$ 2.65**	1,283,800	$ 2.37	1,424,600	$ 2.34
Exercisable at end of year	**863,454**	**$ 2.65**	1,168,300	$ 2.33	1,015,900	$ 2.54

The following table summarizes information about qualified stock options outstanding and exercisable at December 31, 2004:

	Stock Options Outstanding			Stock Options Exercisable	
Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$ 1.25	**396,204**	**4.58**	**$ 1.25**	**396,204**	**$ 1.25**
$ 2.73 - $ 3.00	**175,000**	**6.42**	**$ 2.76**	**117,250**	**$ 2.76**
$ 4.13 - $ 4.88	**350,000**	**1.83**	**$ 4.19**	**350,000**	**$ 4.19**
$ 1.25 - $ 4.88	**921,204**	**3.89**	**$ 2.65**	**863,454**	**$ 2.65**

Non-Qualified Stock Option Plans

Our Board of Directors approved the grants of non-qualified stock options to our outside directors, our President and certain key employees, as detailed below. The option prices are generally based on the market value of our common stock at the dates of grants. These options have vesting terms and lives specific to each grant but generally vest over 48 months and expire ten years from the grant date.

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 shares of our common stock that may be issued under the Outside Director Plan is 400,000 shares. At December 31, 2004, there are 90,000 options outstanding related to the Outside Director Plan.

In 2004 and 2003, there were no stock options granted under non-qualified stock option plans. In 2002, the Board of Directors granted 50,000 stock options to an employee that vest over 48 months and have contractual lives of ten years as well as 118,000 stock options principally to former employees of the Company to replace the options these individuals held prior to leaving the Company (a portion of the 168,000 stock options granted had exercise prices that exceeded the last average bid and asked price of our common stock at the date of the grant). The options to former employees were fully vested at the date of grant and expire between one and nine years from the date of grant. We recognized compensation expense of $48,000 in 2002 related to the grant of these shares.

Activity in our non-qualified stock option plans during each of the three years in the period ended December 31, 2004 is as follows:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	**1,254,000**	**$ 2.17**	1,351,000	$ 2.32	1,208,000	$ 2.29
Granted	**-**	**$ -**	-	$ -	168,000	$ 2.79
Exercised	**(235,000)**	**$ 2.81**	(3,000)	$ 1.25	-	$ -
Surrendered, forfeited, or expired	**(5,000)**	**$ 4.19**	(94,000)	$ 4.39	(25,000)	$ 4.19
Outstanding at end of year	**1,014,000**	**$ 2.01**	1,254,000	$ 2.17	1,351,000	$ 2.32
Exercisable at end of year	**913,250**	**$ 1.87**	1,102,500	$ 2.03	995,050	$ 2.34
Weighted average fair value of options granted during year		**N/A**		N/A		$ 1.87

The following table summarizes information about non-qualified stock options outstanding and exercisable at December 31, 2004:

	Stock Options Outstanding			Stock Options Exercisable	
Exercise Prices	Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
$ 1.25 - $ 1.38	**711,500**	**4.58**	**$ 1.26**	**711,500**	**$ 1.26**
$ 2.62 - $ 2.73	**108,500**	**7.19**	**$ 2.70**	**47,750**	**$ 2.73**
$ 4.19	**109,000**	**2.98**	**$ 4.19**	**69,000**	**$ 4.19**
$ 4.54 - $ 5.36	**85,000**	**2.58**	**$ 4.59**	**85,000**	**$ 4.59**
$ 1.25 - $ 5.36	**1,014,000**	**4.52**	**$ 2.01**	**913,250**	**$ 1.87**

Preferred Share Purchase Rights

We have adopted a preferred share rights plan (the "Rights Plan"), which Rights Plan became effective as of February 27, 1999. The Rights Plan replaced and renewed a rights plan that was terminating as of that date. 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, and his affiliates, our company or any of our subsidiaries, our employee benefit 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 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.

In March 2003, we sold for $1,570,500 in cash 450,000 shares of common stock and a warrant (exercisable at $3.49 per share until March 2008) to purchase 112,500 shares of common stock. The proceeds were used to reduce debt.

In May 2002, we issued warrants to purchase 595,585 shares of our common stock exercisable at $.10 per share until May 2012 (see Note 7 (B)). See Note 19 -Subsequent Event relating to the cashless exercise of these warrants in March 2005.

As of December 31, 2004 we have reserved 6.6 million shares of common stock issuable upon potential conversion of preferred stocks, stock options and warrants.

12. Non-Redeemable Preferred Stock

The 20,000 shares of Series B cumulative, convertible preferred stock, $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 entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. At December 31, 2004, $1.2 million of dividends ($60 per share) on the Series B preferred stock were in arrears.

The Class C preferred stock, designated as a $3.25 convertible exchangeable Class C preferred stock, Series 2, has no par value ("Series 2 Preferred"). The Series 2 Preferred has a liquidation preference of $50.00 per share plus accrued and unpaid dividends and is 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 4.3 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 will have special conversion rights for a 45-day period. The Series 2 Preferred is redeemable at our option, in whole or in part, at $50.00 per share, plus accrued and unpaid dividends to the redemption date. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. At December 31, 2004, $11.1 million of dividends ($17.875 per share) on the Series 2 Preferred were in arrears.

The Series 2 Preferred also is exchangeable in whole, but not in part, at our option on any dividend payment date for 6.50% Convertible Subordinated Debentures due 2018 (the "Debentures") at the rate of $50.00 principal amount of Debentures for each share of Series 2 Preferred. Interest on the Debentures, if issued, will be payable semiannually in arrears. The Debentures will, if issued, contain conversion and optional redemption provisions similar to those of the Series 2 Preferred and will be subject to a mandatory annual sinking fund redemption of five percent of the amount of Debentures initially issued, commencing on the June 15 following their issuance.

During September 2004, we purchased 5,000 shares of Series 2 Preferred in the open market for $271,000 ($54.12 per share). These shares were canceled by the Company.

The 1,000,000 shares of Class C preferred stock, designated as Series D 6% cumulative, convertible Class C preferred stock ("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 will be paid only after accrued and unpaid dividends are paid on the Series 2 Preferred. At December 31, 2004, $180,000 of dividends ($.18 per share) on the Series D Preferred were in arrears. Each holder of the Series D Preferred shall be entitled to .875 votes per share.

At December 31, 2004 we are authorized to issue an additional 3,200 shares of $100 par value preferred stock and an additional 3,371,450 shares of no par value preferred stock. Upon issuance, our Board of Directors will determine the specific terms and conditions of such preferred stock.

13. Deferred Compensation and Employee Benefit Plans

We have entered into deferred compensation agreements with certain key executives. The agreements provide for annual retirement payments ranging from $16,000 to $18,000 for life. The deferred compensation agreements are forfeited if the respective executive's employment is terminated prior to retirement at age 65 for any reason other than death. The deferred compensation liability reflects the present value of the remaining estimated payments at discount rates of 5.68% and 6% as of December 31, 2004 and 2003, respectively. The liability amounted to $960,000 and $789,000 as of December 31, 2004 and 2003, respectively, which are included in other noncurrent liabilities in the accompanying balance sheets. Future estimated payments amount to $2.3 million and $2.2 million as of December 31, 2004 and 2003, respectively. The charge to expense for these agreements has not been material during the past three years.

If the executive dies prior to retirement, we are required to pay the beneficiary named in the deferred compensation agreement in 120 equal monthly installments aggregating to an amount specified in the agreement with the executive. To informally fund these agreements, we purchased whole life insurance contracts on the related executives in which we are the beneficiary.

Our Compensation Committee has issued a preliminary report to our Board of Directors recommending that the Company enter into an unfunded deferred compensation agreement to provide a death benefit to our Chief Executive Officer ("CEO") (the "Proposed Death Benefit Agreement"). This would replace certain existing life insurance benefits. If completed, the Proposed Death Benefit Agreement would provide that, upon the death of our CEO, the Company would pay to our CEO's designated beneficiary the amount equal to 50% of the net proceeds received by the Company under certain whole life insurance policies on our CEO's life that would be purchased and owned by the Company. The proposed life insurance policies would provide a stated death benefit of $5 million, resulting in an estimated payment by the Company, upon our CEO's death, of $2.5 million under the Proposed Death Benefit Agreement. If the Proposed Death Benefit Agreement is approved by our Compensation Committee and our Board of Directors, the Company would terminate existing life insurance policies on our CEO's life that are owned by the Company. The Compensation Committee is in the process of finalizing its recommendation regarding this proposed plan.

We sponsor a retirement plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. We do not presently contribute to this plan except for EDC and Cherokee Nitrogen Company's union employees and EDNC employees which amounts were not material for each of the three years ended December 31, 2004.

14. 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 No. 107, "Disclosures About Fair Value of Financial Instruments," do not apply to all assets, including intangibles.

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Notes to Consolidated Financial Statements (continued)

As of December 31, 2004 and 2003, due to their short term nature, the carrying values of cash, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair values. Carrying values for variable rate borrowings are believed to approximate their fair value. Fair values for fixed rate borrowings, other than the Notes, 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 fair value for the Notes was based on market quotations; however, at December 31, 2003 there was no active market for the Notes. Therefore the fair value was not determinable.

14. Fair Value of Financial Instruments (continued)

	December 31, 2004		December 31, 2003	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In thousands)			
Variable Rate:				
Senior Secured Loan	**$ 50,000**	**$ 50,000**	$ -	$ -
Bank debt and equipment financing	**31,740**	**31,740**	29,392	29,392
Fixed Rate:				
Bank debt and equipment financing	**12,574**	**11,467**	13,727	12,588
Financing Agreement (including accrued interest)	**-**	**-**	35,893	42,995
	94,314	**93,207**	$ 79,012	84,975
Senior Unsecured Notes due 2007	**6,071**	**13,300**		18,300
	$ 100,385	**$ 106,507**		$ 103,275

15. Inventory Write-Down and Provision for Loss on Firm Sales Commitments

During 2003 and 2002, our Chemical Business entered into forward sales commitments with customers for deliveries in the subsequent year, respectively, which ultimately were at prices below its costs as of December 31, 2003 and 2002, respectively. Therefore, we recognized a loss on these sales commitments of $.1 million and $.7 million in 2003 and 2002, respectively, which are included in cost of sales in the accompanying consolidated statements of income.

During 2004 and 2002, our Chemical Business also wrote down the carrying value of certain nitrogen-based inventories by approximately $.7 million and $.9 million, respectively, which is included in cost of sales in the accompanying consolidated statements of income.

16. Property and Business Interruption Insurance Recoveries

Beginning in 2001 through 2003, a sulfuric acid plant at the El Dorado Facility experienced several mechanical problems with a boiler that had been repaired by one of our vendors. As a result, other equipment was also damaged at the plant. During 2004, net settlements of $1.5 million were reached with the vendor's insurance carrier and our insurance carriers. These settlements are classified as a reduction of cost of sales and are included in the consolidated statement of income for 2004.

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Notes to Consolidated Financial Statements (continued)

In 2002, a portion of the El Dorado Facility experienced damage from high winds and a likely tornado, which affected the ammonium nitrate production facilities, certain acid plants, a large cooling tower, and other equipment. The repairs were completed in 2002.

During the repair time, we were not able to produce industrial grade ammonium nitrate until the middle of May 2002. Production of our other products, agricultural grade ammonium nitrate and industrial acids, continued without material interruption. Our property insurance covering the chemical plant entitled us to receive approximate replacement value for the damaged property

16. Property and Business Interruption Insurance Recoveries (continued)

less as aggregate $1 million deductible. We also had a thirty-day waiting period before our business interruption insurance coverage became effective. During the fourth quarter of 2002, a final settlement of $2.5 million, net of the $1 million deductible, was reached for the property and business interruption insurance claims. The net proceeds relating to our property insurance claim exceeded the cash expenditures for repairs and the depreciated value of the damaged assets. As a result, a net gain relating to property damage of approximately $1.4 million is classified as other income and a business interruption insurance recovery of approximately $.3 million is classified as a reduction of cost of sales in the accompanying consolidated statement of income for 2002.

17. Discontinued Operations

In December 2002, we sold the remaining assets that comprised all of the explosives manufacturing and distribution business which were formerly included in our Chemical Business recognizing a gain of $1.6 million.

The sales price was approximately $10.2 million. Of the proceeds from the sale, (a) approximately $.3 million was placed in escrow which was subsequently released in 2003, (b) approximately $3.5 million was paid to a term lender, and (c) the balance of the proceeds was applied against ThermaClime's secured revolving credit facility.

Operating results of the discontinued operations for the year ended December 31:

	2002
	(In Thousands)
Net sales	$ 8,981
Loss from discontinued operations before gain on disposal	$ (5,051)
Gain on disposal	1,590
Net loss from discontinued operations	$ (3,461)

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

18. Segment Information

Factors Used by Management to Identify the Enterprise's Reportable Segments and Measurement of Segment Profit or Loss and Segment Assets

We have two continuing 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 profit 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

This business segment manufactures and sells, primarily from its various facilities in Oklahoma City, a variety of water source heat pumps, hydronic fan coils and other HVAC products for use in commercial and residential air conditioning and heating systems including large custom air handlers and modular chillers systems. Our various facilities 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

This segment manufactures and sells fertilizer grade ammonium nitrate, urea ammonium nitrate, urea and anhydrous ammonia for agricultural applications, concentrated, blended and regular nitric acid, metallurgical grade ammonia, anhydrous ammonia and sulfuric acid 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 farmers, ranchers and dealers in the Central, South Central and Southeast regions of the United States, explosive manufacturers in the United States and industrial users of acids in the Southern and Eastern regions of the United States.

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.

Information about our continuing operations in different industry segments for each of the three years in the period ended December 31, 2004 is detailed below.

LSB Industries, Inc.

Notes to Consolidated Financial Statements (continued)

	2004	2003	2002
		(In Thousands)	
Net sales:			
Climate Control:			
Water source heat pumps	**$ 73,557**	$ 60,473	$ 57,663
Hydronic fan coils	**48,760**	47,423	56,020
Other HVAC products	**18,321**	11,136	14,445
Total Climate Control	**140,638**	119,032	128,128
Chemical:			
Agricultural products	**85,149**	78,521	58,397
Industrial acids	**69,490**	63,029	55,671
Mining products	**62,070**	52,220	37,290
Total Chemical	**216,709**	193,770	151,358
Other	**6,706**	4,461	4,325
	$ 364,053	$ 317,263	$ 283,811
Gross profit:			
Climate Control	**$ 41,957**	$ 35,737	$ 37,454
Chemical	**8,577**	12,204	6,207
Other	**2,145**	1,491	1,332
	$ 52,679	$ 49,432	$ 44,993
Operating profit (loss):			
Climate Control	**$ 12,878**	$ 11,736	$ 14,705
Chemical	**1,948**	3,754	(44)
	14,826	15,490	14,661
General corporate expenses and other business operations, net	**(7,849)**	(6,578)	(5,773)
Interest expense	**(6,784)**	(5,559)	(7,590)
Gains on extinguishment of debt	**4,400**	258	1,458
Provision for loss on notes receivable	**(1,447)**	-	-
Provision for impairment on long-lived assets	**(737)**	(500)	-
Income from continuing operations before provision for income taxes and cumulative effect of accounting changes	**$ 2,409**	$ 3,111	$ 2,756

18. Segment Information (continued)

	2004	2003	2002
		(In Thousands)	
Depreciation of property, plant and equipment:			
Climate Control	**$ 1,720**	$ 2,188	$ 2,317
Chemical	**8,288**	7,938	6,966
Corporate assets and other	**186**	186	214
Total depreciation of property, plant and equipment	**$ 10,194**	$ 10,312	$ 9,497
Additions to property, plant and equipment:			
Climate Control	**$ 730**	$ 1,543	$ 652
Chemical	**8,606**	6,043	9,328
Corporate assets and other	**96**	230	62
Total additions to property, plant and equipment	**$ 9,432**	$ 7,816	$ 10,042
Total assets:			
Climate Control	**$ 54,423**	$ 51,180	$ 52,438
Chemical	**94,981**	92,093	93,536
Corporate assets and other	**13,998**	15,021	16,808
Total assets	**$ 163,402**	$ 158,294	$ 162,782

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, which are accounted for at transfer prices ranging from the cost of producing or acquiring the product or service to normal prices to unaffiliated customers, are not significant.

Gross profit by industry segment represents net sales less cost of sales. Gross profit classified as "Other" relates to industrial machinery and components. Operating profit (loss) represents operating income (loss) plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net (including unallocated portions of other income and other expense). In computing operating profit (loss) from continuing operations, none of the following items have been added or deducted: general corporate expense and other business operations (including unallocated portions of other income and other expense), interest expense, gains on extinguishment of debt, provision for loss on notes receivable, provision for impairment on long-lived assets, income taxes, loss from discontinued operations and cumulative effect of accounting changes.

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.

Information about our domestic and foreign operations from continuing operations for each of the three years in the period ended December 31, 2004 is detailed below:

Geographic Region	**2004**	**2003**	**2002**
		(In Thousands)	
Net sales:			
Domestic operations	**$ 358,673**	$ 315,833	$ 282,550
Foreign operations	**5,380**	1,430	1,261
	$ 364,053	$ 317,263	$ 283,811
Income (loss) from continuing operations before provision for income taxes and cumulative effect of accounting changes:			
Domestic operations	**$ 3,004**	$ 3,015	$ 2,742
Foreign operations	**(595)**	96	14
	$ 2,409	$ 3,111	$ 2,756
Long-lived assets:			
Domestic operations	**$ 70,219**	$ 71,931	$ 74,560
Foreign operations	**-**	3	3
	$ 70,219	$ 71,934	$ 74,563

Net sales by geographic region include net sales to unaffiliated customers, as reported in the consolidated financial statements. Net sales earned from sales or transfers between affiliates in different geographic regions are shown as net sales of the transferring region and are eliminated in consolidation.

Net sales to unaffiliated customers include foreign export sales as follows:

Geographic Area	2004	2003	2002
		(In Thousands)	
Canada	**$ 11,464**	$ 6,162	$ 5,910
Europe	**1,752**	1,650	931
Mexico, Central and South America	**1,075**	1,376	1,280
Middle East	**2,193**	996	1,921
Other	**1,493**	1,095	1,306
	$ 17,977	$ 11,279	$ 11,348

Major Customers

Net sales to one customer, Bayer, of our Chemical Business segment represented approximately 11%, 12% and 11% of our total net sales for 2004, 2003 and 2002, respectively. As discussed in Note 9 - Commitments and Contingencies, under the terms of the Bayer Agreement, Bayer will purchase, from one of our subsidiaries, all of its requirements for nitric acid to be used at the Baytown, Texas facility for a term through at least May 2009, with provisions for renewal thereafter.

Net sales to another customer, Orica USA, Inc., of our Chemical Business segment represented approximately 10%, 11% and 8% of our total net sales for 2004, 2003 and 2002, respectively. As discussed in Note 9 - Commitments and Contingencies, under the terms of the Supply Agreement, EDC will supply from its El Dorado, Arkansas plant industrial grade ammonium nitrate through at least December 2006, with provisions for renewal thereafter.

19. Subsequent Event (Unaudited)

As discussed in Note 7 (A) effective February 28, 2005, the Working Capital Revolver Loan was amended which, among other things, extended the maturity date to April 2009 and removed a subjective acceleration clause.

As discussed in Note 9 - Commitments and Contingencies, in March 2005, EDC entered into a purchase agreement with its principal supplier of anhydrous ammonia.

In March 2005, the lenders of the loans under the financing Agreement (See Note 7 (B)) irrevocably exercised warrants, under a cashless exercise provision, to purchase 586,140 of the Company's common stock.

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Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)

	Three months ended			
	March 31	**June 30**	**September 30**	**December 31**
2004				
Net sales (1)	$ 83,792	$ 104,114	$ 92,361	$ 83,786
Gross profit (1) (2) (3) (4) (5)	$ 10,961	$ 16,494	$ 14,498	$ 10,726
Income (loss) before cumulative effect of accounting change (1) (6) (7) (8) (9) (10)	$ 418	$ 1,726	$ 3,523	$ (3,258)
Cumulative effect of accounting change (1)	(536)	-	-	-
Net income (loss)	$ (118)	$ 1,726	$ 3,523	$ (3,258)
Net income (loss) applicable to common stock	$ (685)	$ 1,159	$ 2,957	$ (3,880)
Income (loss) per common share:				
Basic:				
Income (loss) before cumulative effect of accounting change	$ (.01)	$ .09	$ .23	$ (.30)
Cumulative effect of accounting change	(.04)	-	-	-
Net income (loss)	$ (.05)	$ .09	$ .23	$ (.30)
Diluted:				
Income (loss) before cumulative effect of accounting change	$ (.01)	$ .08	$ .19	$ (.30)
Cumulative effect of accounting change	(.04)	-	-	-
Net income (loss)	$ (.05)	$ .08	$ .19	$ (.30)
2003				
Net Sales	$ 71,510	$ 89,976	$ 79,023	$ 76,754

Gross profit (2) (3) (11)	$ 9,467	$ 13,632	$ 13,991	$ 12,342
Net income (loss) (6)	$ (1,825)	$ 2,554	$ 2,364	$ 18
Net income (loss) applicable to common stock	$ (2,392)	$ 1,987	$ 1,798	$ (609)
Income (loss) per common share:				
Basic:				
Net income (loss) applicable to common stock	$ (.20)	$ .16	$ .14	$ (.05)
Diluted:				
Net income (loss) applicable to common stock	$ (.20)	$ .13	$ .12	$ (.05)

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

(1) As a result of FIN 46, as revised, we were required to consolidate MultiClima and its parent company at the end of the first quarter of 2004. Therefore we recorded a cumulative effect of accounting change of $.5 million. For the second quarter of 2004, the parent company of MultiClima had consolidated net sales of $3.8 million, gross profit of $.8 million and a loss before cumulative effect of accounting change of $.6 million. Based on our assessment of MultiClima and its parent's historical and forecasted liquidity and results of operations during 2004, we concluded the outstanding notes receivable with the parent company of MultiClima were not collectible and recognized a provision for loss of $1.4 million at the beginning of the third quarter of 2004.

(2) We recorded a provision for loss on firm sales commitments of $.3 million and $.1 million in the third quarter of 2004 and in the fourth quarter of 2003, respectively.

(3) We wrote down the carrying value of certain nitrate-based inventories by an additional $.8 million and $.5 million during the first and fourth quarters of 2004 and $.3 million and $.4 million during the first and fourth quarters of 2003, respectively.

(4) During the fourth quarter of 2004, we recorded an inventory adjustment of $1.1 million in the Climate Control Business as a result of increased raw material costs not passed through to customers.

(5) During the second, third and fourth quarters of 2004, net settlements of $.6 million, $.3 million and $.6 million were reached with a vendor's insurance carrier and our insurance carrier relating to several mechanical problems with a boiler that had been repaired by one of our vendors at the El Dorado Facility. These amounts are classified as reductions of cost of sales.

(6) During the third and fourth quarters of 2004, we recognized impairments on long-lived assets of $.3 million and $.4 million, respectively, and $.5 million during the third quarter of 2003.

(7) During the first quarter of 2004, we recognized a gain of $1.8 million from the sale of certain current assets purchased in 2003.

(8) During the second quarter of 2004, we incurred professional fees and other costs of $.9 million relating to a proposed unregistered offering of Senior Secured Notes which was terminated in June 2004.

(9) During the third quarter of 2004, we recognized a gain on extinguishment of debt of $4.4 million as a result of the repayment of loans under the Financing Agreement.

(10) During the fourth quarter of 2004, we recognized interest expense of $1.3 million relating to the Senior Secured Loan which was completed in September 2004.

(11) During the second and third quarters of 2003, we recovered a portion of our precious metals used over several prior years as a catalyst in the Chemical Business manufacturing process of $.4 million and $1.2 million, respectively. These amounts are classified as reductions of cost of sales.

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, 2004	2003
	(In Thousands)	
Assets		
Current assets:		
Cash	$ 114	$ 135
Accounts receivable, net	46	49
Supplies, prepaid items and other	2,806	2,787
Due from subsidiaries	1,480	585
Total current assets	4,446	3,556
Property, plant and equipment, net	142	125
Investments in and due from subsidiaries	21,934	18,464
Other assets, net	356	356
	$ 26,878	$ 22,501

Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 94	$ 22
Accrued liabilities	829	908
Redeemable, noncumulative, convertible preferred stock	97	103
Current portion of long-term debt	1,662	386
Total current liabilities	2,682	1,419
Long-term debt	16	1,910
Due to subsidiaries	2,558	-
Other noncurrent liabilities	1,103	1,080
Stockholders' equity:		
Preferred stock	34,177	34,427
Common stock	1,640	1,582
Capital in excess of par value	57,352	56,223
Accumulated deficit	(66,840)	(68,713)
	26,329	23,519
Treasury stock	(5,810)	(5,427)
Total stockholders' equity	20,519	18,092
	$ 26,878	$ 22,501

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Operations

	Year ended December 31,		
	2004	2003	2002
	(In Thousands)		
Fees under service, tax sharing and management agreements with subsidiaries	$ 1,001	$ 1,150	$ 7,224
Selling, general and administrative	3,352	2,633	2,300
Operating income (loss)	(2,351)	(1,483)	4,924
Other income (expense):			
Interest and other income, net	823	1,248	1,161
Interest expense	(1,427)	(2,529)	(2,445)
Income (loss) from continuing operations	(2,955)	(2,764)	3,640
Equity in earnings (losses) of subsidiaries	4,828	5,875	(80)
Loss from discontinued operations, net	-	-	(3,461)
Net income	$ 1,873	$ 3,111	$ 99

See accompanying notes.

LSB Industries, Inc.

Schedule I - Condensed Financial Information of Registrant

Condensed Statements of Cash Flows

	Year ended December 31,		
	2004	2003	2002
	(In Thousands)		
Cash flows provided (used) by continuing operating activities	$ (2,950)	$ (2,728)	$ 235
Cash flows from investing activities:			
Capital expenditures	(27)	(11)	(6)
Proceeds from sales of property and equipment	4	-	12
Proceeds from (payment of) restricted cash held in escrow	-	-	350
Other assets	-	76	506
Net cash provided (used) by investing activities	(23)	65	862
Cash flows from financing activities:			
Payments on long-term and other debt	(277)	(445)	(527)
Long-term borrowings	22	-	1,900
Net change in due to/from subsidiaries	2,658	847	(2,136)
Net proceeds from issuance of common stock and warrants	820	1,770	33

Acquisition of non-redeemable preferred stock	(271)	-	-
Net cash provided (used) by financing activities	2,952	2,172	(730)
Net increase (decrease) in cash	(21)	(491)	367
Cash at the beginning of year	135	626	259
Cash at the end of year	$ 114	$ 135	$ 626

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. Commitments and Contingencies

The Company has guaranteed the payment of principal and interest under the terms of various debt. Subsidiaries long-term debt outstanding at December 31, 2004, which is guaranteed by the Company is as follows (in thousands):

Secured revolving credit facility - ThermaClime	$ 27,489
Senior Secured Loan due 2009	50,000
Other, most of which is collateralized by machinery, equipment and real estate	8,705
	$ 86,194

See Notes 7 and 9 of the Notes to the Company's consolidated financial statements for discussion of the long-term debt and commitments and contingencies.

3. Preferred Stock and Stockholders' Equity

At December 31, 2004 and 2003, 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 10, 11 and 12 of Notes to the Company's consolidated financial statements for discussion of matters relating to the Company's preferred stock and other stockholders' equity matters.

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 2004, 2003 and 2002

(In Thousands)

Description		Balance at Beginning of Year	Additions-Charges to Costs and Expenses	Deductions-Write-offs/ Costs Incurred	Balance at End of Year
Accounts receivable - allowance for doubtful accounts (1):					
	2004	$ 3,225	$ 211	$ 1,104	$ 2,332
	2003	$ 2,405	$ 1,031	$ 211	$ 3,225
	2002	$ 1,980	$ 618	$ 193	$ 2,405
Inventory-reserve for slow-moving items (1):					
	2004	$ 1,441	$ 303	$ 836	$ 908
	2003	$ 1,261	$ 222	$ 42	$ 1,441
	2002	$ 1,232	$ 350	$ 321	$ 1,261
Notes receivable-allowance for doubtful accounts (1):					
	2004	$ 13,655	$ 1,447	$ 14,082	$ 1,020

2003	$ 13,655	$ -	$ -	$ 13,655
2002	$ 13,655	$ -	$ -	$ 13,655
Deferred tax assets - valuation (1):				
2004	$ 28,273	$ -	$ 345	$ 27,928
2003	$ 28,632	$ -	$ 359	$ 28,273
2002	$ 28,240	$ 392	$ -	$ 28,632

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts (continued)

Years ended December 31, 2004, 2003 and 2002

(In Thousands)

Description	Balance at Beginning of Year	Additions-Charged to Costs and Expenses	Deductions-Write-offs/ Costs Incurred	Balance at End of Year
Accrual for plant turnaround:				
2004	$ 2,678	$ 1,742	$ 2,903	$ 1,517
2003	$ 1,886	$ 2,745	$ 1,953	$ 2,678
2002	$ 1,742	$ 2,861	$ 2,717	$ 1,886

(1) Deducted in the 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 LOAN AGREEMENT

This FIRST AMENDMENT TO LOAN AGREEMENT (this "Amendment") is entered into as of February 18, 2005 among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), each of the Subsidiaries of ThermaClime listed on the signature pages hereof, and Cherokee Nitrogen Holdings, Inc. (individually and collectively, jointly and severally, "Borrower" or "Borrowers"), ORIX Capital Markets, LLC, a Delaware limited liability company ("ORIX"), as agent for the Lenders under the Loan Agreement, dated as of September 15, 2004, by among Borrowers, ORIX, and the Lenders (the "Loan Agreement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

W I T N E S S E T H:

WHEREAS, Borrowers, Agent, and the Lenders are parties to the Loan Agreement and the Other Agreements, pursuant to which the Lenders made Term Loans to Borrowers on the terms and conditions thereof;

WHEREAS, the parties have agreed to amend a certain provision of the Loan Agreement upon the terms and conditions set forth herein; and

WHEREAS, the Agent and Requisite Lenders have agreed to the requested amendment on the terms and conditions provided herein;

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree that all capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement and further agree as follows:

1. Amendment to Loan Agreement: Section 1.1.

   The definition of "Fixed Charge Coverage Ratio" in Section 11.1 of the Loan Agreement is hereby amended by adding at the end of such definition, following the words "(F) capital expenditures made during such period", the following proviso:

   provided, however, that for the period from the Closing Date until December 31, 2005, capital expenditures made with insurance proceeds of any casualty loss that occurred between the Closing Date and December 31, 2004, and regarding which casualty loss notice was provided to the Agent by the Borrowers and the Parent as required by the Loan Agreement, shall be excluded from the calculation of "Fixed Charge Coverage Ratio".

2. No Other Amendments or Waivers. Except in connection with the amendment set forth above, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Lenders under the Loan Agreement or any of the Other Agreements, nor constitute a waiver of any provision of the Loan Agreement or any of the Other Agreements. Except for the amendments set forth above, the text of the Loan Agreement and all Other Agreements shall remain unchanged and in full force and effect and Borrowers hereby ratify and confirm their respective obligations thereunder. This Amendment shall not constitute a course of dealing with the Lenders at variance with the Loan Agreement or the Other Agreements such as to require further notice by the Lenders to require strict compliance with the terms of the Loan Agreement and the Other Agreements in the future, except as expressly set forth herein. Borrowers acknowledge and expressly a gree that the Agent and Lenders reserve the right to, and do in fact, require strict compliance with all terms and provisions of the Loan Agreement and the Other Agreements, as amended herein. Borrowers have no knowledge of any challenge to any of the Lenders'rights arising under the Loan Documents, or to the effectiveness of the Loan Documents.

3. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the prior or concurrent satisfaction of each of the following conditions (the date of satisfaction or waiver of such conditions being referred to herein as the "First Amendment Effective Date"):

   a. Borrowers and Parent shall have delivered to Agent an Officers'Certificate, in form and substance reasonably satisfactory to Agent, to the effect that the representations and warranties relating to such Borrower or Parent, as the case may be, contained in Article IV of the Loan Agreement and the Other Documents are true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date (or, to the extent such representations and warranties specifically relate to an earlier date, that such representations and warranties were true, correct and complete in all material respects on and as of such earlier date);
   b. Receipt by the Agent of an amendment fee, to be divided pro rata amongst the Lenders, in an amount equal to $10,000, such fee payable only if the condition described in clause 3(c) below is satisfied;
   c. Borrowers, Parent, and Required Lenders shall have delivered to Agent counterparts of this Amendment, duly executed by each; and
   d. such other information, documents, instruments or approvals as the Agent or Lenders may reasonably require.

4. Representations and Warranties of Borrowers. Each Borrower and the Parent hereby represents and warrants as follows:

   (a) Each Borrower and Parent has the corporate power and authority to execute and deliver this Amendment and the Loan Agreement (as modified hereby) and to perform its obligations hereunder and thereunder. The execution and delivery by each Borrower and the Parent of this Amendment and the performance of its obligations hereunder and under the Loan Agreement (as modified hereby) have been duly authorized by all requisite corporate action on the part of such Borrower or Parent, as applicable, and this Amendment and the Loan Agreement (as modified hereby) constitute legal, valid and binding obligations of each Borrower and Parent, enforceable against each Borrower and Parent in accordance with its terms, except as enforceability may be limited by (i) bankruptcy, insolvency, fraudulent conveyances, reorganization or similar laws relating to or affecting the enforcement of creditors'rights generally, (ii) general equitable principles (whether considered in a proceeding in equity or at law), and (iii) requirements of reasonableness, good faith and fair dealing.

   (b) Neither the execution and delivery by each Borrower and Parent of this Amendment, nor the consummation of the transactions herein contemplated, nor compliance with the provisions hereof or of the Loan Agreement (as modified hereby) will violate (i) any applicable law, rule, regulation, order, writ, judgment, injunction, decree or award binding on each Borrower and Parent, (ii) each Borrower and Parent's articles or certificate of incorporation or by-laws, or (iii) the provisions of any material indenture, instrument or agreement to which each Borrower and Parent is a party or is subject, or by which it, or its assets or property, whether real, personal, tangible, intangible (or mixed), leased, operated or owned, is bound, or conflict with, or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien (except Permitted Liens) in, of or on such assets or property of each Borrower and Parent pursuant to the terms of, any such material indenture, instrument or agreement.

   (c) As of the date hereof and giving effect to the terms of this Amendment, (i) there exists no Event of Default or Potential Default and (ii) the representations and warranties applicable to such Borrower or Parent, as the case may be, contained in Article IV of the Loan Agreement (as modified hereby) are true and correct.

5. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement. In proving this Amendment in any judicial proceedings, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom such enforcement is sought. Delivery of an executed signature page hereof by facsimile transmission or via email transmission of an Adobe portable document file (also known as a "PDF File") shall be effective as delivery of a manually executed counterpart hereof.

6. Reference to and Effect on the Loan Documents. Upon the effectiveness of this Amendment, on and after the date hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof" or words of like import referring to the Loan Agreement, and each reference in the Other Agreements to "the Loan Agreement" "thereunder," "thereof" or words of like import referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement as amended hereby.

7. Costs, Expenses and Taxes. Borrowers agree to pay on demand all costs and expenses in connection with the preparation, execution, and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including, if required, counsel for Agent with respect thereto and with respect to advising Agent and Lenders as to their rights and responsibilities hereunder and thereunder.

8. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of Texas, excluding its principles of conflicts of law.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the day and year first written above.

BORROWERS: **THERMACLIME, INC.**
CHEROKEE NITROGEN HOLDINGS, INC.
NORTHWEST FINANCIAL CORPORATION
XPEDIAIR, INC.
INTERNATIONAL ENVIRONMENTAL CORPORATION
THE CLIMATE CONTROL GROUP, INC.
ACP INTERNATIONAL LIMITED
CLIMACOOL CORP.
TRISON CONSTRUCTION, INC.
KOAX CORP.
CLIMATE MASTER, INC.
CLIMATECRAFT, INC.
CHEROKEE NITROGEN COMPANY
LSB CHEMICAL CORP.
EL DORADO CHEMICAL COMPANY
CHEMEX I CORP.
CHEMEX II CORP.
DSN CORPORATION

By: _____
Tony M. Shelby
Vice President

PARENT: **LSB INDUSTRIES, INC.**

By: _____
Tony M. Shelby
Vice President

AGENT: **ORIX FINANCE CORP. I,**
as Agent and a Lender

By: _____
Name:
Title:

LENDERS: **[Lender name]**

By: _____
Name:
Title:

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

**PAPER, ALLIED-INDUSTRIAL, CHEMICAL &
ENERGY WORKERS INTERNATIONAL UNION AFL-CIO
AND ITS LOCAL 5-434**

Effective: August 1, 2004

**EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas**

TABLE OF CONTENTS

PREAMBLE

Articles of Agreement between EL DORADO CHEMICAL COMPANY (hereinafter referred to as "Company") and PAPER, ALLIED-INDUSTRIAL, CHEMICAL & ENERGY WORKERS INTERNATIONAL UNION AFL-CIO AND ITS LOCAL 5-434 (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.

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, 2004, and ending at 12:00 Midnight, July 31, 2007. At reasonable times after June 1, 2007, 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, 2007.

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 o r 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.

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 is temporarily required to perform (for more than one (1) hour) work of a classification which has a higher rate of pay than the rate of pay for the classification to which the employee is regularly assigned, shall be paid at the rate of the higher classification in which he is working so long as, and only as long as, he is required continuously to perform work of the higher classification. The payment of

the higher rate for one (1) hour or more will be retroactive to the start of the time when that employee began to work in the higher classification.

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 empl oyee 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.

Each employee who works on a holiday will be paid eight (8) hours' holiday pay at his straight time rate and, in addition, 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 eight (8) hours worked, 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 "PACE Bids for Company," and the duplicate must be deposited in a locked box marked "PACE 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 "PACE Bids for Company" and place a copy of the notice in the "PACE 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 Paper, Allied-Industrial, Chemical & Energy Workers International Union AFL-CIO, Local 5-434, 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 5-434 and 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 Paper, Allied-Industrial, Chemical & Energy Workers International Union AFL-CIO, Local 5-434 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 Oil, Chemical and Atomic Workers Political Committee are not conditions of membership in the Union or the employment with the Company and that the PACE 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 5-434 of 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.

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, 2004, and ending 12:00 midnight, July 31, 2007, 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 Paper, Allied-Industrial, Chemical & Energy Workers International Union AFL-CIO, Local 5-434, El Dorado, Arkansas 71731, with a copy of the notice to the Secretary, Local 5-434, 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 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.

Effective January 1, 2005, 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, 2005, the employee's cost share of 18%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2003, through October 31, 2004.

The specific cost share amounts to be effective January 1, 2005, will be constant throughout that year.

(2)Effective January 1, 2006, the employee cost share of 21%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2004, through October 31, 2005.

The specific cost share amounts, per pay period, to become effective January 1, 2006, will be constant throughout that year.

(3)Effective January 1, 2007, the employee cost share of 22%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2005, through October 31, 2006.

The specific cost share amounts, per pay period, to be effective January 1, 2007, will be constant throughout that year.

Effective January 1, 2005, 2006, and 2007, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2005	18%
2006	21%
2007	22%

If the total claims percentage cost share, per pay period, exceeds the capped rates shown below, the capped rates will apply.

	2005	2006	2007
	18%	21%	22%
Capped Rates:			
Employee	$20.00	24.00	$28.00
Employee & Children	$35.00	$44.00	$52.00
Employee & Spouse	$60.00	$72.00	$86.00
Family	$75.00	$92.00	$110.00

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.

ARTICLE XXX
RETIREMENT AGE

Any employee who becomes seventy (70) years of age shall be retired and his services with the Company terminated on the first (1st) day of the month following the day upon which he is age seventy (70).

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

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" OperatorB" Operator"B" Analyst

"C" Operator"C" Operator"C" Analyst

"D" Operator"D" Operator"D" Analyst

*"E" Operator"E" Operator"E" Analyst

* (First 180 Days)

EXHIBIT "B"

WAGE RATES AND CLASSIFICATIONS

08/04/04 08/04/05 08/04/06

"A" Operator/"A" Analyst 18.42 18.77 19.12

"B" Operator/"B" Analyst 17.30 17.55 17.80

"C" Operator/"C" Analyst 16.59 16.74 16.89

"D" Operator/"D" Analyst 14.02 14.02 14.02

*"E" Operator/"E" Analyst9.50 9.50 9.50

* (First 180 Days)

An "A" Operator who is assigned as Control Board Operator shall receive a premium of $.50 per hour for such hours worked.

An "A" Operator who is assigned as Boiler House Board Operator shall receive a premium of $.50 per hour for such hours worked.

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 ($.09) per hour for each hour worked by an employee. Effective August 4, 2001, through the term of this Agreement the clothing allowance will be sixteen cents ($.16) per hour worked by an employee.

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:

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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

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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:

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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:

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Kenneth Booker

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Duane Yerina

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Ed Tuma

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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:

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Duane Yerina

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Ed Tuma

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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:

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James Turberville

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

INTERNATIONAL ASSOCIATION OF

MACHINISTS AND AEROSPACE WORKERS,

AFL-CIO

LOCAL NO. 224

Effective: October 17, 2004

EL DORADO CHEMICAL COMPANY

El Dorado, Arkansas

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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 agency 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.

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, 2004, at 12:01 a.m., and ending 12:00 midnight, October 16, 2007. At reasonable times after August 1, 2007, the parties will meet to attempt to negotiate a new contract to be effective for the period beginning after midnight, October 16, 2007.

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 compan ies 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

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 of such individual authorization shall be as set forth in Exhibit "D" hereto.

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 an employee, 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.

Section 5. Qualifications for Job.

(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 whic h 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.

Each employee who works on a holiday will be paid, in addition to the 8-hour bonus mentioned above, one and one-half (1-1/2) times his regular rate of pay.

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, 2004, and ending 12:00 Midnight, October 16, 2007, 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 "B" 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 "C," 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 men employed in any group mentioned in Exhibit "C", Part 1, to that number of men 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.

ARTICLE VIII

HANDLING OF GRIEVANCES

Section 1. Routine Submission.

(a) For the purpose of adjusting a grievance arising out of the application or interpretation of a written provision of the Agreement, it is agreed that an employee, and/or with his Steward, shall first seek adjustment of the matter with his Foreman; and, if not resolved, the employee, and/or with his Steward, may submit the grievance in writing to his Foreman. No grievance will be considered unless it has been submitted to his Foreman within five (5) working days after the employee knew or should have known that the grievance occurred.

The Foreman shall advise the employee and/or the Steward, in writing, within five (5) days (Saturdays, Sundays and holidays excluded) of his decision on the grievance, if submitted. The grievance must be filed, in writing, on grievance forms provided by the Company and signed by the individual grievant.

If the grievance is not satisfactorily adjusted with the Foreman, the employee and the Steward may submit the grievance to the Shop Committee for handling with the Department Head.

(b) If the Shop Committee elects to process the grievance, it shall submit the grievance to the Department Head, along with a factual statement of the reasons that the Foreman's answer was not satisfactory. The grievance must be submitted to the Department Head within five (5) days (excluding Saturdays, Sundays and holidays) after the date the Foreman advised the Steward and/or employee of his decision. The Department Head shall, within seven (7) calendar days following receipt of the grievance, meet with the designated members of the Shop Committee at a time to be mutually agreed upon. The Department Head shall advise the Shop Committee, in writing, within five (5) days following this meeting (excluding Saturdays, Sundays and holidays) of his decision regarding the grievance.

(c) If the response of the Department Head is not satisfactory, the Shop Committee may submit the matter, in writing, to the Plant Manager within ten (10) days (excluding Saturdays, Sundays and holidays) after the date the Department Head furnishes his grievance response to the Committee. The Plant Manager shall, within ten (10) calendar days following receipt of such grievance (and documentation) meet with the designated members of the Shop Committee, at a time to be mutually agreed upon. The Plant Manager, or his authorized representative, shall render a decision on the grievance, in writing, within ten (10) days (Saturdays, Sundays and holidays excluded) following this meeting. By mutual agreement, the parties may use the process of mediation prior to arbitration as an alternate dispute resolution procedure. The Union's Directing Business Representative may also be in attendance.

Section 2. Arbitration.

If the grievance is not adjusted satisfactorily through the procedure hereinbefore mentioned, the issue 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 in which arbitration is specifically prohibited under the terms of this Agreement, and which the Company and Union have mutually agreed to submit to arbitration) it must notify the Company 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 & Conciliation Service requesting a seven-name arbitrator panel from which the parties shall select one (1) arbitrator. The parties shall alternately each strike one name until only one (1) name remains who 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 shall be stricken by the Company, and alternately the Union and the Company thereafter. Both the Company and the Union shall have the right to reject two (2) panels submitted by the Federal Mediation & 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 procedure shall be held in El Dorado, Arkansas, unless the parties unanimously decide otherwise.

The expense of the Arbitrator shall be shared equally by the Company and the Union.

The 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.

No provisions of this Article, 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.

The Union has the authority to process, abandon, or settle grievances on behalf of employees. It is provided, however, that no grievance as to wage scales that shall be paid to all or any group of the employees in the bargaining unit shall be submitted to an arbiter, in any event.

The question as to whether a person has been paid the rate to which he is entitled, in accordance with the wage rates set forth in Exhibit "A" to this Agreement, for work which he has performed shall be a subject for arbitration.

The grievance and arbitration provisions provided for herein, in addition to any other right or obligation under the Agreement, are limited to grievances or clams arising and actually filed in writing during the term of this Agreement.

In the event a grievance arises over a discharge or layoff, the first and second steps of the grievance procedure may be bypassed.

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.

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.

Section 4.

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

Section 1. Military Selective Service Act.

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 Selection Service Act including amendments.

Section 2. Pay in Lieu of Vacation.

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 "B" 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.

ARTICLE XV

VALIDITY OF CONTRACT

If any court shall hold any provision of this contract invalid, such decision shall not invalidate the other provisions.

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, the employee shall be permitted to be absent from work for a period not to exceed two (2) continuous days. One of these days shall be the day of the funeral. The other day may be the day before the funeral or the day after the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for the 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 of the employee, the employee shall be permitted to be absent from work with pay for the purposes 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 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.

Effective January 1, 2005, 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, 2005, the employee's cost share of 18%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2003, through October 31, 2004.

The specific cost share amounts to be effective January 1, 2005, will be constant throughout that year.

(2) Effective January 1, 2006, the employee cost share of 21%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2004, through October 31, 2005.

The specific cost share amounts, per pay period, to become effective January 1, 2006, will be constant throughout that year.

(3) Effective January 1, 2007, the employee cost share of 22%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2005, through October 31, 2006.

The specific cost share amounts, per pay period, to be effective January 1, 2007, will be constant throughout that year.

Effective January 1, 2005, 2006, and 2007, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2005 18%

2006 21%

2007 22%

If the total claims percentage cost share, per pay period, exceeds the capped rates shown below, the capped rates will apply.

2005	2006	2007
18%	21%	22%

Capped Rates:

Employee	$20.00	$24.00	$28.00
Employee & Children	$35.00	$44.00	$52.00
Employee & Spouse	$60.00	$72.00	$86.00
Family	$75.00	$92.00	$110.00

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.

IN WITNESS HEREOF, this instrument is executed on the 17th October, 2004, to be effective as of October 17, 2004, at 12:01 a.m.

EL DORADO CHEMICAL COMPANY

By:

George Hogg, Plant Manager

By:

Larry G. Booth

Directing Business Representative

Members of the Shop Committee:

Jim McKnight

Edward Johnson

Steve Taylor

Dan Fletcher

Jeff Robison

EXHIBIT "A"

BASIC HOURLY WAGE RATE

Classification	10/17/04	10/17/05	10/17/06
"A" Mechanic	$18.42	$18.77	$19.12
"B" Mechanic	$17.30	$17.55	$17.80
"C" Mechanic	$16.82	$16.97	$17.12
"D" Mechanic	$12.66	$12.66	$12.66
"E" Mechanic-New Hire (First 180 Days)	9; **	9; **	9; **

** 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.

ASBESTOS ABATEMENT TEAM PREMIUM

In addition to the foregoing rate, there shall be paid a rate of five cents ($.05) per hour for each hour worked to employees who are fully qualified and designated, in writing, as members of the Asbestos Abatement Team.

EXHIBIT "B"

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 "C"

Part 1

RECOGNIZED MAINTENANCE WORK GROUPS

Group I - Mechanical

Includes work ordinarily done by:

Pipefitter, Plumber

Welder, Lead Burner

Heavy Duty Operator

Rigger

Machinist

General Mechanic

Tank Car Repairman

Carpenter

Painter

Mason, Insulator, Concrete Finisher

Group II - Electrical/Instrumentation

Includes work ordinarily done by:

Electrician

Instrument Repairman

EXHIBIT "D"

EMPLOYEE DUES AUTHORIZATION LETTER

DATE:_____

TO: EL DORADO CHEMICAL COMPANY

El Dorado, Arkansas

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 Local 224, IAM & AW, AFL-CIO, for my account on or before the end of the month during which deductions are made.

"Contributions or gifts to Local Lodge 224, International Association of Machinists and Aerospace Workers are not deductible as charitable contributions for federal income tax purposes. However, they may be tax deductible under other provisions of the Internal Revenue Code."

_____

Employee

EXHIBIT "E"

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.

Dated this 17th day of October, 2004.

EL DORADO CHEMICAL COMPANY

By:

George Hogg, Plant 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

Dan Fletcher

Jeff Robison

EXHIBIT "F"

SHIFT DIFFERENTIAL

LETTER OF UNDERSTANDING

Effective October 17, 2004, in addition to the foregoing 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).

EL DORADO CHEMICAL COMPANY

By:

George Hogg, Plant 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

Dan Fletcher

Jeff Robison

EXHIBIT "G"

LETTER OF UNDERSTANDING

During the commencement of their 2004 negotiations, the Company and Workmen's Committee and its Directing Business Representative, Mr. Larry G. Booth, discussed the crisis in the nitrogen industry, due to many factors, including foreign imports and high natural gas prices, resulting in high ammonia costs, which increased costs of manufacturing of our products; lower selling price of our manufactured products, often below our cost to manufacture and market, because of surplus product and excess production capacity of nitrogen products; fewer products being used by customers because of lower selling prices of their own products; and finally, the impact of the Patriot Act, resulting in farm stores converting to liquid products and urea to avoid the high costs of implementing Patriot Act security systems. The Company has suffered losses in 2001 through 2004.

The Company proposes a three (3) year Agreement, to be effective at 12:01 a.m., October 17, 2004.

Due to the spiraling costs of total maintenance since year 2000 and continuing through 2004, the Company will have the right, on the one (1) year anniversary date, following ratification of our Agreement, to review maintenance performance and efficiency records, and will meet with the Union's committee and Mr. Booth to review and discuss the results at that time.

If the results indicate that maintenance employees have carried out their commitment of increased productivity, cooperation and efficiency, the Company will not seek to contract out the Company's maintenance work during the remaining two (2) years of the Agreement.

However, if Company performance records and other records show otherwise, that the increasing costs of maintenance show that the continued increasing maintenance costs are related to a return to previous productivity levels, then at that point in time, the Company shall have the right to open the contract to discuss sub-contractng out of maintenance work and all contract terms shall revert to a one (1) year period of time just ended.

The Company assures the Union that it will give fair and just consideration to actual events which have occurred which relate to production equipment and mechanical failures before making such a decision.

We sincerely do not believe that this will happen, but because of the continuing spiral of total expenses of maintenance operations, it is a major factor of concern which must be subjected to an in-depth review and scrutiny by the Company.

APPROVED AND ACCEPTED:

INTERNATIONAL ASSOCIATION OF MACHINISTS AND

AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

Larry G. Booth, Directing Business Representative

MEMBERS OF THE SHOP COMMITTEE:

Jim McKnight

Edward Johnson

Steve Taylor

Dan Fletcher

Jeff Robison

For El Dorado Chemical Company

George Hogg, Plant Manager

DATED THIS 17th DAY OF OCTOBER, 2004.

AGREEMENT

between

The United Steelworkers of America
International Union, AFL-CIO, CLC,
Cherokee Local No. 417-G

and

Cherokee Nitrogen Division
Of El Dorado Chemical Company

November 12, 2004 to November 11, 2007

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AGREEMENT

This Agreement was made and entered into this twelfth day of November, 2004, by and between Cherokee Nitrogen Company, Cherokee, Alabama, hereinafter called the "Company" and The United Steelworkers of America International Union AFL-CIO, CLC on behalf of its Local Union 417-G, 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 United Steelworkers of America International Union AFL-CIO, CLC and its Local Union No. 417-G, hereinafter called 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 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.

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.

3. JOB BIDS.

a. Job bids will be made to a primary assignment and shift. The senior bidder will be awarded the job as a trainee or based on Article 4, Section B.2 qualifications. The company will no longer canvass bidders to determine acceptance.

b. An employee will be allowed one (1) successful bid per six (6) month period.

c. An employee who is awarded a job for which he/she is previously qualified will be provided 84 hours of refresher training.

d. Vacancies will be filled on the basis of plant seniority. Fulfillment of assignment requirements by the successful bidder will be determined by management. Bid acceptance will require that the successful bidder qualify on the Chemical Operator Level 1 within 240 training hours. Prior training and experience will allow generally for a shorter training time to pass the exams for the next operator level.

C. ROUTE OF ADVANCEMENT - OPERATIONS.

			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 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 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.

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.

- **Maintenance Level 4**
- **Maintenance Level 3**
- **Maintenance Level 2**
- **Maintenance Level 1**
- **Mechanic 3rd Year Trainee**
- **Mechanic 2nd Year Trainee**
- **Mechanic 1st Year Trainee**
- **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.

The current operating practice is to assign employees to one of the following areas:

Maintenance Area

Ammonia Area

Nitric Acid/Utilities

Nitrate

Urea

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

Permanent vacancies will be filled on the basis of plant-wide seniority. Such vacancies will be posted on the bulletin board for six (6) calendar days for plant-wide bid. The posting shall indicate the primary assignment and shift. The senior bidder will be awarded the job. The Company will no longer canvass bidders to determine acceptance. In considering bids, management will take into consideration seniority, qualifications, skill, and ability of the employee bidding. When all of the factors, which constitute ability, are relatively equal, then plant seniority shall determine the filling of the vacancy.

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. 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.

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 journeyman 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 twenty-four (24) 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.

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 journeyman 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.

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 journeyman 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 (journeyman, 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 (journeyman, 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 two resident groups 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 journeyman who has worked to the lowest in number of call-outs 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 journeyman 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 areas are to be called starting with the lowest qualified employee, and so on until the job is staffed.

2. Production.

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 department 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 department. 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.

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. All employees must obtain written permission from the Company 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

WAGES

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 forty cents ($0.40) 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 sixty cents ($0.60) 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.

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 Company 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, he/she shall make written application in advance to the Plant Manager 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.

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, five dollars ($5.00) 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

WORKMEN'S 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 Workmen's 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.

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.

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 AND PENSION. For the year beginning January 1, 2005, the employee share of the cost of GROUP INSURANCE BENEFITS for the following enrollment categories, payable bi-weekly, is as follows:

Employee only

Employee & Dependents

Effective January 1, 2005, employee cost share will be determined, for the years 2005, 2006, and 2007, based on the employee paying 25% of the actual utilization cost from November 1, of the previous year through October 31 of the current year, payable bi-weekly.

Employee should refer to Summary Plan Descriptions and Flex Plan enrollment materials for details of Preferred Plan Benefits, co-payments, employee premium changes, deductibles, co-insurance coverage and periodic amendments as may be made by the Plan Sponsor from time to time.

Effective with the date of this Agreement, 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. Effective with the date of this Agreement, 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.

Dental and vision coverage will be made available as an option. The employees may elect to purchase the insurance by paying the required premiums each pay period through payroll deductions.

Employees should refer to the Select Summary Plan Description and the Benefit enrollment materials for additional information on coverage.

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

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.

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 arbitrators 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, 2004 and shall remain in effect until and including 12:00 midnight on November 11, 2007 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, 2004:

CHEROKEE NITROGEN COMPANY **Cherokee, Alabama Plant**		**THE UNITED STEELWORKERS OF AMERICA** **AFL-CIO, CLC**
S/Don Phillips Plant Manager		S/Leo W. Gerard International President
S/John Nix Plant Controller		S/Jim English International Secretary Treasurer
		S/Andrew Palm International Vice-President (Administration)
		S/Leon Lynch International Vice-President of Human Affairs
		S/Connie Entrekin District 9 Director

		S/Claude Karr Staff Representative
		S/Terry Daniel President 417-G
		S/R. Longmire, Vice President
		S/Bruce Black, Negotiating Committee
		S/Tim Davis, Negotiating Committee
		S/S. O. Davis, Negotiating Committee
		S/J. D. Thomason, Negotiating Committee

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 thirty-three cents ($.33) Per hour for all hours worked.

Example: An employee whose Standard Hourly Wage Rate is $13.94 per hour would be paid as follows:

Standard Hourly Wage Rate	$13.94
	+ .33

Shift Differential	[illegible]
Subtotal.	$ 14.27
Factor	x .9756
Adjusted Hourly Wage Rate	$13.92
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.

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.

Schedules and Factor Determination

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	40	40
2nd Week	36	36
3rd Week	48	52
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.

LETTER OF UNDERSTANDING

February 22, 2002

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: Troy Martin; Charlie Pounders; J.T. Harrison; 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.

2. J.D. Maxwell, J.F. Oakes, and 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

_____ _____

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ANHYDROUS AMMONIA SALES AGREEMENT

THIS ANHYDROUS AMMONIA SALES AGREEMENT ("Agreement") is entered into on this —— of February, 2005, and made effective January 3, 2005 ("Effective Date"), between KOCH NITROGEN INTERNATIONAL SARL, a Switzerland corporation, with a branch office located at Grand Cayman, Cayman Islands, B.W.I. (hereinafter "KNI") and KOCH NITROGEN COMPANY, a Nebraska corporation, with principal offices at 4111 East 37th Street North, Wichita, Kansas 67220 (hereinafter "KNC" and collectively with KNI, "Koch") and EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, with principal offices at 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107 (hereinafter "Buyer"). Koch and Buyer are sometimes collectively referred to herein as the "Parties" and individually referred to herein as a "Party".

WITNESSETH:

WHEREAS, as specified in this Agreement, Buyer and Koch desire to enter into an anhydrous ammonia sales agreement under which Koch agrees to supply to Buyer, and Buyer agrees to purchase from Koch, 100% of its Product Requirements (as defined below) and

WHEREAS, Koch's intent is to supply Buyer's Product Requirements primarily by pipeline deliveries and supply Buyer's Railcar Product Requirements (as defined below) either by railcar or pipeline. If Product is delivered to Buyer by pipeline, then KNI shall be the primary supplier and shall invoice Buyer. If Product is delivered to Buyer by railcar, then either KNI or KNC, at Koch's option, shall be the supplier and invoice Buyer as applicable.

NOW THEREFORE, in consideration of the mutual promises herein contained, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

I. DEFINITIONS

Whenever used in this Agreement, the following terms shall have the following respective meanings:

A. **"Adder" shall have the same meaning assigned to that term in Article VI, Section B.**

B. **"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with such Person. For purposes of this definition, the term "control" (including the correlative terms "controlled by" and "under the common control of"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, by contract or otherwise.**

C. **"Ammonia Pipeline" shall mean the anhydrous ammonia pipeline currently owned by Kaneb Pipe Line Operating Partnership, L.P.**

D. **"Ammonia Pipeline Tariff" means the Ammonia Pipeline's current tariff for interstate movement of anhydrous ammonia, as amended from time to time.**

E. **"Ammonia Pipeline Transportation Charge" shall have the same meaning assigned to that term in Article VI, Section C.**

F. **"Buyer Facility" shall mean Buyer's chemical production facility located at El Dorado, Arkansas, as presently configured.**

G. ***** [Redacted Text] shall mean the *** [Redacted Text] per metric ton of the weekly price range published under the heading "Ammonia Price Indications, Delivered prices, US Gulf/Tampa, -Tampa" in *Fertecon Ammonia Report* ("Fertecon") and (ii) the *** [Redacted Text] per metric ton of the weekly price range published under the heading "Ammonia c+f Tampa" in the *FMB Weekly Fertilizer Report* ("FMB") for the week Product is delivered by pipeline to Buyer or shipped by railcar to Buyer. For example, if Product is delivered to Buyer by the Ammonia Pipeline during the week from Monday, December 15, 2003 through Sunday, December 21, 2003, the *** [Redacted Text] published in the December 18, 2003 issue of *Fertecon* and the December 18, 2003 issue of *FMB* shall apply. The Parties acknowledge that currently, both Fertecon and FMB publish a price range for Tampa/US Gulf prices and a Tampa only price. T he Tampa only price, as set forth above, shall be used to calculate the *** [Redacted Text]. If either publication or the price contained in such publication that is necessary to calculate the *** [Redacted Text] is not published for a particular week for any reason, then the publication or price, as applicable, from the previous week shall be used to calculate the *** [Redacted Text]. Examples of how *** [Redacted Text] is calculated are set forth on Exhibit 1.**

H. **"Delivery Point" shall mean: (i) for pipeline deliveries, the discharge side of the Ammonia Pipeline's Product meter located at Buyer's Facility, or (ii) for rail or truck deliveries, the point at Buyer's Facility where the truck or rail cars enter Buyer's Facility, or (iii) an alternate delivery point along the Ammonia Pipeline; provided that Buyer gives Koch at least forty-five (45) days written notice prior to the date it wishes to begin delivery at such alternate delivery point.**

I."KNC Facility" shall mean KNC's anhydrous ammonia production facility at Sterlington, Louisiana. Currently, the KNC Facility has one (1) ammonia production unit capable of producing ammonia.

J."KNC Terminal" shall mean KNC's anhydrous ammonia terminal at Taft, Louisiana, capable of receiving ammonia by vessels, loading and shipping ammonia in a barge, and re-injecting ammonia into the Ammonia Pipeline.

K."Month" shall mean a calendar month.

L. "Performance Assurance" means collateral in the form of either cash, letter(s) of credit, or other security acceptable to Seller in its sole discretion.

M. "Person" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, unincorporated organization, business, syndicate, sole proprietorship, association, organization, other entity or governmental body.

N."Price" shall be described in Article VI, Section A hereof.

O."Product" shall mean commercial anhydrous ammonia provided hereunder having the following specifications:

Ammonia (NH_3) Content: 99.5% minimum, by weight %

Water:0.2% minimum to 0.5% maximum, by weight %

Oil:5 ppm maximum, by weight

P."Product Requirements" shall mean total Product purchased by Buyer for Buyer's account for further processing at Buyer's Facility, as adjusted to accommodate Buyer's Railcar Product Requirements. Currently, the Product Requirements during a calendar year at Buyer's Facility are approximately 165,000 short tons, exclusive of any tolling arrangements by Buyer with third parties. Product Requirements shall not include approximately 45,000 short tons of anhydrous ammonia annually, for production of finished product for Orica USA Inc. The 45,000 short tons referenced above shall be excluded from the Product Requirements during the Term of this Agreement, unless Buyer requests and Koch elects, at Koch's sole option, to include such quantity in the Product Requirements. Provided that Buyer has given Koch at least sixty (60) days prior written notice, Product Requirements shall not include Product supplied to Buyer's Facility which shall be produced by Buye r or an Affiliate of Buyer and physically delivered to Buyer's Facility.

Q."Seller" shall mean either KNI or KNC, as the case may be, as the applicable seller of Product hereunder.

R. "short ton" shall mean 2,000 pounds.

S. "Taxes" shall have the same meaning assigned to that term in Article IX hereof.

T. "Total Credit Exposure" shall mean the sum of the (i) outstanding invoice(s) for Product delivered from Koch to Buyer, (ii) the estimated invoice for Product delivered to Buyer but not yet invoiced by Koch, and (iii) the estimated invoice amount for Product that shall be delivered from Koch to Buyer until the payment due date of the oldest outstanding invoice, less the amount of any Performance Assurance.

II. TERM

A. **Term. The term of this Agreement (the "Term") shall commence at 12:01 a.m. central time on January 3, 2005 and shall terminate at 11:59 p.m. on December 31, 2005, ("Original Termination Date") unless otherwise terminated earlier in accordance with this Agreement or**

extended pursuant to Section B below.

B. Renewal. At the Original Termination Date, this Agreement may be extended for a one (1) year period (commencing on January 1st and ending on December 31st) upon the written agreement of both Koch and Buyer made no later than November 1st of the then current year. Notwithstanding the foregoing, neither Party shall be obligated to renew this Agreement.

III. QUANTITY

A. Quantity. During the Term, Buyer shall purchase from Koch one hundred percent (100%) of its Product Requirements for Buyer's Facility. However, in the event Buyer installs railcar unloading capabilities at Buyer's Facility, then Buyer shall have the option to purchase up to twelve percent (12%) of Buyer's Product Requirements during a calendar year from a third party ("Railcar Product Requirements"); provided, such Railcar Product Requirements must be delivered to Buyer's Facility by railcar; and provided further, Buyer gives Koch the right of first refusal to match any bona fide third party railcar delivered price. Buyer shall provide Koch with a written copy of such third party offer. In the event Seller determines to meet the price for any Railcar Product Requirements to Buyer's Facility within two (2) business days after its receipt of a written copy of the third party offer, Sel ler shall have the option to deliver the Railcar Product Requirements to Buyer's Facility either by railcar or pipeline. In addition, if Buyer installs railcar unloading capabilities at Buyer's Facility, then Seller may request, from time to time, that Buyer take delivery of a specified quantity of Buyer's Product Requirements by railcar, instead of delivery by pipeline, during each calendar year; provided Seller gives Buyer thirty (30) days written notice that Seller wants to deliver Product by railcar. Buyer shall make reasonable commercial efforts to accommodate Seller's request as stated above; however, it shall be Buyer's option to grant such request.

B. No Resale. Buyer shall use the Product delivered to Buyer for processing at Buyer's Facility only, and shall not resell, transfer, exchange, or otherwise assign Product without first obtaining the prior written consent of Seller, which consent may be granted or withheld by Seller in its sole discretion.

C. Measurement. The quantity of Product delivered hereunder to Buyer by the Ammonia Pipeline shall be governed by the weights and measures taken by meters owned by the Ammonia Pipeline at the Delivery Point pursuant to the Ammonia Pipeline Tariff. For truck or rail deliveries, the quantity of Product delivered to Buyer shall be governed by the weights and measures taken as the trucks or rail cars are loaded at the KNC Facility, KNC Terminal, alternative Koch supply sources, or at an alternative third party supply source and as stated on the bill of lading. The foregoing measurements of said quantities shall be final and conclusive, unless proven to be in error.

IV. QUALITY

All Product delivered hereunder shall conform to the specifications set forth in Article I, Section O. All claims by Buyer that any Product delivered hereunder does not conform to the specifications set forth in Article I, Section O, shall be made in writing and sent within thirty (30) days after Seller's delivery of such Product to the Delivery Point. Failure to give written notice of such claim within the specified time shall constitute an unqualified acceptance of the Product and a waiver by Buyer of all claims with respect thereto.

V. WARRANTIES

A. As its exclusive warranties, Seller warrants to Buyer that, at the Delivery Point: (i) the Product shall conform to the specifications specifically set forth in Article I, Section O and (ii) title to the Product shall be free from any security interest, lien, or encumbrance. EXCEPT AS SPECIFICALLY SET FORTH IN THE PRECEDING SENTENCE, (I) BUYER acknowledges and agrees that KNI, KNC, AND THEIR RESPECTIVE AFFILIATES haVE not made, do not make, and expressly disclaim any warranties, representations, covenants, or guarantees, either express or implied, whether arising by operation of law or otherwise, as to the merchantability, quantity, CONDITION, OR quality of the PRODUCT or ITS suitability or fitness for any particular purpose or use AND (ii) THE PRODUCT IS SOLD "AS IS".

B. Seller's liability, and Buyer's exclusive remedy, for any cause of action arising out of or related to the breach of the warranty above, is, at Buyer's option, limited to (i) replacement of the non-conforming Product at the Delivery Point or (ii) a refund to Buyer of the portion of the Price allocable to such non-conforming Product. IN NO EVENT WILL SELLER'S CUMULATIVE LIABILITY UNDER THE AGREEMENT EXCEED THE TOTAL SALES PRICE OF THE PRODUCT OR THE COST OF SUBSTITUTE PRODUCT, WHETHER ARISING UNDER WARRANTY, GUARANTEE, CONTRACT, NEGLIGENCE, STRICT LIABILITY, INDEMNIFICATION, FAILURE OF ESSENTIAL PURPOSE OR ANY OTHER CAUSE OR COMBINATION OF CAUSES WHATSOEVER. WITHOUT LIMITATION ON THE FOREGOING, UNDER NO CIRCUMSTANCES SHALL EITHER KOCH OR BUYER BE LIABLE OR HAVE ANY RESPONSIBILITY TO THE OTHER OR ANY OTHER THIRD PARTY FOR ANY INDIRECT, SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES, INCLUDING, WITHOUT LIMITATION, LOST EARNINGS, LOST PROFITS, OR BUSIN ESS INTERRUPTION.

C. The obligations of KNI and KNC under this Agreement are several and not joint. For clarity, KNI shall have no responsibility or liability for any obligation of KNC under this Agreement and KNC shall have no responsibility or liability for any obligation of KNI under this Agreement. Subject to the foregoing and unless otherwise notified by KNI, KNC shall act as agent on the behalf of KNI for the supply of Product by KNI to Buyer and the other functions and services associated with this Agreement.

VI. PRICE

A. Price. Except as set forth below, for each short ton of Product sold to Buyer hereunder, Seller shall charge, and Buyer shall pay to Seller, the following Price:

Price per short ton = *** [Redacted Text].

However, in the event Seller agrees to sell any of Buyer's Railcar Product Requirements as set forth in Article III, Section A, then the Price for each short ton of Product sold to Buyer as Railcar Product Requirements shall be as determined in accordance with Article III, Section A and documented in writing between the Parties. The Price shall be determined on a *** [Redacted Text] basis.

B. Adder. Adder shall equal *** [Redacted Text] per short ton. However, if KNC: (i) resumes ammonia production at the KNC Facility and (ii) operates the KNC Facility at a production rate of at least eighty percent (80%) of such facility's capacity for at least ten (10) consecutive days, then the Adder shall be *** [Redacted Text] per short ton commencing on the 10th day after such conditions have been satisfied. If KNC terminates ammonia production at the KNC Facility, then the Adder shall be *** [Redacted Text] per short ton commencing on the 10th day after such termination.

C. Ammonia Pipeline Transportation Charge. The Ammonia Pipeline Transportation Charge per short ton shall be a flat rate of *** [Redacted Text] per short ton, regardless of whether Koch injects Product into the Ammonia Pipeline at the KNC Terminal, KNC Facility, or an alternative injection point. The *** [Redacted Text] per short ton rate is based upon *** [Redacted Text] per short ton from Sterlington, Louisiana and *** [Redacted Text] per short ton from Taft, Louisiana to the Delivery Point for pipeline deliveries at Buyer's Facility. In the event the *** [Redacted Text] rate changes for the injection points where Seller injects Product for delivery to Buyer, then the flat rate of *** [Redacted Text] per short ton shall change accordingly in proportion to the difference between the revised *** [Redacted Text] rates and the *** [Redacted Text] flat rate. By example only, if the *** [Redacted Text] from Taft, Louisiana increases to *** [Redacted Text] per short ton, then the Amm onia

Pipeline Transportation Charge would increase from *** [Redacted Text] per short ton to *** [Redacted Text] per short ton for Product injected at Taft, Louisiana for delivery to the Delivery Point at Buyer's Facility.

D. Market Publications and Prices. If either (a) Fertecon or FMB or (b) the price contained in such publication that is necessary to calculate the *** [Redacted Text] is not published for three (3) consecutive weeks, then Koch and Buyer shall meet in person, negotiate, and agree on a substitute publication or price, as applicable, within thirty (30) days of such event. During such thirty (30) day period, the publication or price that is published, as applicable, shall solely be used to calculate the Price hereunder. For example, if *FMB* was not published for three (3) consecutive weeks in March 2005, then *Fertecon* would solely be used to calculate the *** [Redacted Text].

E. Demurrage. Railcars shall be allowed ten (10) days of free time from the earlier of constructive or actual placement of the railcar at Buyer's Facility until being released by Buyer to the railroad. In the event Buyer is unable to obtain actual placement of railcars within a reasonable period of time after constructive placement due to issues beyond Buyer's control, then Seller shall adjust the free time allowed provided Buyer has notified Seller of this delay within three (3) business days of the delay. Any excess time shall be billed at $50.00 per car per day.

VII. CREDIT AND PAYMENT TERMS

A. Koch shall provide Buyer a line of credit to facilitate purchases under this Agreement; provided, that in no event shall Buyer's Total Credit Exposure exceed *** [Redacted Text] in the aggregate. Such credit line may be decreased or terminated and shipments may be suspended at any time at the sole discretion of Koch by providing notice to Buyer. Upon written notice of Koch's election to decrease or terminate Buyer's credit line, Buyer may terminate this Agreement. Buyer's failure to give written notice to Koch of the termination of this Agreement within thirty (30) days from the date of such notice shall constitute an unqualified acceptance of such reduction or termination and a waiver by Buyer of the right to terminate this Agreement. In addition to Koch's rights to decrease or terminate Buyer's credit line as set forth in this Article VII, Section A above, and in addition to any other rights or remedies to which Koch may be entitled at law or in equity, in the event that Koch determi nes, in its sole discretion, that (a) the creditworthiness or future performance of Buyer is impaired or unsatisfactory or (b) Buyer's Total Credit Exposure may exceed the established credit line, Koch may (i) immediately suspend deliveries of all Product; or (ii) require prepayment by wire transfer at least two (2) business days prior to a scheduled shipment of Product.

B. Seller shall prepare and fax to Buyer a weekly invoice by Tuesday of every week during the Month in an amount equal to the Price per short ton based on the previous Friday's Price multiplied by the short tons delivered to Buyer during the period from the previous Monday through Sunday based on the meter reading at the Delivery Point provided by Buyer to Seller every Monday. In the event, Seller agrees to sell to Buyer any of Buyer's Railcar Product Requirements as set forth in Article III, Section A, then Seller shall prepare and fax to Buyer a weekly invoice by Tuesday of such week, in an amount equal to the Price per short ton as determined in accordance with Article VI, Section A multiplied by the short tons shipped by Seller to Buyer during the period from the previous Monday through Sunday based on the bill of lading quantity for such railcar shipments during the week. In the event Seller supplies to Buyer both Product Requirements and Railcar Product R equirements during any given week, then Seller shall prepare and fax Buyer two (2) separate invoices. Any Product returned to Seller in a railcar shall be deemed abandoned by Buyer and Buyer shall not receive any credit, payment, or other consideration for any abandoned Product, unless Buyer has provided written notification to Seller that Product in excess of three (3) short tons may remain in the railcar due to operational issues at Buyer's Facility.

C. Twenty-one (21) days after the invoice date, Buyer shall pay the full amount of each invoice by wire transfer of immediately available funds to such account as Seller designates in writing. If the payment due date is a Saturday, Sunday, or holiday where banks are authorized to be closed, Buyer shall make such payment on the business day next succeeding such due date. Interest shall be charged on all past due amounts owed by Buyer hereunder at an interest rate equal to the lesser of 12% per annum and the maximum rate permitted by law, from the payment due date until paid in full (the "Default Rate"). Buyer agrees to accept as originals facsimile copies of invoices from Seller.

D. For invoices prepared and faxed to Buyer by KNI, Buyer shall wire transfer funds to KNI's designated bank account in London as designated on the KNI invoice. The current wiring instructions for payment to KNI are as follows:

Koch Nitrogen International Sarl
JP Morgan Chase London
Account #25090201 USD
SWIFT: CHASGB2L

For invoices prepared and faxed by KNC, Buyer shall wire transfer to KNC's designated bank account in the United States as designated on the KNC invoice. The current wiring instructions for payment to KNC are as follows:

Koch Nitrogen Company
Chase Manhattan Bank
ABA# 021000021
Account# 323-1-91363

VIII. DELIVERY

A. Notices. No later than the 1st calendar day of the Month immediately prior to the Month of delivery of Product, Buyer shall notify Koch in writing of the amount of short tons and method of delivery that Buyer wishes to receive for such Month of delivery. Buyer shall promptly notify Koch in writing of any known or anticipated changes that will not permit Buyer to receive the monthly quantity of Product.

B. Title and Risk of Loss. Seller shall deliver the Product hereunder to Buyer at the Delivery Point. Title and risk of loss of Product shall pass from Seller to Buyer and delivery shall occur when the Product passes the Delivery Point. Prior to delivery and transfer of title and risk of loss of the Product to Buyer, Seller agrees to be responsible for any damages or injury arising in connection with the Product. At and after delivery and transfer of title and risk of loss of the Product to Buyer, Buyer agrees to be responsible for any damages or injury arising in connection with the Product.

C. Shipper of Record. Seller shall be the shipper of record for delivery of Product on the Ammonia Pipeline to Buyer at Buyer's Facility.

IX. TAXES

Buyer shall pay all material taxes, assessments, duties, fees, levies, penalties, licenses or charges imposed by any government authority ("Taxes") which may now or hereafter be imposed on or with respect to the Product at or after title and risk of loss passes to Buyer, provided that in no event shall Buyer be required to pay any Taxes in an amount in excess of the Taxes that would have been owing had KNC been the sole Seller under this Agreement. If Seller is required to remit or pay Taxes that are Buyer's responsibility hereunder, Buyer shall reimburse Seller for such Taxes within ten (10) days of receipt of written notice hereunder. As the Buyer is assessed Taxes, both Parties agree to mutually work together to mitigate any assessment.

X. FORCE MAJEURE

A. Neither Koch nor Buyer shall be liable for any failure or delay in performance under this Agreement (except for the obligation to make money payments due hereunder for Product already purchased) due to a Force Majeure event. A "Force Majeure" event shall mean any event which may be due in whole or in part to any contingency, delay, failure, cause or other occurrence of any nature beyond a Party's reasonable control, which (i) physically prevents Koch from transporting or delivering the Product to or from the (a) KNC Terminal or (b) the Ammonia Pipeline, or (ii) which physically prevents Buyer from receiving or using Product at Buyer's Facility. Examples of Force Majeure events shall include, but not be limited to, the following: (a) physical events such as acts of God, disease, plague, landslides, lightning, earthquakes, fires, storms such as hurricanes or tornados, or explosions; (b) acts of ot hers such as terrorist attacks, riots, sabotage, insurrections or wars; (c) breakage or accident to critical machinery or critical equipment; and (d) material allocation or material curtailment of natural gas or electricity, in either case under (c) or (d), rendering a Party incapable of satisfying its obligations under this Agreement (except for the obligation to make money payments due hereunder for Product already purchased) for more than fifteen (15) consecutive days or twenty (20) days in any thirty (30) day period.

B. The term "Force Majeure" shall not include (i) an event caused by a Party's sole negligence or willful misconduct; (ii) Koch's ability to sell, or Buyer's ability to purchase from a third party, Product at a price more advantageous than the Price; (iii) Buyer's loss of markets for products produced at Buyer's Facility; (iv) shutdown of KNC's Terminal or Buyer's Facility for reasons other than a Force Majeure event; and (v) routine or scheduled maintenance at KNC's Terminal or Buyer's Facility.

C. If a Force Majeure event occurs, the declaring Party may exercise its right under this Article X by giving timely notice thereof to the other Party setting forth with reasonable particularity the nature of the Force Majeure event. The declaring Party shall only be excused from performance hereunder during the duration of, and only to the extent of, the Force Majeure event. Under no circumstance shall (i) Koch be obligated to cure any deficiencies in deliveries of Product caused by Force Majeure or (ii) Buyer be obligated to cure any deficiencies in Product purchased caused by Force Majeure. Further, neither Koch nor Buyer (except as set forth in Article X, Section D below) shall be obligated to take any action which would result in increasing such Party's performance costs under this Agreement beyond the costs which it would have incurred in the absence of such Force Majeure event. The declaring Party shall give the other Party prompt notice of when the Forc e Majeure event ends.

D. Notwithstanding any other provision of this Agreement, if the Ammonia Pipeline is interrupted or curtailed due to a Force Majeure event which prevents or delays Koch from making all or a portion of the required deliveries of Product hereunder, Koch shall use commercially reasonable efforts to arrange, at Buyer's cost and expense, rail or trucking transportation service from an alternative supply source to Buyer's Facility. Ammonia Pipeline allocation shall not constitute a Force Majeure event; provided, however, that a mechanical breakdown or any interruption of the Ammonia Pipeline may constitute a Force Majeure event. For the duration of the Force Majeure event, if (i) Koch's deliveries of Product to Buyer are impeded due to a Force Majeure event, or (ii) the Ammonia Pipeline is allocated or curtailed, Koch shall have the right to apportion deliveries on a pro-rata basis (based up Koch's sales commitments or contracts) among Buyer, Koch's present and futur e customers (including regular customers not then under contract), and Koch or its Affiliates. Notwithstanding any other provision of this Agreement, Koch

shall not be required to (a) resume ammonia production at the KNC Facility or (b) to purchase Product from a third party, in either case, to remove a Force Majeure event.

XI. DEFAULT AND REMEDIES

A. Defaults by Buyer. Upon the occurrence of any of the following events: (i) either KNI or KNC shall not have received any payment due from Buyer hereunder by the date such payment is due under this Agreement, and such failure shall remain uncured for a period of two (2) business days after written notice thereof; (ii) the failure of Buyer to perform any other obligation in this Agreement and such failure is not excused or cured within five (5) business days after written notice thereof; (iii) the occurrence of a Bankruptcy Event with respect to Buyer or its Affiliates; or (iv) the failure by any Performance Assurance provider of Buyer to perform any obligation of such Performance Assurance provider under any document executed and delivered in connection herewith, and such failure shall remain uncured for a period of three (3) business days after written notice thereof; then either KNI or KNC, in their sole discretion and without prior notice to Buyer, may do any one or more of the following: (a) suspend performance under the Agreement; (b) terminate the Agreement, whereby any and all obligations of Buyer, including payments due, will, at the option of Koch, become immediately due and payable; and/or (c) Set-off against any amount that Koch owes to Buyer under this Agreement. If either KNI or KNC suspends performance and withholds delivery of the Product as permitted above, it may sell the Product to a third party and deduct from the proceeds of such sale the purchase price and all reasonable costs resulting from Buyer's default as identified above, including, without limitation, all costs associated with the transportation, storage, and sale of the Product. The foregoing rights, which shall include, but not be limited to, specific performance, shall be cumulative and alternative and in addition to any other rights or remedies to which Koch may be entitled at law or in equity. In addition, Koch sh all be entitled to recover from Buyer all court costs, attorneys' fees and expenses incurred by Koch in connection with Buyer's default, and interest on past due amounts at the Default Rate. "Set-off" means set-off, offset, combination of accounts, netting of dollar amounts of monetary obligations, right of retention or withholding or similar right to which Koch is entitled (whether arising under this Agreement, applicable law, or in equity) that is exercised by Koch. "Bankruptcy Event" means the occurrence of any of the following events with respect to a Person: (i) filing of a petition or otherwise commencing, authorizing or acquiescing in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or if any such petition is filed or commenced against it; (ii) making of an assignment or any general arrangement for the benefit of creditors; (iii) having a bankruptcy petition filed against it and such petition is not withdrawn or dismissed within sixty (60) days after such filing; (iv) otherwise becoming bankrupt or insolvent (however evidenced); (v) having a liquidator, administrator, custodian, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (vi) being generally unable to pay its debts as they fall due.

B. Defaults by Koch. Upon the occurrence of any of the following events: (i) the failure of Seller to perform any obligation in this Agreement and such failure is not excused or cured within ten (10) days after written notice thereof; provided, however, that Seller shall have an additional ten (10) day period (commencing immediately upon the expiration of the initial ten (10) day period) to cure such failure if Seller commences curative action within such ten (10) day period and proceeds diligently and in good faith thereafter to cure such failure until completion or (ii) a Bankruptcy Event with respect to Koch, then Buyer, in its sole discretion and without limitation, may terminate this Agreement, and Buyer's remedies shall be cumulative and alternative and in addition to any other rights or remedies to which Buyer may be entitled at law or in equity. Subject to Article V, Section C, if Buyer is the prevai ling party in any action, litigation, or lawsuit against Seller for its default hereunder, Buyer shall be entitled to recover from Seller all court costs, attorneys' fees and expenses incurred by Buyer in connection with Seller's default hereunder, and interest on past due amounts at the Default Rate. In addition to the foregoing, if: (i) Seller fails to perform a material obligation in this Agreement and (ii) Buyer notifies it in writing of such failure, then only while such failure remains uncured, Buyer may purchase Product from another Person and Buyer's Product Requirements shall be reduced by the amount of Product Buyer purchased from such other Person.

XII. RIGHTS NOT WAIVED

The waiver by either Party of any default of this Agreement by another Party shall not be deemed to be a waiver of any successive or other default of this Agreement. Each and every right, power and remedy may be excused from time to time and so often and in such order as may be deemed expedient by the Party, and the exercise of any such right, power or remedy shall not be deemed a waiver of the right to exercise at the same time or thereafter, any other right, power or remedy.

XIII. NOTICES

Any notices, requests or other communications required or permitted by any provision of this Agreement shall be in writing and shall be deemed delivered if delivered by hand, facsimile, national overnight courier service, or mailed by U.S. Postal Service, postage prepaid, by registered or certified mail, as follows:

If to KNI:

Koch Nitrogen International Sarl
P.O. Box 31359 SMB
Grand Cayman, Cayman Islands, B.W.I.
Attention: Jamil Toubassi, Managing Director
Fax: (316) 828-9223

With copy to KNC:
Koch Nitrogen Company
4111 East 37th Street North
Wichita, Kansas 67220
Attention: Randy J. Morris, Sr. VP Marketing
Fax: (316) 828-4084

If to KNC:

Koch Nitrogen Company
4111 East 37th Street North
Wichita, Kansas 67220
Attention: Randy J. Morris, Sr. VP Marketing
Fax: (316) 828-4084

With copy to:

Koch Nitrogen Company
4111 East 37th Street North
Wichita, Kansas 67220
Attention: Jeff Brenner, Legal Counsel
Fax: (316) 828-3133

If to Buyer:

El Dorado Chemical Company
16 S. Pennsylvania
Oklahoma City, OK 73107
Attention: Tony M. Shelby
Fax: (405) 236-5067

With copy to:

El Dorado Chemical Company
16 S. Pennsylvania
Oklahoma City, OK 73107
Attn: David Shear, General Counsel
Fax: (405) 236-1209

Any Party may change the address to which notices are given by mailing written notice thereof to the other Party as provided above.

XIV. ASSIGNMENT

No Party shall assign or delegate, or permit by assignment or delegation, by operation of law or otherwise, any of its rights and obligations under this Agreement to any Person without first obtaining the prior written consent of the other Parties, which consent shall not be unreasonably withheld, conditioned, delayed or denied. Notwithstanding the foregoing, each Party shall be allowed to assign this Agreement to

an Affiliate upon providing written notice to the other Parties, provided no such transfer shall operate to relieve the transferring Party of its obligations hereunder. Any assignment or delegation, or attempted assignment or delegation, in violation of this Article XIV shall be null and void, shall be considered a material breach of this Agreement, and shall permit the other Parties, in addition to any other rights which it may hereunder or at law or in equity, to terminate this Agreement and exercise any remedies available to the non - -breaching Party hereunder or at law or in equity.

XV. ENTIRE AGREEMENT; AMENDMENT

This Agreement shall supersede all prior negotiations, discussions, and dealings concerning the subject matter hereof, and shall constitute the entire agreement between KNI, KNC and Buyer concerning the subject matter hereof. No Party shall claim any amendment, modification or release of any provisions hereof unless the same is in writing and such writing: (i) specifically refers to this Agreement; (ii) specifically identifies the term amended; and (iii) is signed by duly authorized representatives of KNI, KNC and Buyer.

XVI. CONFIDENTIALITY

Except (i) as may be agreed to in writing on a case by case basis, (ii) for communications between Buyer and Orica USA, Inc., (iii) as may be necessary to perform its obligations herein, or (iv) as required by law, both Parties shall maintain in confidence all information concerning costs and price to be disclosed in connection with the other's performance under this Agreement. Such information shall be disclosed to no one other than officers and other employees who need to know the same in connection with performance under this Agreement, and such officers and other employees shall be advised of the confidential nature of such information, or when disclosure is required by law. The Parties shall take all proper precautions to prevent such information from being acquired by any unauthorized person or entity.

XVII. ARTICLE AND SECTION HEADINGS

Article and section headings are for the convenience of the Parties and are not considered parts of this Agreement, it being stipulated that any headings in conflict with the substantive provisions of this Agreement shall have no force and effect.

XVIII. GOVERNING LAW; NO JURY TRIAL

The Agreement and its execution, performance, interpretation, construction and enforcement shall be governed by the law, both procedural and substantive, of the State of Kansas, without regard to its conflicts of law rules. No course of dealing, course of performance, or usage of trade shall be considered in the interpretation or enforcement of this Agreement. Any action or proceeding between Seller and Buyer relating to this Agreement shall be commenced and maintained exclusively in the State of Kansas or in the Federal courts governing Kansas, and each Party submits itself unconditionally and irrevocably to the personal jurisdiction of such courts. EACH PARTY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION, CLAIM OR PROCEEDING RELATING TO THIS AGREEMENT.

XIX. SEVERABILITY

The provisions of this Agreement are severable and, if any provisions are determined to be void or unenforceable in whole or in part, the remaining provisions shall remain unaffected and shall be binding and enforceable in accordance with the terms hereof.

XX. MISCELLANEOUS

A. *Additional Rules of Interpretation and Construction.*

1. No Construction Against Draftsman. No implications or inferences shall be drawn from the deletion of or addition to the terms of previous drafts of this Agreement. Koch and Buyer acknowledge that each has had the opportunity to participate in the preparation of this Agreement and, therefore, in the event of any ambiguity in, or controversy with respect to the meaning of, any term or provision contained in this Agreement, no presumption or inference shall be drawn against any Party in the interpretation of this Agreement by reason of the participation by such Party or its attorneys in the preparation of this Agreement.

2. *Gender.* Words of any gender in this Agreement shall include the other gender, and words in the singular number shall include the plural, when the context requires.

3. *Days.* The term "days", as used herein, shall mean actual days occurring, including, Saturdays, Sundays and national holidays. The term "business days" shall mean days other than Saturdays, Sundays and national holidays.

3. *Counterparts.* This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which executed counterparts together shall constitute one agreement.

B. *Binding Effect.* Without limitation of the foregoing, this Agreement shall inure to the benefit of and be binding upon KNI, KNC and Buyer, including their respective successors and assigns.

C. *Brokers.* Any commissions, fees and expenses in connection with any broker or agent retained by Koch shall be the sole responsibility of Koch. Any commissions, fees and expenses in connection with any broker or agent retained by Buyer shall be the sole responsibility of Buyer.

D. *Independent Contractors.* Koch and Buyer are independent contractors only and are not partners, master/servant, principal/agent or involved herein as parties to any other similar legal relationship with respect to the transactions contemplated under this Agreement or otherwise, and no fiduciary, trust, or advisor relationship, nor any other relationship imposing vicarious liability shall exist between the parties under this Agreement or otherwise at law.

E. *No Third Party Beneficiaries*. This Agreement is solely for the benefit of, and shall inure to the benefit of, Buyer, KNI and KNC, and shall not otherwise be deemed to confer upon or give to any third party any right, claim, cause of action or other interest herein.

F. *Survival of Terms and Conditions.* This Agreement, and all covenants, promises, agreements, conditions, warranties, representations and understandings contained herein, or contained in any modification, change or amendment of this Agreement pursuant to Article XV hereof, shall survive the termination or expiration of the term of this Agreement for purposes of enforcement of rights occurring prior to such termination or expiration.

[signature page to follow]

IN WITNESS WHEREOF, the Parties have executed this Agreement to be effective on the Effective Date by their respective officers thereunto duly authorized.

KOCH NITROGEN INTERNATIONAL SARL

By: /s/ Jamil Toubassi

Title: Attorney in Fact

KOCH NITROGEN COMPANY

By: /s/ Randy Morris

Title: Senior Vice President Marketing

EL DORADO CHEMICAL COMPANY

By: /s/ Paul Rydlund

Title: President

[SIGNATURE PAGE]

EXHIBIT 1

Examples of how the CFR Tampa Low Price is calculated in Article I, Section G is as follows:

Fertecon Ammonia Report FMB Weekly Fertilizer Report

***** [Redacted Text]**

***** [Redacted Text] *** [Redacted Text]**

Publication Date	*** [Redacted Text]	*** [Redacted Text]
December 4, 2003	*** [Redacted Text]	*** [Redacted Text]
December 11, 2003	*** [Redacted Text]	*** [Redacted Text]
December 18, 2003	*** [Redacted Text]	*** [Redacted Text]
December 25, 2003	*** [Redacted Text]	*** [Redacted Text]

Delivery Dates	**Publication Date Used**	***** [Redacted Text]**
December 1 to 7, 2003	**December 4, 2003**	***** [Redacted Text]**
December 8 to 14, 2003	**December 11, 2003**	***** [Redacted Text]**
December 15 to 21, 2003	**December 18, 2003**	***** [Redacted Text]**
December 22 to 28, 2003	**December 18, 2003**	***** [Redacted Text]**

All prices in the above example are stated as a dollar ($) per metric ton price.

LSB INDUSTRIES, INC. Print Date: 3/24/05
SUBSIDIARY LISTING
Revised September 13, 2004

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.**
    - **Crystal City Nitrogen Company (f/k/a Saffron Corporation)**
  - **L&S Automotive Technologies, Inc. (f/k/a L&S Automotive Products Co.)**
  - **Climate Master International Limited**
  - **Cherokee Nitrogen Holdings, Inc. (f/k/a Cherokee Nitrogen Company)**

- ***Climate Mate, Inc.***

- ***The Environmental Group International Limited***

- ***ClimateCraft Technologies, Inc.***

- ***LSA Technologies Inc.***

INDUSTRIAL PRODUCTS BUSINESS

- ***Summit Machine Tool Manufacturing Corp.***
  - **Summit Machinery Company**
    - **Tower Land Development Corp.**
    - **Clipmate Corporation (20% held by Waldock and Starrett)**
    - **Pryor Plant Chemical Company (f/k/a LSB Financial Corp.)**

- ***Hercules Energy Mfg. Corporation***

ENVIRONMENTAL/CHEMICAL BUSINESS

- **ThermaClime, Inc. (f/k/a ClimaChem, Inc.) (95% stock ownership)**
  - **Northwest Financial Corporation**
  - **LSB Chemical Corp.**
    - **El Dorado Chemical Company**
      - **Chemex I Corp. (f/k/a Slurry Explosive Corporation)**
    - **DSN Corporation**
    - **Chemex II Corp. (f/k/a Universal Tech Corporation)**
    - **El Dorado Nitric Company (f/k/a El Dorado Nitrogen Company, f/k/a LSB Nitrogen Corporation, f/k/a LSB Import Corp.)**
      - **El Dorado Acid, L.L.C. (General Partner of El Dorado Nitrogen, L.P.)**
        - **El Dorado Nitrogen, L.P. (1% ownership)**
      - **El Dorado Acid II, L.L.C. (Limited Partner of El Dorado Nitrogen, L.P.)**
        - **El Dorado Nitrogen, L.P. (99% ownership)**
  - **XpediAir, Inc. (f/k/a The Environmental Group, Inc.)**
  - **International Environmental Corporation**
  - **Climate Master, Inc.**
  - **The Climate Control Group, Inc. (f/k/a APR Corporation)**
  - **ClimateCraft, Inc. (f/k/a Summit Machine Tool Systems, Inc.)**
  - **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 of 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, and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectuses of our report dated March 23, 2005, with respect to the consolidated financial statements and schedules of LSB Industries, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
March 23, 2005

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)) for the registrant and have:

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

b. [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(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 25, 2005

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

Exhibit 31.2

CERTIFICATION

I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of LSB Industries, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

b. [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(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 25, 2005

/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, 2004, 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 25, 2005

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, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. 1350, to 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tony M. Shelby
Tony M. Shelby
Executive Vice President of Finance
and Chief Financial Officer

March 25, 2005

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.