

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

**Form 10-Q**

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

For the quarterly period ended September 30, 2010

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

State or other jurisdiction of  
incorporation or organization

73-1015226

I.R.S. Employer Identification No.

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma

Address of principal executive offices

73107

(Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

Former name, former address and former fiscal year, if changed since last report.

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

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

(Facing Sheet Continued)

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the Registrant's voting common stock, as of October 29, 2010 was 21,100,983 shares, excluding 4,320,462 shares held as treasury stock.

FORM 10-Q OF LSB INDUSTRIES, INC.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Information at September 30, 2010 is unaudited)**

	September 30, 2010	December 31, 2009
	(In Thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 51,437	\$ 61,739
Restricted cash	197	30
Short-term investments	10,004	10,051
Accounts receivable, net	71,439	57,762
Inventories:		
Finished goods	29,211	25,753
Work in process	3,289	2,466
Raw materials	20,566	22,794
Total inventories	<u>53,066</u>	<u>51,013</u>
Supplies, prepaid items and other:		
Prepaid income taxes	1,396	1,642
Prepaid insurance	997	4,136
Precious metals	12,919	13,083
Supplies	6,575	4,886
Other	1,948	1,626
Total supplies, prepaid items and other	<u>23,835</u>	<u>25,373</u>
Deferred income taxes	5,605	5,527
Total current assets	<u>215,583</u>	<u>211,495</u>
Property, plant and equipment, net	133,717	117,962
Other assets:		
Debt issuance costs, net	1,197	1,652
Investment in affiliate	4,132	3,838
Goodwill	1,724	1,724
Other, net	2,745	1,962
Total other assets	<u>9,798</u>	<u>9,176</u>
	<u>\$ 359,098</u>	<u>\$ 338,633</u>

(Continued on following page)

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**  
**(Information at September 30, 2010 is unaudited)**

	September 30, 2010	December 31, 2009
	(In Thousands)	
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 43,956	\$ 37,553
Short-term financing	-	3,017
Accrued and other liabilities	27,020	23,054
Current portion of long-term debt	3,475	3,205
Total current liabilities	<u>74,451</u>	<u>66,829</u>
Long-term debt	97,456	98,596
Noncurrent accrued and other liabilities	12,095	10,626
Deferred income taxes	14,474	11,975
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 25,419,795 shares issued (25,369,095 at December 31, 2009)	2,542	2,537
Capital in excess of par value	131,152	129,941
Retained earnings	<u>52,302</u>	<u>41,082</u>
	188,996	176,560
Less treasury stock at cost:		
Common stock, 4,320,462 shares (4,143,362 at December 31, 2009)	<u>28,374</u>	<u>25,953</u>
Total stockholders' equity	<u>160,622</u>	<u>150,607</u>
	<u>\$ 359,098</u>	<u>\$ 338,633</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**Nine and Three Months Ended September 30, 2010 and 2009**

	Nine Months		Three Months	
	2010	2009	2010	2009
	(In Thousands, Except Per Share Amounts)			
Net sales	\$ 437,750	\$ 416,538	\$ 138,948	\$ 127,778
Cost of sales	344,897	307,330	109,509	97,125
Gross profit	92,853	109,208	29,439	30,653
Selling, general and administrative expense	70,775	70,548	23,948	26,127
Provision for (recoveries of) losses on accounts receivable	(14)	189	21	161
Other expense	575	461	273	127
Other income	(4,179)	(222)	(3,273)	(32)
Operating income	25,696	38,232	8,470	4,270
Interest expense	5,943	5,139	1,864	2,200
Losses (gains) on extinguishment of debt	52	(1,796)	-	(53)
Non-operating other income, net	(48)	(72)	(10)	(38)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	19,749	34,961	6,616	2,161
Provisions for income taxes	8,821	14,110	2,930	1,310
Equity in earnings of affiliate	(719)	(740)	(191)	(252)
Income from continuing operations	11,647	21,591	3,877	1,103
Net loss from discontinued operations	122	45	79	30
Net income	11,525	21,546	3,798	1,073
Dividends on preferred stocks	305	306	-	-
Net income applicable to common stock	\$ 11,220	\$ 21,240	\$ 3,798	\$ 1,073
Weighted-average common shares:				
Basic	21,182	21,279	21,094	21,487
Diluted	22,281	23,623	22,193	22,633
Income per common share:				
Basic	\$ .53	\$ 1.00	\$ .18	\$ .05
Diluted	\$ .52	\$ .95	\$ .17	\$ .05

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**Nine Months Ended September 30, 2010**

	Common Stock Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock- Common	Total
	(In Thousands)						
Balance at December 31, 2009	25,369	\$ 3,000	\$ 2,537	\$129,941	\$ 41,082	\$ (25,953)	\$150,607
Net income					11,525		11,525
Dividends paid on preferred stocks					(305)		(305)
Stock-based compensation				752			752
Exercise of stock options	50		5	342			347
Excess income tax benefit associated with stock-based compensation				116			116
Acquisition of 177,100 shares of common stock						(2,421)	(2,421)
Conversion of 14 shares of redeemable preferred stock to common stock	1			1			1
Balance at September 30, 2010	25,420	\$ 3,000	\$ 2,542	\$131,152	\$ 52,302	\$ (28,374)	\$160,622

Note: For the nine and three months ended September 30, 2010, total comprehensive income was \$11,525,000 and \$3,798,000, respectively. For the nine and three months ended September 30, 2009, total comprehensive income was \$21,666,000 and \$1,073,000, respectively.

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**Nine Months Ended September 30, 2010 and 2009**

	2010	2009
	(In Thousands)	
<b>Cash flows from continuing operating activities:</b>		
Net income	\$ 11,525	\$ 21,546
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Net loss from discontinued operations	122	45
Deferred income taxes	2,325	9,373
Loss (gain) on extinguishment of debt	52	(1,796)
Losses on sales and disposals of property and equipment	508	340
Gain on property insurance recoveries associated with property, plant and equipment	(3,964)	-
Depreciation of property, plant and equipment	12,880	11,573
Amortization	466	605
Stock-based compensation	752	768
Provision for (recovery of) losses on accounts receivable	(14)	189
Realization of losses on inventory	(86)	(3,186)
Provision for (realization of) losses on firm sales commitments	(337)	1,310
Equity in earnings of affiliate	(719)	(740)
Distributions received from affiliate	425	560
Changes in fair value of commodities contracts	(141)	(236)
Changes in fair value of interest rate contracts	344	(314)
Other	(10)	-
Cash provided (used) by changes in assets and liabilities:		
Accounts receivable	(14,373)	11,889
Inventories	(1,967)	16,418
Prepaid and accrued income taxes	319	(2,415)
Other supplies and prepaid items	1,449	(238)
Accounts payable	6,635	(8,957)
Customer deposits	2,306	(2,279)
Accrued payroll and benefits	1,794	706
Commodities contracts	150	(5,072)
Deferred rent expense	-	(1,424)
Other current and noncurrent liabilities	2,244	(639)
Net cash provided by continuing operating activities	22,685	48,026
Capital expenditures	(26,129)	(22,221)
Proceeds from property insurance recoveries associated with property, plant and equipment	5,293	-
Proceeds from sales of property and equipment	44	14
Proceeds from short-term investments	20,053	-
Purchase of short-term investments	(20,006)	(10,000)
Proceeds from (deposits of) restricted cash	(167)	862
Other assets	(427)	(289)
Net cash used by continuing investing activities	(21,339)	(31,634)

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**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
**(Unaudited)**  
**Nine Months Ended September 30, 2010 and 2009**

	2010	2009
	(In Thousands)	
<b>Cash flows from continuing financing activities:</b>		
Proceeds from revolving debt facilities	\$ 394,221	\$ 396,794
Payments on revolving debt facilities	(394,221)	(396,794)
Acquisition of 5.5% convertible debentures	(2,494)	(7,953)
Proceeds from other long-term debt, net of fees	47	8,566
Payments on other long-term debt	(3,370)	(1,600)
Payments of debt issuance costs	-	(26)
Payments on loans secured by cash value of life insurance policies	(380)	-
Payments on short-term financing	(3,017)	(2,228)
Proceeds from exercise of stock options	347	601
Purchase of treasury stock	(2,421)	-
Excess income tax benefit associated with stock-based compensation	212	631
Dividends paid on preferred stocks	(305)	(306)
Net cash used by continuing financing activities	(11,381)	(2,315)
<b>Cash flows of discontinued operations:</b>		
Operating cash flows	(267)	(94)
Net increase (decrease) in cash and cash equivalents	(10,302)	13,983
Cash and cash equivalents at beginning of period	61,739	46,204
Cash and cash equivalents at end of period	<u>\$ 51,437</u>	<u>\$ 60,187</u>
<b>Supplemental cash flow information:</b>		
Cash payments for income taxes, net of refunds	\$ 5,993	\$ 6,521
<b>Noncash investing and financing activities:</b>		
Receivable associated with a property insurance claim	\$ 171	\$ 1,210
Current other assets, accounts payable, other current and noncurrent liabilities and long-term debt associated with property, plant and equipment	\$ 7,272	\$ 3,866
Debt issuance costs associated with the acquisition of the 5.5% convertible debentures	\$ 58	\$ 351

See accompanying notes.

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

**Note 1: Basis of Presentation** The accompanying condensed consolidated financial statements include the accounts of LSB Industries, Inc. (the “Company”, “We”, “Us”, or “Our”) and its subsidiaries. Through our subsidiaries, we are a manufacturing, marketing and engineering company. Our subsidiaries are primarily engaged in the manufacture and sale of geothermal and water source heat pumps and air handling products (the “Climate Control Business”) and the manufacture and sale of chemical products (the “Chemical Business”). The Company is a holding company with no significant operations or assets other than cash, cash equivalents, and our investments in our subsidiaries. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of September 30, 2010 and for the nine and three-month periods ended September 30, 2010 and 2009 include all adjustments and accruals, consisting of normal, recurring accrual adjustments except for an additional income tax provision as discussed in Note 15 – Income Taxes, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2009 (“2009 Form 10-K”).

Certain reclassifications have been made in our condensed consolidated statement of cash flows for the nine months ended September 30, 2009 to conform to our condensed consolidated statement of cash flows presentation for the nine months ended September 30, 2010, which reclassifications expanded our continuing operating activity line items. These reclassifications did not impact the total amount of net cash provided by continuing operating activities for the nine months ended September 30, 2009.

**Note 2: Recently Issued Accounting Pronouncements** In January 2010, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update requiring additional disclosures about an entity’s derivative and hedging activities for the purpose of improving the transparency of financial reporting. A portion of the new disclosure requirements became effective for the Company on January 1, 2010 and were applied prospectively. The remaining new disclosure requirements will become effective for the Company on January 1, 2011. See Note 13 - Derivatives, Hedges and Financial Instruments.

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

**Note 3: Changes in Accounting Estimates** During the three months ended September 30, 2010, we had the following change in accounting estimates relating to our Climate Control Business:

- a decrease in our inventory shrink reserves of \$390,000.

The net effect of this change in accounting estimates increased income from continuing operations by \$390,000 and net income by \$234,000 for the nine and three months ended September 30, 2010. In addition, this change in accounting estimates increased basic and diluted net income per share by \$.01 and \$.01, respectively, for the nine months ended September 30, 2010 and \$.01 and \$.01, respectively, for the three months ended September 30, 2010.

During the three months ended September 30, 2009, we had the following changes in accounting estimates relating primarily to our Climate Control Business:

- a decrease in our estimated costs to complete a construction contract of \$575,000, which contract was substantially completed during the third quarter,
- a decrease in our inventory shrink reserves of \$238,000, and
- an increase in our accrued vacation of \$205,000.

The net effect of these changes in accounting estimates increased income from continuing operations by \$608,000 and net income by \$371,000 for the nine and three months ended September 30, 2009. In addition, these changes in accounting estimates increased basic and diluted net income per share by \$.02 and \$.02, respectively, for the nine months ended September 30, 2009 and \$.02 and \$.02, respectively, for the three months ended September 30, 2009.

**Note 4: Short-Term Investments** Investments, which consist of certificates of deposit with an original maturity of 13 weeks, are considered short-term investments. These investments are carried at cost, which approximates fair value. All of these investments were held by financial institutions within the United States and none of these investments were in excess of the federally insured limits.

**Note 5: Accounts Receivable, net** Our accounts receivable, net, consists of the following:

	September 30, 2010	December 31, 2009
	(In Thousands)	
Trade receivables	\$ 70,890	\$ 55,318
Insurance claims	-	1,517
Other	1,096	1,603
	71,986	58,438
Allowance for doubtful accounts	(547)	(676)
	<u>\$ 71,439</u>	<u>\$ 57,762</u>

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

**Note 6: Inventories** Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out (“FIFO”) basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At September 30, 2010 and December 31, 2009, inventory reserves for certain slow-moving inventory items (Climate Control products) were \$1,447,000 and \$1,198,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were \$88,000 and \$478,000, at September 30, 2010 and December 31, 2009, respectively, because cost exceeded the net realizable value.

Changes in our inventory reserves are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance at beginning of period	\$ 1,676	\$ 4,141	\$ 1,302	\$ 1,064
Provision for (realization of) losses	(87)	(3,186)	237	(162)
Write-offs/disposals	(54)	(57)	(4)	(4)
Balance at end of period	<u>\$ 1,535</u>	<u>\$ 898</u>	<u>\$ 1,535</u>	<u>\$ 898</u>

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

**Note 7: Precious Metals** Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed.

Occasionally, during major maintenance and/or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within our manufacturing equipment. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals.

Precious metals expense, net, consists of the following:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
Precious metals expense	\$ 4,508	\$ 4,354	\$ 1,047	\$ 1,075
Recoveries of precious metals	(751)	(2,456)	(751)	(234)
Gains on sales of precious metals	(112)	-	-	-
Precious metals expense, net	<u>\$ 3,645</u>	<u>\$ 1,898</u>	<u>\$ 296</u>	<u>\$ 841</u>

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

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

**Note 8: Investment in Affiliate** Cepolk Holdings, Inc. (“CHI”), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership (“Partnership”), which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana (“Project”). During September 2010, the Partnership repaid its indebtedness to a term lender (“Term Lender”) of the Project. CHI had entered into a non-recourse guaranty of the partnership’s indebtedness to the Term Lender. In connection with the non-recourse guaranty, CHI had pledged its limited partnership interest in the Partnership to the Term Lender. CHI’s obligation under the non-recourse guaranty was limited to the asset pledged, which was CHI’s limited partnership interest. As a result of the Partnership repaying in full its indebtedness to the Term Lender, the asset pledged by CHI under the non-recourse guaranty has been released and the lien thereon terminated. In accordance with GAAP, no liability was required to be established for this guaranty since it was entered into prior to January 1, 2003.

CHI has filed a lawsuit in the U.S. District Court, Western District of Oklahoma, against the general partner of the Partnership, styled CHI v. Cepolk Corporation. CHI alleges, among other things, that:

- the general partner failed to make its capital contribution of approximately \$2.0 million to the Partnership as required under the partnership agreement, and
- the general partner breached its fiduciary duty and the general partner has been unjustly enriched, in connection with the general partner’s management of the Partnership and the use of and payments to a company that provides maintenance services (“Maintenance Provider”) to the Partnership’s project, which Maintenance Provider is believed to be owned and controlled by the same people as the general partner.

After CHI filed its lawsuit in the Oklahoma U.S. District Court, the general partner, Partnership and the Maintenance Provider filed a lawsuit in Louisiana against CHI alleging that the Louisiana State Court has jurisdiction and should consider the issues in dispute.

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

**Note 9: Current and Noncurrent Accrued and Other Liabilities** Our current and noncurrent accrued and other liabilities consist of the following:

	September 30, 2010	December 31, 2009
	(In Thousands)	
Accrued payroll and benefits	\$ 7,694	\$ 5,900
Deferred revenue on extended warranty contracts	5,532	4,884
Accrued insurance	3,949	3,667
Accrued death benefits	3,879	3,356
Accrued warranty costs	3,134	3,138
Customer deposits	2,941	635
Fair value of derivatives	2,439	1,929
Accrued property and franchise taxes	1,267	791
Accrued executive benefits	1,207	1,102
Accrued interest	1,196	1,593
Accrued contractual manufacturing obligations	1,032	732
Accrued commissions	794	1,035
Other	4,051	4,918
	<u>39,115</u>	<u>33,680</u>
Less noncurrent portion	12,095	10,626
Current portion of accrued and other liabilities	<u>\$ 27,020</u>	<u>\$ 23,054</u>

**Note 10: Accrued Warranty Costs** 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 for commercial products, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start up, whichever is shorter, and to ninety days for spare parts. For residential products, the base warranty coverage for manufactured equipment in the Climate Control Business is limited to ten years from the date of shipment for material and to five years from the date of shipment for labor associated with the repair. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase or a specific product may be sold with an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

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

**Note 10: Accrued Warranty Costs (continued)**

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

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance at beginning of period	\$ 3,138	\$ 2,820	\$ 3,129	\$ 3,038
Charged to costs and expenses	2,669	5,050	1,026	1,904
Costs and expenses incurred	(2,673)	(4,115)	(1,021)	(1,187)
Balance at end of period	<u>\$ 3,134</u>	<u>\$ 3,755</u>	<u>\$ 3,134</u>	<u>\$ 3,755</u>

**Note 11: Long-Term Debt** Our long-term debt consists of the following:

	September 30, 2010	December 31, 2009
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	\$ -	\$ -
5.5% Convertible Senior Subordinated Notes due 2012 (B)	26,900	29,400
Secured Term Loan due 2012 (C)	49,151	50,000
Other, with a current weighted-average interest rate of 6.43%, most of which is secured by machinery, equipment and real estate	24,880	22,401
	<u>100,931</u>	<u>101,801</u>
Less current portion of long-term debt	3,475	3,205
Long-term debt due after one year	<u>\$ 97,456</u>	<u>\$ 98,596</u>

**(A)** Our wholly-owned subsidiary, ThermaClime, LLC, formerly ThermaClime, Inc., (“ThermaClime”) and its subsidiaries (collectively, the “Borrowers”) are parties to a \$50 million revolving credit facility (the “Working Capital Revolver Loan”) that provides for advances based on specified percentages of eligible accounts receivable and inventories for ThermaClime, and its subsidiaries. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .50% or LIBOR plus 1.75% and matures on April 13, 2012. The interest rate at September 30, 2010 was 3.75%. Interest is paid monthly, if applicable.

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

**Note 11: Long-Term Debt (continued)**

The facility provides for up to \$8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. As of September 30, 2010, amounts available for borrowing under the Working Capital Revolver Loan were approximately \$49.2 million. Under the Working Capital Revolver Loan, as amended, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .375% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding, if any, due and payable in full. The Working Capital Revolver Loan is secured by the assets of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries ("EDN") but excluding the assets securing the Secured Term Loan discussed in (C) below, certain production equipment and facilities utilized by the Climate Control Business, and certain distribution-related assets of El Dorado Chemical Company ("EDC"). In addition, EDN is neither a borrower under, nor guarantor of, the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately \$200 million at September 30, 2010.

The Working Capital Revolver Loan, as amended, requires ThermaClime to meet certain financial covenants, including an EBITDA requirement of greater than \$25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended September 30, 2010. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers' (which does not include the Company) ability, without consent of the lender and with certain exceptions, to:

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

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

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



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

**Note 11: Long-Term Debt (continued)**

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

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

During the nine months ended September 30, 2010, we acquired \$2,500,000 aggregate principal amount of the 2007 Debentures for \$2,494,000, with each purchase being negotiated. As a result, we recognized a loss on extinguishment of debt of approximately \$52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

During the nine and three months ended September 30, 2009, we acquired \$10,100,000 and \$900,000, respectively, aggregate principal amount of the 2007 Debentures for approximately \$7,953,000 and \$819,000, respectively, with each purchase being negotiated. As a result, we recognized a gain on extinguishment of debt of \$1,796,000 and \$53,000, respectively, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

As the result of acquisitions, only \$26.9 million of the 2007 Debentures remain outstanding at September 30, 2010. In addition, see discussion concerning \$5.0 million of the 2007 Debentures being held by Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") in Note 19 - Related Party Transactions.

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

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

If a designated event (as defined in the Indenture) occurs prior to maturity, holders of the 2007 Debentures may require us to repurchase all or a portion of their 2007 Debentures for cash at a repurchase price equal to 101% of the principal amount of the 2007 Debentures plus any accrued and unpaid interest, as set forth in the Indenture.

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

**Note 11: Long-Term Debt (continued)**

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

(C) ThermaClime and certain of its subsidiaries entered into a \$50 million loan agreement (the "Secured Term Loan") with a certain lender. The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at September 30, 2010 was approximately 3.47%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. During the first nine months of 2010, we received proceeds from our insurance carrier as a partial payment on an insurance claim, of which we used approximately \$0.8 million to pay down the Secured Term Loan. As a result, approximately \$49.2 million remains outstanding at September 30, 2010.

The Secured Term Loan is secured by the real property and equipment located at our El Dorado, Arkansas chemical production facility (the "El Dorado Facility") and at our Cherokee, Alabama chemical production facility (the "Cherokee Facility"). The carrying value of the pledged assets is approximately \$63 million at September 30, 2010.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At September 30, 2010, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately \$72 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with the se financial covenants for the twelve-month period ended September 30, 2010.

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

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

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

**Note 12: Commitments and Contingencies**

**Purchase and Sales Commitments** - We entered into the following significant purchase and sales commitments during the nine months ended September 30, 2010:

During February 2010, EDC signed an extension of EDC's anhydrous ammonia purchase agreement with Koch Nitrogen International Sarl ("Koch"). Under the extension, Koch agrees to supply certain of EDC's requirements of anhydrous ammonia through December 31, 2012.

During February 2010, EDC entered into a cost-plus supply agreement with Orica International Pte Ltd. ("Orica International") to supply Orica International with 250,000 tons per year of industrial grade ammonium nitrate through December 2014. This new agreement, which became effective January 1, 2010, replaced EDC's previous agreement to supply 210,000 tons per year of industrial grade ammonium nitrate ("AN") to Orica USA, Inc.

**Contingencies** - We accrue for contingent losses when such losses are probable and reasonably estimable. In addition, we recognize contingent gains when such gains are realizable or realizable and earned.

**Legal Matters** - Following is a summary of certain legal matters involving the Company.

**A. Environmental Matters**

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

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

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

**Note 12: Commitments and Contingencies (continued)**

**1. Discharge Water Matters**

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

The El Dorado Facility has generally demonstrated its ability to comply with the more restrictive ammonia and nitrate permit limits, and believes that if it is required to meet the more restrictive dissolved minerals permit levels, it should be able to do so. The El Dorado Facility has been having discussions with the ADEQ to modify and reduce the permit levels as to dissolved minerals, but, although the rule is a state rule, any revisions must also be approved by the United States Environmental Protection Agency (“EPA”) before it can become effective. Additional information has been provided to the EPA regarding the dissolved mineral issue. Once the rule change is complete, the permit limits can be modified to incorporate reasonably achievable dissolved minerals permit levels. The ADEQ has agreed to reopen the rule making to modify the permit limit as to dissolved minerals, which is subject to approval from certain state legislative committees and the ADEQ. The ADEQ and the El Dorado Facility also entered into a Consent Administrative Order (“CAO”) which authorized the El Dorado Facility to continue operating through December 31, 2009, without incurring permit violations pending the modification of the permit to implement the revised rule. The ADEQ did not extend the CAO due to the above mentioned dissolved minerals issue; however, in the interim, the El Dorado Facility has been in compliance with the more restrictive permit limits under the 2004 NPDES permit.

In March 2009, the EPA notified the ADEQ that it disapproved the dissolved mineral rulemaking due to insufficient documentation. Representatives of EDC, ADEQ and the EPA have met to determine what additional information was required by the EPA. During January 2010, EDC received an Administrative Order from the EPA noting certain violations of the permit and requesting EDC to demonstrate compliance with the permit or provide a plan and schedule for returning to compliance. EDC has provided the EPA a response which states that the El Dorado Facility is now in compliance with the permit, that the El Dorado Facility expects to maintain compliance and that all but fifteen of the alleged violations were resolved through the CAO with the ADEQ. During the meeting with the EPA prior to the issuance of the Administrative Order, the EPA advised EDC that its primary objective was to bring the El Dorado Facility into compliance with the permit requirements, but reserved the right to assess penalties for past and continuing violations of the permit. As a result, it is unknown whether the EPA might elect to pursue civil penalties against EDC. Therefore, no liability has been established at September 30, 2010 as a result of the Administrative Order.

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

**Note 12: Commitments and Contingencies (continued)**

EDC is continuing to pursue the rulemaking and permit modification and has filed a petition with the ADEQ to reopen the dissolved minerals rulemaking incorporating revisions which EDC believes would be acceptable to the EPA. The ADEQ has reopened the rulemaking and has held a public hearing on the rulemaking issue. The issue must be approved by several legislative committees and the ADEQ, and, after such approvals, the rulemaking revisions must be approved by EPA.

Further, the city of El Dorado, Arkansas has received approval to construct a pipeline for disposal of wastewater generated by the city and by certain companies in the El Dorado area. The companies intending to use the pipeline will contribute to the cost of construction and operation of the pipeline. Although EDC believes it can comply with the more restrictive permit limits, EDC intends to participate in the construction of the pipeline that will be owned by the city in order to ensure that it will be able to comply with the permit limits and anticipates the cost to EDC in connection with the construction of the pipeline for EDC's right to use the pipeline to dispose of its wastewater will be approximately \$4.0 million. Construction of the pipeline by the city is anticipated to be completed in 2013.

In addition, EDC has entered into a CAO that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. EDC is addressing the shallow groundwater contamination. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The required risk assessment was submitted in August 2007. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at September 30, 2010, in connection with this matter.

**2. Air Matters**

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

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

**Note 12: Commitments and Contingencies (continued)**

Further, if it is determined that the equipment at any of our chemical facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed \$27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the “best available control technology.” We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties as a result of the above described matter; however, we are currently unable to determine the amount of any penalties that may be assessed, by the EPA. Therefore no liability has been established at September 30, 2010, in connection with this matter.

**3. Other Environmental Matters**

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

Our subsidiary and Chevron are pursuing a course with the state of Kansas of long-term surface and groundwater monitoring to track the natural decline in contamination. Our subsidiary and Chevron submitted their final report on the groundwater monitoring and an addendum to the Mitigation Work Plan to the state of Kansas. The data from the monitoring program is being evaluated by the state of Kansas. On June 29, 2010, representatives of our subsidiary and Chevron met with the Kansas Department of Health and Environment (“KDHE”). As a result of this meeting, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing. In addition, the KDHE notified our subsidiary and Chevron that this site has been referred to the KDHE’s Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in their evaluation. Currently, it is unknown what damages, if any, the KDHE will claim. We have accrued for our allocable portion of costs for the additional testing, monitoring and risk assessments that could be reasonably estimated; however, the nature and extent of a portion of the requirements are not currently defined and the associated costs are not reasonably estimable. The ultimate required remediation, if any, is unknown.

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

**Note 12: Commitments and Contingencies (continued)**

At September 30, 2010, our estimated allocable portion of the total estimated liability (which is included in current accrued and other liabilities) related to this matter is \$163,000. This amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability will occur in the near term.

During 2010, EDC became aware that certain personnel at its Whitewright, Texas agricultural distribution site, which personnel had been previously terminated by EDC, disposed of chemicals and debris at the site without authorization. Upon learning of these acts by the former employees, EDC contracted with an environmental company to analyze the areas of such disposal and dispose of any chemicals and contaminated soils. Upon completion of testing, it was determined that the area contained contaminants above state action levels. As a result, EDC notified the appropriate authorities in the state of Texas of the contamination. EDC has installed numerous monitoring wells in coordination with the state, and EDC believes that the cost of this project could be approximately \$200,000 of which \$50,000 remains accrued at September 30, 2010.

**B. Other Pending, Threatened or Settled Litigation**

The Jayhawk Group

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

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

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

**Note 12: Commitments and Contingencies (continued)**

During 2007, we made a tender offer for our outstanding Series 2 Preferred at the rate of 7.4 shares of our common stock for each share of Series 2 Preferred so tendered. In July 2007, we redeemed the balance of our outstanding shares of Series 2 Preferred. Pursuant to its terms, the Series 2 Preferred was convertible into 4.329 shares of our common stock for each share of Series 2 Preferred. As a result of the redemption, the Jayhawk Group converted the balance of its Series 2 Preferred pursuant to the terms of the Series 2 Preferred in lieu of having its shares redeemed.

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

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

The Jayhawk Group seeks damages in an unspecified amount based on the additional number of common shares it allegedly would have received on conversion of all of its Series 2 Preferred through the February 2007 tender offer, plus punitive damages. In addition, the amended complaint seeks damages of approximately \$4,000,000 for accrued and unpaid dividends it purports are owed as a result of Jayhawk's July 2007 conversion of its remaining shares of Series 2 Preferred. In May 2008, the General Counsel for the Jayhawk Group offered to settle its claims against us and Golsen in return for a payment of \$100,000, representing the approximate legal fees it had incurred investigating the claims at that time. Through counsel, we verbally agreed to the settlement offer and confirmed the agreement by e-mail. Afterward, the Jayhawk Group's General Counsel purported to withdraw the settlement offer, and asserted that Jayhawk is not bound by any settlement agreement. We contend that the settlement agreement is binding on the Jayhawk Group. Both Golsen and we have filed motions to dismiss the plaintiff's complaint in the federal court, and such motions to dismiss are pending. We intend to contest the lawsuit vigorously, and will assert that Jayhawk is bound by an agreement to settle the claims for \$100,000. Our insurer, Chartis, a subsidiary of AIG, has agreed to defend this lawsuit on our behalf and on behalf of Golsen and to indemnify under a reservation of rights to deny liability under certain conditions. We have incurred expenses associated with this matter up to our insurance deductible of \$250,000, and our insurer is paying defense cost in excess of our deductible in this matter. Although our insurer is defending this matter under a reservation of rights, we are not currently aware of any material issue in this case that would result in our insurer denying coverage. Therefore, no liability has been established at September 30, 2010 as a result of this matter.



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

**Note 12: Commitments and Contingencies (continued)**

## Other Claims and Legal Actions

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of \$250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible.

In the opinion of management, after consultation with legal counsel, if those claims for which we have not recognized a liability were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

**Note 13: Derivatives, Hedges and Financial Instruments** Derivatives are recognized in the balance sheet and are measured at fair value. Changes in fair value of derivatives are recorded in results of operations unless the normal purchase or sale exceptions apply or hedge accounting is elected.

We have three classes of contracts that are accounted for on a fair value basis, which are commodities futures/forward contracts (“commodities contracts”), foreign exchange contracts and interest rate contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. The valuation of these contracts was determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values.

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At September 30, 2010, the valuations of contracts classified as Level 2 related to the foreign exchange contracts and interest rate swap contracts discussed below. For the foreign exchange contracts, these contracts are valued using the foreign currency exchange rates pursuant to the terms of the contracts and using market information for foreign currency exchange rates. The valuation inputs included the total contractual weighted-average exchange rate of 1.28 and the total estimated market weighted-average exchange rate of 1.36 (U.S. Dollar/Euro). For the foreign exchange contracts and interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These interest rate contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. The valuation inputs included the total contractual weighted-average pay rate of 3.42% and the total estimated market weighted-average receive rate of 0.53%. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts discussed above. There were no valuations of contracts classified as Level 3 at September 30, 2010. At December 31, 2008, the valuations of contracts classified as Level 3 were based on the average ask/bid prices obtained from a broker relating to a low volume market.

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

**Note 13: Derivatives, Hedges and Financial Instruments (continued)**

Commodities Contracts

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and anhydrous ammonia and natural gas used by our Chemical Business. As part of our raw material price risk management, we periodically enter into futures/forward contracts for these materials, which contracts are generally accounted for on a mark-to-market basis. At December 31, 2009, our futures/forward copper contracts were for 750,000 pounds of copper through May 2010 at a weighted-average cost of \$3.19 per pound. At September 30, 2010, our futures/forward copper contracts were for 750,000 pounds of copper through December 2010 at a weighted-average cost of \$3.24 per pound. At December 31, 2009, we also had contractual rights under natural gas call contracts for approximately 150,000 MMBtu of natural gas through February 2010 at a weighted-average price of \$6.00 per MMBtu. At September 30, 2010, our futures/forward natural gas contracts were for 680,000 MMBtu of natural gas through December 2010 at a weighted-average cost of \$4.24 per MMBtu. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts, which set the U.S. Dollar/Euro exchange rates. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2009, our foreign exchange contracts were for the receipt of approximately 336,000 Euros through April 2010 at a weighted-average contract exchange rate of 1.44 (U.S. Dollar/Euro). At September 30, 2010, our foreign exchange contracts were for the receipt of approximately 783,000 Euros through June 2011 at a weighted-average contract exchange rate of 1.28 (U.S. Dollar/Euro). The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In March 2005, we purchased two interest rate cap contracts for a cost of \$590,000, which matured in March 2009. In April 2008, we entered into an interest rate swap at no cost, which sets a fixed three-month LIBOR rate of 3.24% on \$25 million and matures in April 2012. In September 2008, we acquired an interest rate swap at a cost basis of \$354,000, which sets a fixed three-month LIBOR rate of 3.595% on \$25 million and matures in April 2012.

These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. Although no purchases occurred during the nine months ended September 30, 2010 and 2009, the cash flows relating to the purchase of interest rate contracts are included in cash flows from continuing investing activities. In addition, the cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.

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

**Note 13: Derivatives, Hedges and Financial Instruments (continued)**

The following details our assets and liabilities that are measured at fair value on a recurring basis at September 30, 2010 and December 31, 2009:

Description	Total Fair Value at September 30, 2010	Fair Value Measurements at September 30, 2010 Using			Total Fair Value at December 31, 2009
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In Thousands)					
<b>Assets - Supplies, prepaid items and other:</b>					
Commodities contracts	\$ 307	\$ 307	\$ -	\$ -	\$ 150
Foreign exchange contracts	66	-	66	-	-
<b>Total</b>	<b>\$ 373</b>	<b>\$ 307</b>	<b>\$ 66</b>	<b>\$ -</b>	<b>\$ 150</b>
<b>Liabilities - Current and noncurrent accrued and other liabilities:</b>					
Commodities contracts	\$ 166	\$ 166	\$ -	\$ -	\$ -
Interest rate contracts	2,273	-	2,273	-	1,929
<b>Total</b>	<b>\$ 2,439</b>	<b>\$ 166</b>	<b>\$ 2,273</b>	<b>\$ -</b>	<b>\$ 1,929</b>

During the nine months ended September 30, 2010, none of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications. In addition, the following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the nine months ended September 30, 2009 (not applicable for the nine months ended September 30, 2010 and the three months ended September 30, 2010 and 2009):

	Commodities Contracts (In Thousands)
Beginning balance	\$ (1,388)
Total realized and unrealized gain included in earnings	493
Purchases, issuances, and settlements	895
Transfers in and/or out of Level 3	-
<b>Ending balance</b>	<b>\$ -</b>

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

**Note 13: Derivatives, Hedges and Financial Instruments (continued)**

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Total net gains (losses) included in earnings:</b>				
Cost of sales – Commodities contracts	\$ (764)	\$ (1,598)	\$ 140	\$ (450)
Cost of sales – Foreign exchange contracts	42	(31)	66	-
Interest expense – Interest rate contracts	(1,512)	(530)	(375)	(688)
	<u>\$ (2,234)</u>	<u>\$ (2,159)</u>	<u>\$ (169)</u>	<u>\$ (1,138)</u>

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Change in unrealized gains and losses relating to contracts still held at period end:</b>				
Cost of sales – Commodities contracts	\$ 141	\$ 236	\$ 342	\$ 385
Cost of sales – Foreign exchange contracts	66	-	66	-
Interest expense – Interest rate contracts	(344)	314	4	(335)
	<u>\$ (137)</u>	<u>\$ 550</u>	<u>\$ 412</u>	<u>\$ 50</u>

The following discussion of fair values is not indicative of the overall fair value of our assets and liabilities since it does not include all assets, including intangibles.

Our long-term debt agreements are the only financial instruments with fair values significantly different from their carrying amounts. At September 30, 2010 and December 31, 2009, the fair value for variable debt, excluding the Secured Term Loan, was believed to approximate their carrying value. At September 30, 2010 and December 31, 2009, the estimated fair value of the Secured Term Loan is based on defined LIBOR rates plus 6.025% and 7%, respectively, utilizing information obtained from the lender. The fair values of fixed rate borrowings, other than the 2007 Debentures, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration our current credit worthiness. At September 30, 2010 and December 31, 2009, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures. The estimated fair value and carrying value of our long-term debt are as follows:

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

**Note 13: Derivatives, Hedges and Financial Instruments (continued)**

	September 30, 2010		December 31, 2009	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
<b>Variable Rate:</b>				
Secured Term Loan	\$ 25,627	\$ 49,151	\$ 27,640	\$ 50,000
Working Capital Revolver Loan	-	-	-	-
Other debt	2,467	2,467	2,553	2,553
<b>Fixed Rate:</b>				
5.5% Convertible Senior Subordinated Notes	26,900	26,900	29,106	29,400
Other bank debt and equipment financing	23,030	22,413	20,231	19,848
	<u>\$ 78,024</u>	<u>\$ 100,931</u>	<u>\$ 79,530</u>	<u>\$ 101,801</u>

**Note 14: Income Per Common Share** Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends. Basic income per common share is based upon net income applicable to common stock and the weighted-average number of common shares outstanding during each period.

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

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

During the nine months ended September 30, 2010,

- we purchased 177,100 shares of treasury stock;
- we issued 50,140 shares of our common stock as the result of the exercise of stock options;
- we acquired \$2,500,000 aggregate principle amount of the 2007 Debentures; and
- we paid cash dividends on our Series B 12% cumulative, convertible preferred stock ("Series B Preferred"), Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") and noncumulative redeemable preferred stock ("Noncumulative Preferred") totaling approximately \$240,000, \$60,000 and \$5,000, respectively.

During the nine months ended September 30, 2009,

- we issued 408,500 shares of our common stock as the result of the exercise of stock options;
- we acquired \$10,100,000 aggregate principle amount of the 2007 Debentures; and
- we paid cash dividends on our Series B Preferred, Series D Preferred and Noncumulative Preferred totaling approximately \$240,000, \$60,000 and \$6,000, respectively.

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

**Note 14: Income Per Common Share (continued)**

At September 30, 2010, there were no dividends in arrears.

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

(Dollars In Thousands, Except Per Share Amounts)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Net income	\$ 11,525	\$ 21,546	\$ 3,798	\$ 1,073
Dividends on Series B Preferred	(240)	(240)	-	-
Dividends on Series D Preferred	(60)	(60)	-	-
Dividends on Noncumulative Preferred	(5)	(6)	-	-
Total dividends on preferred stock	<u>(305)</u>	<u>(306)</u>	<u>-</u>	<u>-</u>
Numerator for basic net income per common share - net income applicable to common stock	11,220	21,240	3,798	1,073
Dividends on preferred stock assumed to be converted, if dilutive	305	306	-	-
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	-	914	-	-
Numerator for diluted net income per common share	<u>\$ 11,525</u>	<u>\$ 22,460</u>	<u>\$ 3,798</u>	<u>\$ 1,073</u>
<b>Denominator:</b>				
Denominator for basic net income per common share - weighted-average shares	21,182,180	21,279,030	21,093,732	21,486,688
Effect of dilutive securities:				
Convertible preferred stock	937,080	938,006	936,536	937,106
Stock options	157,682	295,539	158,886	205,149
Convertible notes payable	4,000	1,110,560	4,000	4,000
Dilutive potential common shares	<u>1,098,762</u>	<u>2,344,105</u>	<u>1,099,422</u>	<u>1,146,255</u>
Denominator for diluted net income per common share - adjusted weighted-average shares and assumed conversions	<u>22,280,942</u>	<u>23,623,135</u>	<u>22,193,154</u>	<u>22,632,943</u>
Basic net income per common share	<u>\$ .53</u>	<u>\$ 1.00</u>	<u>\$ .18</u>	<u>\$ .05</u>
Diluted net income per common share	<u>\$ .52</u>	<u>\$ .95</u>	<u>\$ .17</u>	<u>\$ .05</u>

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

**Note 14: Income Per Common Share (continued)**

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Convertible notes payable	979,160	-	979,160	1,106,560
Stock options	365,659	406,685	350,000	383,152
	<u>1,344,819</u>	<u>406,685</u>	<u>1,329,160</u>	<u>1,489,712</u>

**Note 15: Income Taxes** Provisions for income taxes are as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Current:</b>				
Federal	\$ 5,059	\$ 4,245	\$ 586	\$ (2,245)
State	1,437	492	263	(280)
Total current provisions (benefit)	<u>\$ 6,496</u>	<u>\$ 4,737</u>	<u>\$ 849</u>	<u>\$ (2,525)</u>
<b>Deferred:</b>				
Federal	\$ 2,026	\$ 8,680	\$ 1,800	\$ 3,710
State	299	693	281	125
Total deferred provisions	<u>2,325</u>	<u>9,373</u>	<u>2,081</u>	<u>3,835</u>
Provisions for income taxes	<u>\$ 8,821</u>	<u>\$ 14,110</u>	<u>\$ 2,930</u>	<u>\$ 1,310</u>

For the nine and three months ended September 30, 2010 and 2009, the current provision for federal income taxes shown above includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. For the nine and three months ended September 30, 2010 and 2009, the current provision for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions. At December 31, 2009, we had state net operating loss ("NOL") carryforwards totaling approximately \$12,900,000, which begin expiring in 2010.

Our annual estimated effective tax rate for 2010 includes the impact of permanent tax differences, such as the domestic manufacturer's deduction and other permanent items.

The tax provision for the nine months ended September 30, 2010 was \$8,821,000 or 43.4% of pre-tax income and included the impact of the increased domestic manufacturer's deduction available in 2010, the advanced energy credits and the additional income tax provision related to nondeductible expenses in prior years.

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

**Note 15: Income Taxes (continued)**

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

Management of the Company evaluated the impact of this accounting error and concluded the effect of this adjustment was immaterial to the Company's 2007-2009 consolidated financial statements as well as the projected consolidated financial statements for the year ending December 31, 2010.

For the nine months ended September 30, 2009, the tax provision was \$14,110,000 or 39.6% of pre-tax income and included the impact of the domestic manufacturer's deduction and other permanent items.

Our accounting for income taxes includes utilizing the accounting principle that the realization of an uncertain income tax position must be "more likely than not" (i.e., greater than 50% likelihood) that the position will be sustained upon examination by taxing authorities before it can be recognized in the financial statements.

We believe that we do not have any material uncertain tax positions other than the failure to file state income tax returns in some jurisdictions where we or some of our subsidiaries may have a filing responsibility (i.e. nexus). We had approximately \$681,000 and \$608,000 accrued for uncertain tax liabilities at September 30, 2010 and December 31, 2009, respectively, which are included in current and noncurrent accrued and other liabilities.

We and certain of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The federal tax returns for 1999 through 2006 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. With few exceptions, the 2007-2009 years remain open for all purposes of examination by the U.S. Internal Revenue Service ("IRS") and other major tax jurisdictions.



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

**Note 16: Other Expense, Other Income and Non-Operating Other Income, net**

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Other expense:</b>				
Losses on sales and disposals of property and equipment	\$ 508	\$ 340	\$ 249	\$ 120
Other miscellaneous expense (1)	67	121	24	7
Total other expense	<u>\$ 575</u>	<u>\$ 461</u>	<u>\$ 273</u>	<u>\$ 127</u>
<b>Other income:</b>				
Property insurance recoveries in excess of losses incurred	\$ 3,982	\$ -	\$ 3,243	\$ -
Miscellaneous income (1)	197	222	30	32
Total other income	<u>\$ 4,179</u>	<u>\$ 222</u>	<u>\$ 3,273</u>	<u>\$ 32</u>
<b>Non-operating other income, net:</b>				
Interest income	\$ 107	\$ 138	\$ 30	\$ 60
Miscellaneous income (1)	1	1	1	1
Miscellaneous expense (1)	(60)	(67)	(21)	(23)
Total non-operating other income, net	<u>\$ 48</u>	<u>\$ 72</u>	<u>\$ 10</u>	<u>\$ 38</u>

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

**Note 17: Business Interruption and Property Insurance Claims** If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. The following summarizes our significant insurance claims:

Cherokee Facility - In February 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. The fire was immediately extinguished and there were no injuries. We have no immediate plans to rebuild the damaged plant. The nitric acid plant that suffered the fire, with a 182 ton per day capacity, was the smaller of the two nitric acid plants at the Cherokee Facility. The Cherokee Facility continued production with the larger of the nitric acid plants. Our property insurance policy provided for replacement cost coverage relating to property damage with a \$1,000,000 property loss deductible. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage at the time of the fire but we recorded a property insurance claim receivable relating to this event. During the first nine months of 2010, our insurance claim receivable decreased by a net \$1,175,000. The activity during the nine months of 2010 included the receipt of approximately \$1,561,000 (\$1,387,000 relates to property, plant and equipment ("PP&E")) from our insurance carrier as a partial payment on our insurance claim, of which \$1,347,000 was applied against our insurance claim receivable and the remaining balance of \$214,000 (all of which relates to PP&E) was classified as other income. In addition, the activity included \$172,000 relating to payables (approved by our insurance carrier) to unrelated third parties. As a result, there was no insurance claim receivable balance relating

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

**Note 17: Business Interruption and Property Insurance Claims (continued)**

to this event at September 30, 2010. Our property insurance carrier is considering our remaining property damage claims. Any additional insurance proceeds represent a gain contingency and will be recognized if, and when, realized or realizable and earned. There is no business interruption claim associated with this event.

**Bryan Distribution Center** - In July 2009, one of our fifteen agricultural distribution centers operated by our Chemical Business was destroyed by fire, resulting in the cessation of operations at this center, which is located in Bryan, Texas ("Bryan Center"). The Bryan Center stored and sold agricultural chemical products, including fertilizer grade ammonium nitrate, potash and certain other fertilizer products. During the first nine months of 2010, the project to rebuild the Bryan Center was completed. Our general liability insurance policy provided for coverage against third party damages with a \$250,000 loss deductible. Our property insurance policy provided for replacement cost coverage relating to property damage and for business interruption coverage for certain lost profits and extra expense with a total \$100,000 loss deductible for both coverages. As of September 30, 2010, the third party general liability claims have exceeded our \$250,000 deductible. We have recognized the \$250,000 general liability deductible and the insurance company has been managing, processing and paying directly the third party general liability claims associated with this event. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. During the fourth quarter of 2009, we received \$545,000 from our insurance carrier as a partial payment on our insurance claim, which amount was applied against our insurance claim receivable. During the first nine months of 2010, our insurance claim receivable decreased by a net \$35,000. The activity during the nine months of 2010 included the receipt of additional payments totaling \$ 1,315,000 (\$564,000 related to PP&E) from our insurance carrier, of which \$444,000 was applied against our insurance claim receivable and the remaining balance of \$871,000 (\$853,000 related to PP&E) was classified as other income. In addition, the activity included \$409,000 relating to payables (approved by our insurance carrier) to unrelated third parties and to our insurance carrier associated with the general liability deductible. As a result, there was no insurance claim receivable balance relating to this event at September 30, 2010. Based on our current analysis, we do not have any remaining insurance claims associated with our property damage coverage or any insurance claims associated with our business interruption coverage relating to this event.

**Pryor Facility** - In June 2010, a pipe failure in the primary reformer of the ammonia plant at the chemical facility located in Pryor, Oklahoma (the "Pryor Facility") resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility was unable to produce anhydrous ammonia or urea ammonium nitrate ("UAN") during substantially all of the three months ended September 30, 2010. The costs associated with the rebuild the ammonia reformer were approximately \$8 million and the work was completed by the end of September 2010. Our property insurance policy provides for replacement cost coverage relating to property damage with a \$1,000,000 loss deductible and for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period and a minimum \$250,000 deductible. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the

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

**Note 17: Business Interruption and Property Insurance Claims (continued)**

damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. During the first nine months of 2010, the activity associated with our insurance claim receivable included the receipt of partial payments totaling \$3,634,000 (\$3,157,000 relates to PP&E), of which \$865,000 was applied against our insurance claim receivable and the remaining balance of \$2,769,000 (all of which relates to PP&E) was classified as other income. In addition, the activity included a total of \$865,000 relating to payables (approved by our insurance carrier) to unrelated third parties and the disposal of the net book value of the damaged property. As a result, there was no insurance claim receivable balance relating to this event at September 30, 2010. The property insurance carrier is considering our remaining property damage claims. Any additional insurance proceeds represent a gain contingency and will be recognized if, and when, realized or realizable and earned. The insurance claim for business interruption has not been filed and a recovery, if any, from our business interruption coverage has not been recognized.

**Note 18: Segment Information**

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Net sales:</b>				
Climate Control	\$ 178,045	\$ 206,443	\$ 64,546	\$ 67,413
Chemical	253,828	204,089	72,578	59,718
Other	5,877	6,006	1,824	647
	<u>\$ 437,750</u>	<u>\$ 416,538</u>	<u>\$ 138,948</u>	<u>\$ 127,778</u>
<b>Gross profit: (1)</b>				
Climate Control (2)	\$ 60,195	\$ 72,172	\$ 22,964	\$ 24,746
Chemical (3)	30,631	35,091	5,871	5,662
Other	2,027	1,945	604	245
	<u>\$ 92,853</u>	<u>\$ 109,208</u>	<u>\$ 29,439</u>	<u>\$ 30,653</u>
<b>Operating income: (4)</b>				
Climate Control (2)	\$ 22,632	\$ 32,146	\$ 10,112	\$ 10,942
Chemical (3) (5)	12,310	15,491	1,247	(3,344)
General corporate expenses and other business operations, net (6)	(9,246)	(9,405)	(2,889)	(3,328)
	<u>25,696</u>	<u>38,232</u>	<u>8,470</u>	<u>4,270</u>
Interest expense	(5,943)	(5,139)	(1,864)	(2,200)
Gains (losses) on extinguishment of debt	(52)	1,796	-	53
<b>Non-operating other income, net:</b>				
Climate Control	1	-	-	-
Chemical	6	26	1	20
Corporate and other business operations	41	46	9	18
Provisions for income taxes	(8,821)	(14,110)	(2,930)	(1,310)
Equity in earnings of affiliate-Climate Control	719	740	191	252
Income from continuing operations	<u>\$ 11,647</u>	<u>\$ 21,591</u>	<u>\$ 3,877</u>	<u>\$ 1,103</u>

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

**Note 18: Segment Information (continued)**

- (1) Gross profit by industry segment represents net sales less cost of sales. Gross profit classified as “Other” relates to the sales of industrial machinery and related components.
- (2) During the nine and three months ended September 30, 2010, we recognized gains totaling \$193,000 and \$508,000, respectively, on our futures contracts for copper compared to gains totaling \$1,193,000 and \$404,000 during the nine and three months ended September 30, 2009, respectively. During the three months ended September 30, 2009, our engineering and construction business recognized additional gross profit of \$552,000 relating to customer change orders.
- (3) As the result of entering into sales commitments with higher firm sales prices during 2008, we recognized sales with a gross profit of \$761,000 higher than our comparable product sales made at lower market prices available during the nine months ended September 30, 2010, (not applicable for the third quarter of 2010) compared to sales with a gross profit of \$5,143,000 and \$1,585,000 higher than our comparable product sales made at lower market prices available during the nine and three months ended September 30, 2009, respectively. In addition, during the nine and three months ended September 30, 2010, we recognized gains on sales and recoveries of precious metals totaling \$863,000 and \$751,000, respectively, compared to gains totaling \$2,456,000 and \$234,000 during the nine and three months ended September 30, 2009, respectively. During the nine and three months ended September 30, 2010, we incurred expenses of \$6,646,000 and \$3,950,000, respectively, (of which \$1,301,000 relates to the Pryor Facility) relating to planned major maintenance activities compared to expenses totaling \$2,682,000 and \$2,079,000 during the nine and three months ended September 30, 2009, respectively. During the nine and three months ended September 30, 2010, we recognized losses totaling \$957,000 and \$368,000, respectively, on our futures/forward contracts for natural gas and ammonia compared to losses totaling \$2,791,000 and \$854,000 during the nine and three months ended September 30, 2009, respectively. During the nine and three months ended September 30, 2009, we recognized losses on outstanding firm sales commitments of \$1,310,000 and \$1,229,000, respectively, which amounts include \$992,000 relating to the Pryor Facility discussed below in footnote 5.
- (4) Our chief operating decision makers use operating income by industry segment for purposes of making decisions, which include resource allocations and performance evaluations. Operating income by industry segment represents gross profit by industry segment less selling, general and administration expense (“SG&A”) incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net, consist of unallocated portions of gross profit, SG&A, other income and other expense.
- (5) During the first nine months of 2010, we began limited production and sales of anhydrous ammonia and UAN at our Pryor Facility. However the production during this period was at rates lower than our targeted production rates. As the result of a pipe failure and fire that occurred in June 2010 within the Pryor Facility as discussed in Note 17 – Business Interruption and Property Insurance Claims, we had minimal production and sales

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

**Note 18: Segment Information (continued)**

of anhydrous ammonia and UAN during the third quarter of 2010. Consequently, we incurred net operating losses of \$11,158,000 and \$3,128,000 for the nine and three months ended September 30, 2010, respectively. These operating losses include other income of \$2,769,000 associated with a property insurance recovery as discussed in Note 17 and Turnaround costs of \$1,301,000 as discussed above in footnote 3. During the nine and three months ended September 30, 2009, we incurred expenses of \$12,271,000 and \$7,058,000, respectively, (including the \$992,000 loss on firm sales commitments discussed above in footnote 3) relating to the Pryor Facility. Excluding the impact of gross profit and other income recognized during each 2010 respective period and the loss on firm sales commitments incurred during each 2009 respective period, these expenses are primarily included in SG&A for each respective period. In addition, our Chemical Business recognized other income totaling \$1,085,000 and \$346,000 during the nine and three months ended September 30, 2010, respectively, associated with other property insurance recoveries as discussed in Note 17.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
	(In Thousands)			
Gross profit-Other	\$ 2,027	\$ 1,945	\$ 604	\$ 245
Selling, general and administrative:				
Personnel costs	(6,054)	(6,202)	(1,787)	(1,876)
Professional fees	(3,105)	(2,775)	(1,180)	(957)
Office overhead	(458)	(490)	(135)	(145)
Property, franchise and other taxes	(248)	(245)	(78)	(85)
Advertising	(203)	(199)	(82)	(67)
Maintenance and repairs	(53)	(182)	(15)	(8)
All other	(1,371)	(1,186)	(372)	(453)
Total selling, general and administrative	(11,492)	(11,279)	(3,649)	(3,591)
Other income	230	156	160	23
Other expense	(11)	(227)	(4)	(5)
Total general corporate expenses and other business operations, net	<u>\$ (9,246)</u>	<u>\$ (9,405)</u>	<u>\$ (2,889)</u>	<u>\$ (3,328)</u>

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

**Note 18: Segment Information (continued)**

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

	September 30, 2010	December 31, 2009
	(In Thousands)	
Climate Control	\$ 113,470	\$ 102,029
Chemical	167,929	143,800
Corporate assets and other	77,699	92,804
Total assets	<u>\$ 359,098</u>	<u>\$ 338,633</u>

**Note 19: Related Party Transactions****Golsen Group**

During November 2008, the Golsen Group acquired from an unrelated third party \$5,000,000 of the 2007 Debentures. As a result in January 2009, we paid interest of \$137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2008. In March 2009, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. During the nine months ended September 30, 2009, we incurred interest expense of \$206,250 relating to the debentures held by the Golsen Group, of which 137,500 was paid in June 2009.

In January 2010, we paid interest of \$137,500 relating to the 2007 Debentures held by the Golsen Group that was accrued at December 31, 2009. In March 2010, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. During the nine months ended September 30, 2010, we incurred interest expense of \$206,750 relating to the debentures held by the Golsen Group, of which \$137,500 was paid in June 2010 and \$68,750 remains accrued at September 30, 2010.

**Note 20: Subsequent Event**

Beginning on September 30, 2010, the Pryor Facility produced ammonia through mid-October when an instrument failure caused the plant to shut down. During the attempted restart, problems were encountered with a compressor which required replacement of certain parts, most of which were available in our spare parts inventory. The replacement and installation of these parts, in conjunction with the required incident investigation and analysis, took approximately two weeks and the ammonia plant restarted on October 26, 2010. A total of approximately 8,400 tons of ammonia was produced during October. The nitric acid and urea plants will be activated to produce UAN in proper sequence.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our September 30, 2010 condensed consolidated financial statements. Certain statements contained in this MD&A may be deemed forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

#### Overview

##### **General**

We are a manufacturing, marketing and engineering company operating through our subsidiaries. Our wholly-owned subsidiaries own the following core businesses:

- Climate Control Business manufactures and sells a broad range of air conditioning and heating products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular geothermal chillers and other related products used to control the environment in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems. For the first nine months of 2010, approximately 41% of our consolidated net sales relates to the Climate Control Business.
- Chemical Business manufactures and sells nitrogen based chemical products produced from three plants located in Arkansas, Alabama and Texas for the industrial, mining and agricultural markets. In addition during 2010, we began limited production of anhydrous ammonia and UAN at our previously idled Pryor Facility located in Pryor, Oklahoma. Our products include industrial and fertilizer grade AN, UAN, anhydrous ammonia, sulfuric acids, nitric acids in various concentrations, nitrogen solutions and various other products. For the first nine months of 2010, approximately 58% of our consolidated net sales relates to the Chemical Business.

The Pryor Facility began limited production of anhydrous ammonia and UAN in the first quarter of 2010 until a pipe failure and fire in June damaged the ammonia plant's primary reformer within the Pryor Facility and all production at the Pryor Facility ceased while the rebuild was underway. This rebuild was completed and the ammonia plant returned to production on September 30, 2010. Subsequently, the Pryor Facility produced ammonia through mid-October when an instrument failure caused the plant to shut down. During the attempted restart, problems were encountered with a compressor which required replacement of certain parts, most of which were available in our spare parts inventory. The replacement and installation of these parts, in conjunction with the required incident investigation and analysis, took approximately two weeks and the ammonia plant restarted on October 26, 2010. A total of approximately 8,400 tons of ammonia was produced during October. The nitric acid and urea plants will be activated to produce UAN in proper sequence to meet anticipated customer orders.

##### **Economic Conditions**

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

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Climate Control Business - Sales for the first nine months of 2010 were down 14% from 2009 due to a 19% reduction in commercial sales partially offset by a 5% increase in residential sales. The reduction in commercial sales was due to lower order levels during the latter part of 2009 and first quarter of 2010, although we have seen an increase in the level of commercial orders in the third quarter. Sales and order levels of our residential products continue to increase year over year.

Based upon published reports of leading indicators, including the Construction Market Forecasting Service published by McGraw-Hill, and the national architecture billings index published by American Institute of Architects ("AIA"), the overall commercial construction sector is not expected to recover during 2010. On the other hand, McGraw-Hill has projected an increase in both single-family residential and multi-family construction contract activity during 2010. Another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives, although we cannot predict the impact these programs will have on our business.

The Chemical Business - Our Chemical Business' primary markets are industrial, mining and agricultural. During the first nine months of 2010, approximately 63% of our Chemical Business' sales were into industrial and mining markets. Approximately 72% of these sales are to customers that have contractual obligations to purchase a minimum quantity or allow us to recover our cost plus a profit, irrespective of the volume of product sold. For the remainder of 2010, we anticipate modest increased demand from certain of our large industrial customers.

The remaining 37% of our Chemical Business' sales in the first nine months of 2010 were made into the agricultural fertilizer markets to customers that do not purchase pursuant to contractual arrangements. Our agricultural sales volumes and margins depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat and forage. During the first nine months of 2010, anhydrous ammonia increased in cost while natural gas costs declined, resulting in a competitive cost disadvantage for agricultural grade AN produced from purchased ammonia at our El Dorado Facility compared to competitors that produce from natural gas. Our Cherokee Facility produces approximately 170,000 tons of anhydrous ammonia annually from natural gas. The current outlook according to most market indicators, including reports in Green Markets, Fertilizer Week and other industry publications, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could be adversely affected by lower grain production, unanticipated changes in commodity prices, or unfavorable weather conditions.

### **Results for Third Quarter 2010**

Our consolidated net sales for the third quarter of 2010 were \$138.9 million compared to \$127.8 million for the same period in 2009. The sales increase of approximately \$11.1 million includes an increase of \$12.9 million in our Chemical Business partially offset by a decrease of \$2.9 million in our Climate Control Business. The increase in our Chemical Business' sales was primarily a result of improved customer demand for mining products and an increase of selling prices of all products partially driven by higher raw material input costs. Although our Climate Control Business' sales were \$2.9 million lower for the third quarter of 2010, our order backlog increased by \$6.6 million during the quarter compared to a decline of \$10.1 million in the backlog during the third quarter of 2009.



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Our consolidated operating income was \$8.5 million for the third quarter of 2010 compared to \$4.3 million for the same period in 2009. The increase in operating income of \$4.2 million included an increase of approximately \$4.5 million in our Chemical Business partially offset by a decrease of \$0.8 million in our Climate Control Business. In addition, our general corporate expense and other business operations net expenses decreased \$0.4 million.

Our resulting effective income tax rate for the third quarter of 2010 was approximately 44% compared to 55% for the third quarter of 2009.

### **Climate Control Business**

Our Climate Control sales for the third quarter of 2010 were \$64.5 million, or 4% below the third quarter of 2009. The decrease in net sales resulted from a 15% decline in sales of our fan coil products and a 25% decline in other Climate Control products partially offset by a 6% increase in our geothermal and water source heat pump products due to an improvement in the residential sales.

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

- Multi-Family Residential (apartments and condominiums)
- Single-Family Residential
- Lodging
- Education
- Healthcare
- Offices
- Manufacturing

During the third quarter of 2010, approximately 73% of our Climate Control Business' sales were to the commercial and multi-family construction markets, and the remaining 27% were sales of geothermal heat pumps ("GHPs") to the single-family residential market.

For the third quarter of 2010, the product order intake level was \$67.5 million as compared to \$49.1 million for the same period in 2009 and compared to \$71.7 million for the second quarter of 2010 and \$54.2 million for the first quarter of 2010. Product orders for commercial and residential products increased 51% and 7%, respectively, as compared to the same period in 2009. Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval.

Our order backlog was \$54.8 million at September 30, 2010 as compared to \$48.2 million at June 30, 2010, \$36.0 million at March 31, 2010, \$32.2 million at December 31, 2009 and \$39.4 million at September 30, 2009. The backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms. For October 2010, our new orders received were approximately \$19.4 million and our backlog was approximately \$53.5 million at October 31, 2010.

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

Our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional all-electric heating, ventilation and air conditioning (“HVAC”) systems. The American Recovery and Reinvestment Act of 2009 (“Act”) provides a 30% tax credit for homeowners who install GHPs. For businesses that install GHPs, the Act includes a 10% tax credit, 50% first year depreciation and five year accelerated depreciation for the balance of the system cost.

Although our Climate Control Business has shown steady improvement in new order levels during the last two quarters, we expect to see a continuing slow recovery in the short-term as compared to pre-recession levels. We have significantly increased our sales and marketing efforts for all of our Climate Control products, primarily to expand the market for our products, including GHPs. We believe that the recently enacted federal tax credits for GHPs have had a positive impact on sales of those highly energy efficient and green products.

### **Chemical Business**

Our Chemical Business operates the El Dorado Facility, the Cherokee Facility, the Baytown Facility and the Pryor Facility. The El Dorado and Baytown Facilities produce nitrogen products from anhydrous ammonia that is delivered by pipeline. The El Dorado Facility also produces sulfuric acid from recovered elemental sulfur delivered by truck and rail. The Cherokee and Pryor Facilities produce anhydrous ammonia and nitrogen products from natural gas that is delivered by pipeline but can also receive supplemental anhydrous ammonia by truck, rail or barge.

During the third quarter of 2010, the Pryor Facility was unable to produce anhydrous ammonia or UAN due to a pipe failure and fire in June 2010 that damaged the ammonia plant’s primary reformer. As discussed above under “Overview-General”, the rebuild was completed and the ammonia plant returned to production on September 30, 2010.

The Pryor Facility’s overhead and other costs of approximately \$6.2 million during the third quarter were expensed as incurred. Costs associated with a planned major maintenance activity (“Turnaround”) of \$1.3 million were charged to cost of sales. As a result of the absence of production during the third quarter, the remaining \$4.9 million included \$4.6 million charged to SG&A and \$0.3 million to other expense. For the third quarter of 2009, the Pryor Facility’s costs charged to SG&A were approximately \$6.1 million.

In addition, as discussed below under “Liquidity and Capital Resources-Recognition of Insurance Recoveries”, we received partial payments totaling \$3.6 million in the third quarter of 2010 associated with the Pryor Facility’s property insurance claim, of which \$2.8 million is included in other income. Also, our Chemical Business recognized \$0.3 million of other income associated with other property insurance recoveries.

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We continue to fund the Pryor Facility from our available cash on hand, working capital and the payments received associated with our property insurance claim.

Our primary raw material feedstocks (anhydrous ammonia, natural gas and sulfur) are commodities subject to significant price fluctuations, and are generally purchased at prices in effect at the time of purchase. During third quarter of 2010, the average prices for those commodities compared to the same period in 2009 were as follows:

	2010	2009
Natural gas average price per MMBtu based upon Tennessee 500 pipeline pricing point	\$ 4.67	\$ 3.50
Ammonia average price based upon low Tampa metric price per ton	\$ 386	\$ 267
Sulfur price based upon Tampa average quarterly price per long ton	\$ 95	\$ 10

Most of our Chemical Business sales in the industrial and mining markets were pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass through component in the sales price. Our Chemical Business sales in the agricultural markets primarily were sold at the market price in effect at the time of sale or at a negotiated future price.

The percentage change in sales (volume and dollars) for the third quarter of 2010 compared to the third quarter of 2009 is as follows:

	Percentage Change of	
	Tons	Dollars
	<i>Increase (Decrease)</i>	
Chemical products:		
Industrial acids and other	5 %	14 %
Mining	72%	84 %
Agricultural	(30)%	(9) %
Total weighted-average change	5 %	22 %

The increase in industrial acids and mining sales both in tons and dollars is partially due to improved economic conditions resulting in increased customer demand, as well as higher ammonia feedstock cost in 2010 that was passed through in the selling price pursuant to pricing arrangements with certain customers.

The disproportionate decrease in agricultural tons sold versus sales dollars is primarily due to lower agricultural grade AN demand due to dry, hot weather conditions in certain of our primary markets, partially offset by increased selling prices. UAN sales volumes were also lower and were impacted primarily by lower inventory on hand at the beginning of the 2010 third quarter and an extended Turnaround at our Cherokee Facility.

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### **Liquidity and Capital Resources**

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

	September 30, 2010	December 31, 2009
	(Dollars In Millions)	
Cash and cash equivalents	\$ 51.4	\$ 61.7
Short-term investments (1)	10.0	10.1
	<u>\$ 61.4</u>	<u>\$ 71.8</u>
Long-term debt:		
2007 Debentures due 2012	\$ 26.9	\$ 29.4
Secured Term Loan due 2012	49.2	50.0
Other	24.8	22.4
Total long-term debt, including current portion	<u>\$ 100.9</u>	<u>\$ 101.8</u>
Total stockholders' equity	<u>\$ 160.6</u>	<u>\$ 150.6</u>
Long-term debt to stockholders' equity ratio (2)	<u>0.6</u>	<u>0.7</u>

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

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

At September 30, 2010, our cash, cash equivalents and short-term investments totaled \$61.4 million and our \$50 million Working Capital Revolver Loan was undrawn and available to fund operations, if needed, subject to the amount of our eligible collateral and outstanding letters of credit.

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

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

The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at September 30, 2010 was approximately 3.47%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. However, we have agreed

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to apply certain insurance proceeds to reduce the outstanding principal as the proceeds are received. During the third quarter of 2010, we received approximately \$540,000, which was used to pay down the Secured Term Loan in October 2010. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities.

Since the 2007 Debentures and the Secured Term Loan both mature in 2012, and considering the uncertainty that exists in current and anticipated near-term credit availability, we are currently reviewing various alternatives for the retirement of these obligations, as they become due. We believe we will be successful in obtaining financing, which will allow us to restructure the maturing debt on terms favorable to the Company; however, there are no assurances that we will successfully restructure the maturing debt at or prior to maturity.

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

The Working Capital Revolver Loan, which certain of our subsidiaries are parties to, is available to fund these subsidiaries working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, these subsidiaries (the "Borrowers") may borrow on a revolving basis up to \$50.0 million based on specific percentages of eligible accounts receivable and inventories. At September 30, 2010, we had approximately \$49.2 million of borrowing availability under the Working Capital Revolver Loan based on eligible collateral and outstanding letters of credit.

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

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

### **Income Taxes**

We are recognizing and paying federal income taxes at regular corporate tax rates. The federal tax returns for 1999 through 2006 remain subject to examination for the purpose of determining the amount of tax NOL and other carryforwards. With few exceptions, the 2007-2009 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

We believe that we do not have any material uncertain tax positions other than the failure to file state income tax returns in some jurisdictions where we or some of our subsidiaries may have a filing responsibility (i.e. nexus). We had approximately \$681,000 and \$608,000 accrued for uncertain tax liabilities at September 30, 2010 and December 31, 2009, respectively.

### **Capital Expenditures**

#### Capital Expenditures-First Nine Months of 2010

Cash used for capital expenditures during the first nine months of 2010 was \$26.1 million, including \$1.7 million primarily for production equipment and other upgrades for additional capacity in our Climate Control Business and \$24.1 million for our Chemical Business, primarily for process and reliability improvements of our operating facilities, including \$12.7 million associated with the Pryor Facility, which includes replacing PP&E damaged by the fire. In addition, approximately \$0.5 million is associated with maintaining compliance with environmental laws, regulations and guidelines. These capital expenditures were primarily funded from working capital and a portion of the payments received associated with our property insurance claims. In addition, one of our Climate Control Business subsidiaries exercised its option, pursuant to the terms of the underlying operating lease, to purchase its production facility for approximately \$4.9 million, which was financed by a third party.

#### Committed and Planned Capital Expenditures-Remainder of 2010

At September 30, 2010, we had committed capital expenditures of approximately \$6.2 million for the remainder of 2010. The committed expenditures included \$5.1 million for process and reliability improvements in our Chemical Business, including \$2.0 million relating to the Pryor Facility and approximately \$0.1 million to maintain compliance with environmental laws, regulations and guidelines. In addition, our commitments included \$0.8 million primarily for facility upgrades and \$0.3 million for production equipment in our Climate Control Business. We plan to fund these expenditures from working capital, which may include utilizing our Working Capital Revolver Loan, and financing arrangements.

In addition to committed capital expenditures at September 30, 2010, we had additional planned capital expenditures for the remainder of 2010 in our Chemical Business of approximately \$4.0 million (including \$2.8 million relating to the Pryor Facility) and in our Climate Control Business of approximately \$1.2 million.

The planned capital expenditures are subject to economic conditions and approval by senior management. If these capital expenditures are approved, most of the Chemical Business' expenditures will likely be funded from working capital and internal cash flows and the Climate Control's expenditures will likely be financed. In addition, see discussion below under "Wastewater Pipeline" relating to expenditures associated with the participation of the

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construction of a wastewater pipeline. Also see discussion below under “Information Request from EPA” that may require additional capital improvement to certain emission equipment not currently included in our committed and planned capital expenditures for the remainder of 2010.

### Wastewater Pipeline

EDC generates process wastewater, which is subject to a wastewater discharge permit issued by the ADEQ. Under the permit, EDC must meet more restrictive limits, in which EDC believes it is able to comply. In connection with EDC’s efforts to meet the more restrictive wastewater permit limits as established in the permit and any additional permit limits which may be required in the future, EDC intends to participate with other companies in the El Dorado, Arkansas area in a wastewater pipeline for disposal of wastewater that the city of El Dorado, Arkansas has been approved to construct and which the city will own. In order to participate and to use the pipeline, EDC would be required to pay a portion of the construction cost of the pipeline. EDC anticipates that its share of the cost to construct the pipeline will be approximately \$4.0 million. It is anticipated that the city should complete the construction in 2013.

### Advanced Manufacturing Energy Credits

On January 8, 2010, two of our subsidiaries within the Climate Control Business were awarded Internal Revenue Code § 48C tax credits (also referred to as “Advanced Manufacturing Energy Credits”) of approximately \$9.6 million. The award is based on anticipated capital expenditures made from February 2009 through February 2013 for machinery that will be used to produce geothermal heat pumps and green modular chillers. As these subsidiaries invest in the qualifying machinery, we will be entitled to an income tax credit equal to 30% of the machinery cost, up to the total credit amount awarded. For 2010 and 2009, we anticipate utilizing \$163,000 and \$266,000, respectively, of § 48C tax credits to partially offset our federal income tax liability.

### Information Request from EPA

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

Further, if it is determined that the equipment at any of our chemical facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed \$27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the “best available control technology.” We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within

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our Chemical Business may be required to pay certain penalties as a result of the above described matter; however, we are currently unable to determine the amount of any penalties that may be assessed by the EPA. Therefore no liability has been established at September 30, 2010, in connection with this matter.

### **Collective Bargaining Agreements**

As previously reported, EDC and the negotiating committee completed negotiations and reached a tentative agreement on all terms of a three-year collective bargaining agreement at the El Dorado Facility to commence August 1, 2010 and run through July 31, 2013. The negotiated agreement was ratified by the bargaining unit members on July 22, 2010 and executed by the local union and the Company thereafter. The United Steelworkers of America International Union (“International”) is a party to the agreement and International approved the negotiated terms and executed the final agreement.

On October 14, 2010, EDC executed a new labor contract with the International Association of Machinists and Aerospace Workers AFL-CIO on behalf of Local No. 224. The new contract is effective for a three-year term, beginning October 17, 2010 and expiring on October 16, 2013.

The current three-year collective bargaining agreement between Cherokee Nitrogen Company and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC, on behalf of Local Union No. 00417, expires on November 11, 2010. Negotiations concluded on November 2, 2010 of an agreement in principal on the terms of a new three-year collective bargaining agreement, subject to ratification by union membership and execution of a definitive collective bargaining agreement. Provided the agreement in principal is ratified, the new collective bargaining agreement would become effective as of November 12, 2010. The negotiations involve a bargaining unit of 59 employees out of a total of 87 employees at the Cherokee Facility.

### **Recognition of Insurance Recoveries**

Cherokee Facility – As previously reported, in February 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. Our property insurance policy provided for replacement cost coverage relating to property damage with a \$1,000,000 property loss deductible. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage at the time of the fire but we recorded a property insurance claim receivable relating to this event. During the first nine months of 2010, our insurance claim receivable decreased by a net \$1,175,000. The activity during the nine months of 2010 included the receipt of approximately \$1,561,000 (\$1,387,000 relates to property, plant and equipment (“PP&E”)) from our insurance carrier as a partial payment on our insurance claim, of which \$1,347,000 was applied against our insurance claim receivable and the remaining balance of \$214,000 (all of which relates to PP&E) was classified as other income. In addition, the activity included \$172,000 relating to payables (approved by our insurance carrier) to unrelated third parties. As a result, there was no insurance claim receivable balance relating to this event at September 30, 2010. We used approximately \$849,000 of the insurance proceeds to pay down the Secured Term Loan. Our property insurance carrier is considering our remaining property damage claims. Any additional insurance proceeds represent a gain contingency and will be recognized if, and when, realized or realizable and earned. There is no business interruption claim associated with this event.



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Bryan Distribution Center – As previously reported, in July 2009, one of our fifteen agricultural distribution centers operated by our Chemical Business was destroyed by fire, resulting in the cessation of operations at this center, which is located in Bryan, Texas. Our general liability insurance policy provided for coverage against third party damages with a \$250,000 loss deductible. Our property insurance policy provided for replacement cost coverage relating to property damage and for business interruption coverage for certain lost profits and extra expense with a total \$100,000 loss deductible for both coverages. As of September 30, 2010, the third party general liability claims have exceeded our \$250,000 deductible. We have recognized the \$250,000 general liability deductible and the insurance company has been managing, processing and paying directly the third party general liability claims associated with this event. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. During the fourth quarter of 2009, we received \$545,000 from our insurance carrier as a partial payment on our insurance claim, which amount was applied against our insurance claim receivable. During the first nine months of 2010, our insurance claim receivable decreased by a net \$35,000. The activity during the nine months of 2010 included the receipt of additional payments totaling \$1,315,000 (\$564,000 related to PP&E) from our insurance carrier, of which \$444,000 was applied against our insurance claim receivable and the remaining balance of \$871,000 (\$853,000 related to PP&E) was classified as other income. In addition, the activity included \$409,000 relating to payables (approved by our insurance carrier) to unrelated third parties and to our insurance carrier associated with the general liability deductible. As a result, there was no insurance claim receivable balance relating to this event at September 30, 2010. Based on our current analysis, we do not have any remaining insurance claims associated with our property damage coverage or any insurance claims associated with our business interruption coverage relating to this event.

Pryor Facility – As previously reported, in June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The costs associated with the rebuild the ammonia reformer were approximately \$8 million and the work was completed by the end of September 2010. Our property insurance policy provides for replacement cost coverage relating to property damage with a \$1,000,000 loss deductible and for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period and a minimum \$250,000 deductible. Because our replacement cost claim for property damages exceeded our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. During the first nine months of 2010, the activity associated with our insurance claim receivable included the receipt of partial payments totaling \$3,634,000 (\$3,157,000 relates to PP&E), of which \$865,000 was applied against our insurance claim receivable and the remaining balance of \$2,769,000 (all of which relates to PP&E) was classified as other income. In addition, the activity included a total of \$865,000 relating to payables (approved by our insurance carrier) to unrelated third parties and the disposal of the net book value of the damaged property. As a result, there was no insurance claim receivable balance relating to this event at September 30, 2010. The property insurance carrier is considering our remaining property damage claims. Any additional insurance proceeds represent a gain contingency and will be recognized if, and when, realized or realizable and earned. The insurance claim for business interruption has not been filed and a recovery, if any, from our business interruption coverage has not been recognized.

**Estimated Plant Turnaround Costs - Remainder of 2010**

Our Chemical Business expenses the costs of planned major maintenance activities (“Turnarounds”) as they are incurred. Based on our current plan for Turnarounds to be performed during the remainder of 2010, we currently estimate that we will incur approximately \$2.0 million to \$3.0 million of Turnaround costs, which we plan to fund from our available working capital. However, it is possible that the actual costs could be significantly different than our estimates.

**Expenses Associated with Environmental Regulatory Compliance**

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of \$2.3 million in the first nine months of 2010 in connection with environmental regulatory issues. For the remainder of 2010, we expect to incur expenses ranging from \$0.7 million to \$1.0 million in connection with environmental regulatory issues. However, it is possible that the actual costs could be significantly different than our estimates.

**Proposed Legislation and Regulations Concerning Greenhouse Gas Emissions**

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

**Potential Increase of Imported UAN**

A large percentage of the domestic UAN market is supplied by imports. Significant additional UAN production began in the Caribbean during 2010, and we believe that some of this additional UAN production could be marketed in the United States. Generally, foreign production of UAN is produced at a lower cost than UAN produced in the United States. During 2009 and the first nine months of 2010, revenues from the sale of UAN by our Chemical Business were

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approximately \$28 million and \$26 million, respectively. Additionally, UAN is the primary product to be produced and sold by the Pryor Facility. This potential additional import of UAN could have an adverse impact on our revenues and profits from the sale of UAN and fertilizer products.

### **Authorization to Repurchase 2007 Debentures and Stock**

Our board of directors has granted management the authority to repurchase our 2007 Debentures on terms that management deems favorable to us if an opportunity is presented. Under this authority, we acquired in unsolicited transactions \$2,500,000 aggregate principal face during the first nine months of 2010, using \$2,494,000 of our working capital to purchase this portion of the 2007 Debentures. As a result, \$26,900,000 remains outstanding at September 30, 2010.

In addition, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period of time. The stock repurchase authorization will remain in effect until such time as of our board of directors decides to end it. During the first nine months of 2010, we repurchased 177,100 shares of our common stock at a weighted-average price of \$13.67 per share using funds from our working capital.

If we should repurchase an additional portion of our 2007 Debentures or stock, we currently intend to fund any repurchases from our available working capital; however, our plan could change.

### **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 the Secured Term Loan. Under the terms of these agreements, ThermaClime cannot transfer funds to us in the form of cash dividends or other distributions or advances, except for:

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

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

During first quarter of 2010, dividends totaling \$305,000 were declared and paid on our outstanding preferred stock using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

- Series D Preferred at the rate of \$.06 a share, which dividend is cumulative;
- Series B Preferred at the rate of \$12.00 a share, which dividend is cumulative; and
- Noncumulative Preferred at the rate of \$10.00 a share, which is noncumulative.

All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Group. See “Related Party Transactions” of this MD&A for a discussion as to the amount of dividends paid to the Golsen Group in March 2010. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

### **Compliance with Long - Term Debt Covenants**

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

### **Subordinated Debentures and Loan Agreements - Terms and Conditions**

**5.5% Convertible Senior Subordinated Debentures** - On June 28, 2007, we completed a private placement to twenty-two qualified institutional buyers, pursuant to which we sold \$60.0 million aggregate principal amount of the 2007 Debentures. Only \$26.9 million remains outstanding at September 30, 2010, including \$5.0 million owned by the Golsen Group.

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

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

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**Working Capital Revolver Loan** - ThermaClime's Working Capital Revolver Loan is available to fund its working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, ThermaClime and its subsidiaries may borrow on a revolving basis up to \$50.0 million based on specific percentages of eligible accounts receivable and inventories. At September 30, 2010, there were no outstanding borrowings. In addition, the net credit available for borrowings under our Working Capital Revolver Loan was approximately \$49.2 million at September 30, 2010, based on our eligible collateral and outstanding letters of credit as of that date. The Working Capital Revolver Loan requires that at ThermaClime meet certain financial covenants, including an EBITDA requirement of greater than \$25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended September 30, 2010.

**Secured Term Loan** - In November 2007, ThermaClime and certain of its subsidiaries entered into the \$50.0 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the previous senior secured loan. The Secured Term Loan matures on November 2, 2012. The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at September 30, 2010 was approximately 3.47%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. During the first nine months of 2010, we received proceeds from our insurance carrier as a partial payment on an insurance claim, of which we used approximately \$0.8 million to pay down the Secured Term Loan. As a result, approximately \$49.2 million remain outstanding at September 30, 2010. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately \$63 million at September 30, 2010.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At September 30, 2010, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately \$72 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the twelve-month period ended September 30, 2010. The maturity date of the Secured Term Loan can be accelerated by the lender upon the occurrence of a continuing event of default, as defined.

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

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### **Litigation Involving an Affiliate**

Cepolk Holdings, Inc. (“CHI”), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership (“Partnership”), which is accounted for on the equity method.

CHI has filed a lawsuit in the U.S. District Court, Western District of Oklahoma, against the general partner of the Partnership, styled CHI v. Cepolk Corporation. CHI alleges, among other things, that:

- the general partner failed to make its capital contribution of approximately \$2.0 million to the Partnership as required under the partnership agreement, and
- the general partner breached its fiduciary duty and the general partner has been unjustly enriched, in connection with the general partner’s management of the Partnership and the use of and payments to a company that provides maintenance services (“Maintenance Provider”) to the Partnership’s project, which Maintenance Provider is believed to be owned and controlled by the same people as the general partner.

After CHI filed its lawsuit in the Oklahoma U.S. District Court, the general partner, Partnership and the Maintenance Provider filed a lawsuit in Louisiana against CHI alleging that the Louisiana State Court has jurisdiction and should consider the issues in dispute.

### **Seasonality**

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

### **Related Party Transactions**

#### **Golsen Group**

The Golsen Group holds \$5,000,000 of the 2007 Debentures. As a result in January 2010, we paid interest of \$137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2009. In March 2010, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. During the nine months ended September 30, 2010, we incurred interest expense of \$206,250 relating to the debentures held by the Golsen Group, of which \$137,500 was paid in June 2010 and \$68,750 remains accrued at September 30, 2010.

### **Critical Accounting Policies and Estimates**

See our discussion on critical accounting policies in Item 7 of our Form 10-K for the year ended December 31, 2009. In addition, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies.

During the three months ended September 30, 2010, we had the following change in accounting estimates relating to our Climate Control Business:

- a decrease in our inventory shrink reserves of \$390,000.

The net effect of this change in accounting estimates increased income from continuing operations by \$390,000 and net income by \$234,000 for the nine and three months ended September 30, 2010. In addition, this change in accounting estimates increased basic and diluted net income per share by \$.01 and \$.01, respectively, for the nine months ended September 30, 2010 and \$.01 and \$.01, respectively, for the three months ended September 30, 2010.

As previously reported, during the three months ended September 30, 2009, we had the following changes in accounting estimates relating primarily to our Climate Control Business:

- a decrease in our estimated costs to complete a construction contract of \$575,000, which contract was substantially completed during the third quarter,
- a decrease in our inventory shrink reserves of \$238,000, and
- an increase in our accrued vacation of \$205,000.

The net effect of these changes in accounting estimates increased income from continuing operations by \$608,000 and net income by \$371,000 for the nine and three months ended September 30, 2009. In addition, these changes in accounting estimates increased basic and diluted net income per share by \$.02 and \$.02, respectively, for the nine months ended September 30, 2009 and \$.02 and \$.02, respectively, for the three months ended September 30, 2009.

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### **Results of Operations**

**Nine months ended September 30, 2010 compared to Nine months ended September 30, 2009**

#### **Climate Control Business**

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

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	\$ 122,967	\$ 136,681	\$ (13,714)	(10.0) %
Hydronic fan coils	26,711	38,503	(11,792)	(30.6) %
Other HVAC products	28,367	31,259	(2,892)	(9.3) %
Total Climate Control	<u>\$ 178,045</u>	<u>\$ 206,443</u>	<u>\$ (28,398)</u>	(13.8) %
Gross profit – Climate Control	<u>\$ 60,195</u>	<u>\$ 72,172</u>	<u>\$ (11,977)</u>	(16.6) %
Gross profit percentage – Climate Control (1)	<u>33.8</u> %	<u>35.0</u> %	<u>(1.2)</u> %	
Operating income – Climate Control	<u>\$ 22,632</u>	<u>\$ 32,146</u>	<u>\$ (9,514)</u>	(29.6) %

(1) As a percentage of net sales

#### **Net Sales – Climate Control**

- Net sales of our geothermal and water source heat pump products decreased as a result of a 16.9% decline in sales of our commercial products due to the slowdown in the construction and renovation activities in the markets we serve partially offset by a 4.9% increase in sales of our residential products, primarily during the 2010 third quarter. During the first nine months of 2010, we continued to maintain a market share leadership position of approximately 38%, based on market data supplied by the Air-Conditioning, Heating and Refrigeration Institute (“AHRI”);
- Net sales of our hydronic fan coils decreased primarily due to a 21.0% decline in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and a 14.4% decrease in the average unit sales price due to change in product mix. During the first nine months of 2010, we continue to have a market share leadership position of approximately 27% based on market data supplied by the AHRI;
- Net sales of our other HVAC products decreased as the result of lower engineering and construction services offset by increases in the sales of our large custom air handlers and modular chillers.

#### **Gross Profit – Climate Control**

The decline in gross profit in our Climate Control Business was the result of lower sales volume as discussed above and to a lesser extent higher raw material costs. The gross profit as a percentage of sales decreased primarily as a result of higher material costs, lower absorption of fixed costs and changes in our commercial product mix.



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### Operating Income – Climate Control

Operating income decreased primarily as a result of the decrease in gross profit as discussed above partially offset by a decrease in operating expenses. Significant changes in operating expenses include a decrease in warranty, commission, and freight expenses (\$2.4 million, \$1.2 million and \$1.0 million, respectively) due primarily to the decrease in sales volume partially offset by an increase in advertising expenses (\$1.6 million) as a result of a marketing program launched by one of our subsidiaries and product liability and damage claims (\$0.5 million).

### Chemical Business

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

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Industrial acids and other chemical products	\$ 94,058	\$ 73,165	\$ 20,893	28.6 %
Agricultural products	94,018	87,460	6,558	7.5 %
Mining products	65,752	43,464	22,288	51.3 %
Total Chemical	<u>\$ 253,828</u>	<u>\$ 204,089</u>	<u>\$ 49,739</u>	24.4 %
Gross profit – Chemical	<u>\$ 30,631</u>	<u>\$ 35,091</u>	<u>\$ (4,460)</u>	(12.7) %
Gross profit percentage – Chemical (1)	<u>12.1 %</u>	<u>17.2 %</u>	<u>(5.1) %</u>	
Operating income – Chemical	<u>\$ 12,310</u>	<u>\$ 15,491</u>	<u>\$ (3,181)</u>	(20.5) %

(1) As a percentage of net sales

### Net Sales - Chemical

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. Although not fully operational, the Pryor Facility produces agricultural and industrial chemical products as discussed above under “Overview-General”. For the first nine months of 2010, overall sales prices for the Chemical Business increased 7% and the volume of tons sold increased 20%, compared with the same period in 2009, generally as a result of the following;

- Sales prices for products produced at the El Dorado Facility increased 10% related, in part, to the higher cost of anhydrous ammonia, part of which is passed through to certain of our customers pursuant to contracts and/or pricing arrangements that include raw material feedstock as a pass-through component in the sales price. Pricing for agricultural grade AN was also 10% higher than the prior year period. Overall volume of all products sold from the El Dorado Facility increased 25,000 tons, or 5%. Industrial acid volumes increased 17,000 tons due to improved economic conditions and spot sales opportunities. Sales of mining

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products include industrial grade AN, which volumes increased 40,000 tons. Our industrial grade AN is sold to one customer pursuant to a multi-year take or pay supply contract in which the customer has agreed to purchase, and our El Dorado Facility has agreed to reserve certain minimum volumes of industrial grade AN during the year. The cost-plus supply contract, effective January 1, 2010, increased the annual minimum volume from 210,000 tons to 250,000 tons. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and profit associated with the reserved capacity despite not taking the minimum volume requirement. Fertilizer grade AN volume of tons shipped at the El Dorado Facility decreased 30,000 tons primarily due to unfavorable weather conditions in the first quarter of 2010.

- Sales prices at the Cherokee Facility increased 8% compared to the prior year period. Volumes also increased 8%, with increased volumes across all product lines. Overall volumes increased 25,000 tons. Mining and industrial product volumes increased 10,000 and 9,000 tons, respectively, due in part to improved economic conditions. Agricultural products increased 6,000 tons primarily due to higher UAN fertilizer sales. In the first nine months of 2009, UAN fertilizer sales were affected by high inventory levels in the distribution chain left over from 2008, as well as unfavorable weather conditions. While weather conditions were not optimal in 2010, volumes were not impacted by the supply chain as noted above for the prior year.
- Sales prices increased approximately 2% for products produced at the Baytown Facility due to increased pricing to certain customers, partially offset by decreased fixed expenses under the new agreement (the "Bayer Agreement") with Bayer Material Science LLC ("Bayer") compared to the prior agreement. These expenses are a pass-through component to Bayer. Overall volumes increased 42% as the result of improved demand from customers. The increased volumes had only a minimum impact to gross profit and operating income due to certain provisions of the Bayer Agreement.
- During the first nine months of 2010, our Pryor Facility recognized net sales of \$7.8 million for sales of 20,000 tons of anhydrous ammonia and 18,000 tons of UAN. In addition, the Pryor Facility provided 13,000 tons of anhydrous ammonia to our El Dorado and Cherokee Facilities.

### **Gross Profit - Chemical**

The decrease in gross profit of \$4.5 million on higher sales resulted in a decrease in the gross profit as a percent of sales for the first nine months of 2010 as compared to the same period of 2009. Gross profit on UAN fertilizer sales was \$2.9 million higher primarily due to increased volumes and pricing. Gross profit on fertilizer grade AN was \$6.9 million lower due to higher raw material input costs and lower volume as discussed above. Gross profit on industrial acids and mining products was \$3.6 million higher due in part to our industrial grade AN sold per the terms noted above and due to reduced unit costs related to plant efficiencies. Gross profit on our chemical products sold in excess of then current market prices due to firm sales commitments made in 2008 when market prices were higher were \$0.8 million in the first nine months of 2010 compared to \$5.2 million in the same period a year ago. We also recognized a \$0.9 million gain on recoveries of precious metals in the first nine months of 2010 compared to \$2.5 million in the first nine months of 2009. Losses on natural gas and ammonia hedging contracts (both realized and unrealized) were \$1.0 million and \$2.8 million for the first nine months of 2010 and 2009, respectively. Primarily as a result of these items, our overall gross profit as a percentage of sales decreased 4.6% for the first nine months of 2010 compared to the same period of 2009.

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### **Operating Income - Chemical**

In addition to the decrease in gross profit of \$4.5 million discussed above, our Chemical Business' operating income includes operating and other expenses associated with the Pryor Facility of approximately \$13.4 million for the first nine months of 2010 compared to \$11.3 million for the same period of 2009. This decrease was partially offset by a gain of \$3.9 million from insurance recoveries received as discussed above under "Liquidity and Capital Resources – Recognition of Insurance Recoveries".

### **Other**

The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for the nine months ended September 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
		(Dollars In Thousands)		
Net sales – Other	\$ 5,877	\$ 6,006	\$ (129)	(2.1)%
Gross profit – Other	\$ 2,027	\$ 1,945	\$ 82	4.2%
Gross profit percentage – Other (1)	34.5 %	32.4 %	2.1 %	
General corporate expense and other business operations, net	\$ (9,246)	\$ (9,405)	\$ 159	(1.7)%

(1) As a percentage of net sales

### **Net Sales - Other**

The decrease in net sales classified as "Other" relates primarily to the sale of two large industrial machines during the first nine months of 2009 partially offset by an improvement in demand for industrial machinery during 2010.

### **Gross Profit - Other**

The increase in gross profit classified as "Other" is due primarily to the improvement in demand for industrial machinery as discussed above.

### **General Corporate Expense and Other Business Operations, Net**

Our general corporate expense and other business operations, net, decreased by \$0.2 million primarily as the result of the increase in gross profit classified as "Other" as discussed above.

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### **Interest Expense**

Interest expense was \$5.9 million for the first nine months of 2010 compared to \$5.1 million for the same period in 2009, an increase of \$0.8 million. This increase primarily relates to losses (realized and unrealized) of \$1.5 million recognized in the first nine months of 2010 associated with our interest rate contracts compared to \$0.5 million for the same period in 2009.

### **Loss and Gain on Extinguishment of Debt**

During the first nine months of 2010, we acquired \$2,500,000 aggregate principal amount of the 2007 Debentures for \$2,494,000 and recognized a loss on extinguishment of debt of approximately \$52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired. During the first nine months of 2009, we acquired \$10,100,000 aggregate principal amount of the 2007 Debentures for approximately \$7,953,000 and recognized a gain on extinguishment of debt of \$1,796,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

### **Provision For Income Taxes**

The provision for income taxes for the first nine months of 2010 was \$8.8 million compared to \$14.1 million for the first nine months of 2009. The resulting effective tax rate for the first nine months of 2010 was 43.4% compared to 39.6% for the same period in 2009. As previously reported, during June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately \$800,000 for the nine months ended September 30, 2010. For the nine months ended September 30, 2010, the effect of this adjustment decreased basic and diluted net income per share by \$.04. We evaluated the impact of this accounting error and concluded the effect of this adjustment was immaterial to our 2007-2009 consolidated financial statements and the projected consolidated financial statements for the year ending December 31, 2010.

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### Three months ended September 30, 2010 compared to Three months ended September 30, 2009

#### **Climate Control Business**

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

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	\$ 44,006	\$ 41,612	\$ 2,394	5.8 %
Hydronic fan coils	10,506	12,346	(1,840)	(14.9) %
Other HVAC products	10,034	13,455	(3,421)	(25.4) %
Total Climate Control	<u>\$ 64,546</u>	<u>\$ 67,413</u>	<u>\$ (2,867)</u>	(4.3) %
Gross profit – Climate Control	<u>\$ 22,964</u>	<u>\$ 24,746</u>	<u>\$ (1,782)</u>	(7.2) %
Gross profit percentage – Climate Control (1)	<u>35.6 %</u>	<u>36.7 %</u>	<u>(1.1) %</u>	
Operating income – Climate Control	<u>\$ 10,112</u>	<u>\$ 10,942</u>	<u>\$ (830)</u>	(7.6) %

(1) As a percentage of net sales

#### **Net Sales – Climate Control**

- Net sales of our geothermal and water source heat pump products increased primarily as a result of a 24.8% increase in sales of our residential products partially offset by a 3.7% decline in sales of our commercial products due to the slowdown in the construction and renovation activities in the markets we serve;
- Net sales of our hydronic fan coils decreased primarily due to a 14.1% decline in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and a 2.9% decrease in the average unit sales price primarily due to change in product mix;
- Net sales of our other HVAC products decreased as the result of lower sales of engineering and construction services partially offset by an increase in sales of modular chillers.

#### **Gross Profit – Climate Control**

The decline in gross profit in our Climate Control Business was the result of lower sales volume as discussed above and, to a lesser extent, higher raw material costs. The decline in gross profit as a percentage of sales of 1.1% is due primarily to increased raw material costs, lower overhead absorption at our manufacturing facilities and changes in commercial product mix.

#### **Operating Income – Climate Control**

Operating income decreased primarily as a result of the decrease in gross profit as discussed above partially offset by a decrease in operating expenses. Significant changes in operating expenses include a decrease in warranty expenses of \$0.9 million due primarily to the decrease in sales volume.

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### **Chemical Business**

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

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Industrial acids and other chemical products	\$ 30,224	\$ 26,468	\$ 3,756	14.2 %
Mining products	23,832	12,961	10,871	83.9 %
Agricultural products	18,522	20,289	(1,767)	(8.7) %
Total Chemical	<u>\$ 72,578</u>	<u>\$ 59,718</u>	<u>\$ 12,860</u>	21.5 %
Gross profit – Chemical	<u>\$ 5,871</u>	<u>\$ 5,662</u>	<u>\$ 209</u>	3.7 %
Gross profit percentage – Chemical (1)	<u>8.1 %</u>	<u>9.5 %</u>	<u>(1.4) %</u>	
Operating income – Chemical	<u>\$ 1,247</u>	<u>\$ (3,344)</u>	<u>\$ 4,591</u>	137.3 %

(1) As a percentage of net sales

#### **Net Sales - Chemical**

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. Although not operational during substantially all of the third quarter of 2010, the Pryor Facility produces agricultural and industrial chemical products as discussed above under “Overview-General”. For the third quarter of 2010, overall sales prices for the Chemical Business increased 16% and the volume of tons sold increased 5%, compared with the same period in 2009, generally as a result of the following;

- Sales prices for products produced at the El Dorado Facility increased 10% primarily due to increased pricing for fertilizer grade AN. Overall volume of all products sold from the El Dorado Facility increased 18,000 tons, or 14% over the prior year third quarter. Industrial grade AN volumes for the mining industry were up 35,000 tons due to increased demand for coal and other mining services. Our industrial grade AN is sold to one customer pursuant to a multi-year take or pay supply contract in which the customer has agreed to purchase, and our El Dorado Facility has agreed to reserve, certain minimum volumes of industrial grade AN during the year. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and profit associated with the reserved capacity despite not taking the minimum volume requirement. Agricultural grade AN volumes were down 15,000 tons due to hot and dry weather conditions in certain of our primary market.
- Sales prices at the Cherokee Facility increased 12% over the prior year quarter primarily due to increased pricing for UAN fertilizer. However, volume at the Cherokee Facility decreased 10% due to lower UAN fertilizer sales. UAN volumes were lower due to limited production as a result of a Turnaround performed during the third quarter 2010 to rebuild and repair certain equipment in our urea plant.

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- Sales prices for products produced at the Baytown Facility increased 24% over the prior year quarter due primarily to higher ammonia cost which is a pass-through component to Bayer. Overall volumes increased 3% as demand from Bayer increased. Volumes have minimal impact to gross profit and operating income due to the provisions of the Bayer Agreement.
- During the third quarter of 2010, our Pryor Facility recognized net sales of \$1.9 million for sales of 6,000 tons of anhydrous ammonia and 1,000 tons of UAN, all of which was sold to unrelated third parties.

### **Gross Profit - Chemical**

Gross profit of \$5.9 million for the third quarter of 2010 was \$0.2 million higher than in the same quarter of 2009. Significant positive variances from the prior year quarter include increased margins on industrial and mining products of \$2.3 million primarily due to increased selling prices and recoveries of precious metals of \$0.8 million in the third quarter of 2010 compared to \$0.2 million in the third quarter of 2009. In addition, we recorded losses on natural gas hedges of \$0.4 million in the third quarter of 2010 compared to \$0.9 million in the third quarter of 2009. Gross profit on our chemical products sold in excess of then current market prices due to firm sales commitments made in 2008 when market prices were higher were \$1.7 million in the third quarter of 2009 (none in the third quarter of 2010). In addition, margins on fertilizer grade AN decreased \$2.2 million in the third quarter of 2010 compared to the third quarter of 2009 primarily due to increased raw material cost. Partially offsetting the lower margins on our fertilizer grade AN were higher margins on our UAN fertilizer sales and improved plant efficiencies resulting from higher sales volumes in all product lines. Gross profit on UAN fertilizers sales were \$0.4 million higher in the third quarter of 2010 than in the same period last year due primarily to higher pricing.

### **Operating Income - Chemical**

In addition to the increase in gross profit of \$0.2 million discussed above, our Chemical Business operating income for the third quarter of 2010 increased by \$4.6 million primarily due to the insurance recoveries and related gains of \$3.1 million from insurance claims discussed above under "Liquidity and Capital Resources - Recognition of Insurance Recoveries". In addition, operating and other expenses associated with the Pryor Facility were approximately \$4.9 million in the third quarter of 2010 compared to \$6.1 million in the same period of 2009.

### **Other**

The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for the three months ended September 30,

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	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales – Other	\$ 1,824	\$ 647	\$ 1,177	181.9%
Gross profit – Other	\$ 604	\$ 245	\$ 359	146.5%
Gross profit percentage – Other (1)	33.1 %	37.9 %	(4.8) %	
General corporate expense and other business operations, net	\$ (2,889)	\$ (3,328)	\$ 439	(13.2)%

(1) As a percentage of net sales

### **Net Sales - Other**

The increase in net sales classified as “Other” relates primarily to an overall improvement in demand for industrial machinery.

### **Gross Profit - Other**

The increase in gross profit classified as “Other” is due primarily to the increase in sales as discussed above.

### **General Corporate Expense and Other Business Operations, Net**

Our general corporate expense and other business operations, net, decreased by \$0.4 million including the impact from the increase in gross profit classified as “Other” as discussed above.

### **Interest Expense**

Interest expense was \$1.9 million for the third quarter of 2010 compared to \$2.2 million for the same period in 2009, a decrease of \$0.3 million. This decrease primarily relates to losses (realized and unrealized) of \$0.4 million recognized in the third quarter of 2010 associated with our interest rate contracts compared to \$0.7 million for the same period in 2009.

### **Provision For Income Taxes**

The provision for income taxes for the third quarter of 2010 was \$2.9 million compared to \$1.3 million for the third quarter of 2009. The resulting effective tax rate for the third quarter of 2010 was 43.5% compared to 55.0% for the same period in 2009. The tax provision for the third quarter of 2009 was disproportionately high as a percentage of pretax income primarily due to the impact of filing the federal income tax return during the third quarter of 2009 and the related adjustments necessary to reconcile the completed and filed return with the 2008 estimated tax provision. Additionally, as a result of lower taxable income for 2009, we were limited in the amount of the domestic manufacturer’s deduction that can be utilized. Historically, we have received the full benefit of this deduction, which resulted in a lower effective tax rate.



### **Cash Flow From Continuing Operating Activities**

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

For the first nine months of 2010, net cash provided by continuing operating activities was \$22.7 million, including net income plus depreciation and amortization, gain on property insurance recoveries associated with PP&E and other adjustments and net cash used by the following significant changes in assets and liabilities.

Accounts receivable increased \$14.4 million including:

- an increase of \$8.9 million relating to the Chemical Business as the result of increased demand for our mining products and increased demand at our Baytown Facility and
- an increase of \$6.1 million relating to the Climate Control Business due primarily to higher sales during the latter portion of the third quarter of 2010 compared to the same period of the fourth quarter of 2009.

Inventories increased \$2.0 million primarily due to an increase of \$1.7 million relating to the Chemical Business primarily as the result of increased raw material costs.

The change in prepaid and accrued income taxes of \$0.3 million primarily relates to the recognition of income taxes for the first nine months of 2010 (including \$0.8 million as discussed above under “Results of Operations” relating to the nine months ended September 30, 2010) partially offset by payments made to the taxing authorities.

Other supplies and prepaid items decreased \$1.4 million including:

- a decrease of \$3.1 million of prepaid insurance as the result of recognizing the related insurance expense for the first nine months of 2010 partially offset by
- an increase of \$1.7 million of supplies relating to the Chemical Business due primarily to a planned increase in the volume on hand at our facilities.

Accounts payable increased \$6.6 million primarily relating to an increase of \$5.8 million in the Chemical Business primarily as the result of increased raw material costs at our El Dorado and Baytown Facilities and expenses incurred relating to a Turnaround at our Pryor Facility.

Customer deposits increased \$2.3 million in the Chemical Business due primarily to cash received from customers associated with customer product orders.

Accrued payroll and benefits increased \$1.8 million including a net increase of \$1.0 million in the Climate Control Business primarily due to the timing of payroll-related payments partially offset by the payment of bonuses accrued at December 31, 2009.

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### **Cash Flow from Continuing Investing Activities**

Net cash used by continuing investing activities for the first nine months of 2010 was \$21.3 million that consisted primarily of \$26.1 million for capital expenditures of which \$1.7 million and \$24.1 million are for the benefit of our Climate Control and Chemical Businesses, respectively. The cash used for capital expenditures by our Chemical Business includes \$12.7 million relating to the Pryor Facility. This use of cash was partially offset by \$5.3 million of proceeds from property insurances recoveries associated with PP&E.

### **Cash Flow from Continuing Financing Activities**

Net cash used by continuing financing activities was \$11.4 million that primarily consisted of payments on long-term debt, loans and short-term financing totaling \$6.8 million, the acquisition of a portion of the 2007 Debentures for \$2.5 million and purchases of treasury stock of \$2.4 million.

### **Performance and Payment Bonds**

We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by our subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of September 30, 2010, we have agreed to indemnify the sureties for payments, up to \$13.9 million, made by them in respect of such bonds. Approximately \$7.7 million of these insurances bonds expire in 2010 while the remaining \$6.2 million expire in 2011.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended, except for the following, which was released during the third quarter of 2010:

Cepolk Holdings, Inc. (“CHI”), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership (“Partnership”), which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana (“Project”). During September 2010, the Partnership repaid its indebtedness to a term lender (“Term Lender”) of the Project. CHI had entered into a non-recourse guaranty of the partnership’s indebtedness to the Term Lender. In connection with the non-recourse guaranty, CHI had pledged its limited partnership interest in the Partnership to the Term Lender. CHI’s obligation under the non-recourse guaranty was limited to the asset pledged, which was CHI’s limited partners hip interest. As a result of the Partnership repaying in full its indebtedness to the Term Lender, the asset pledged by CHI under the non-recourse guaranty has been released and the lien thereon terminated. In accordance with GAAP, no liability was required to be established for this guaranty since it was entered into prior to January 1, 2003. Also see a discussion concerning litigation between CHI and the general partner of the Partnership as disclosed above under “Litigation Involving an Affiliate”.

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### **Aggregate Contractual Obligations**

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in our Form 10-K for the year ended December 31, 2009 and in our Form 10-Qs for the quarterly period ended March 31, 2010 and June 30, 2010, we had certain contractual obligations, with various maturity dates, related to the following:

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

In addition, under “Liquidity and Capital Resources” of Item 2 and “Commodity Price Risk and Foreign Currency Risk” of Item 3 of this Part I, we discussed the following which occurred during the three months ended September 30, 2010:

- our contractual obligations relating to futures/forward contracts were \$6.3 million as of September 30, 2010 and
- our committed capital expenditures were approximately \$6.2 million for the remainder of 2010.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **General**

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

#### **Forward Sales Commitments Risk**

Periodically, our Climate Control and Chemical Businesses enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At September 30, 2010, we had minimal embedded losses associated with sales commitments with firm sales prices relating to our Chemical Business.

#### **Commodity Price Risk**

Our Climate Control Business purchases substantial quantities of copper and steel for use in manufacturing processes and our Chemical Business purchases substantial quantities of anhydrous ammonia and natural gas as feedstocks generally at market prices. Periodically, as part of our raw material price risk management, our Climate Control Business enters into futures

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contracts for copper and our Chemical Business enters into futures/forward contracts for anhydrous ammonia and natural gas, which contracts are generally accounted for on a mark-to-market basis. At September 30, 2010, our futures/forward copper contracts were for 750,000 pounds of copper through December 2010 at a weighted-average cost of \$3.24 per pound (\$2.4 million) and a weighted-average market value of \$3.65 per pound (\$2.7 million). Also our futures/forward natural gas contracts were for 680,000 MMBtu of natural gas through December 2010 at a weighted-average cost of \$4.24 per MMBtu (\$2.9 million) and a weighted-average market value of \$3.99 per MMBtu (\$2.7 million).

### **Foreign Currency Risk**

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts. At September 30, 2010, our foreign exchange contracts were for the receipt of approximately 783,000 Euros through June 2011 at a contractual weighted-average exchange rate (U.S. Dollar/Euro) of 1.28 (\$1.0 million) and a market weighted-average exchange rate of 1.36 (\$1.1 million).

### **Interest Rate Risk**

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

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. At September 30, 2010, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.24% on \$25 million and matures in April 2012. Also, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.595% on \$25 million and matures in April 2012. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At September 30, 2010, the fair value of these contracts (unrealized loss) was \$2.3 million.

As of September 30, 2010 and December 31, 2009, the carrying value of our variable rate and fixed rate debt exceeded the debt's estimated fair value by approximately \$22.9 million and \$22.3 million, respectively.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**SPECIAL NOTE REGARDING  
FORWARD-LOOKING STATEMENTS**

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

- we believe we will be successful in obtaining financing, which will allow us to restructure the maturing debt on terms favorable to the Company; however, there are no assurances that we will successfully restructure the maturing debt at or prior to maturity;
- if the planned capital expenditures are approved, most of the Chemical Business' expenditures will likely be funded from working capital and internal cash flows and the Climate Control's expenditures will likely be financed;
- EDC anticipates that its share of the cost to construct the pipeline will be approximately \$4.0 million and that it is anticipated that the city should complete the construction in 2013;
- as our subsidiaries invest in the qualifying machinery, we will be entitled to an income tax credit equal to 30% of the machinery cost, up to the total credit amount awarded and for 2010, we anticipate utilizing \$163,000 of § 48C tax credits to partially offset our federal income tax liability;
- based on our current analysis, we do not have any remaining insurance claims associated with our property damage coverage or any insurance claims associated with our business interruption coverage relating to the event in Bryan, Texas;
- federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations;
- while future emission regulations or new laws appear possible, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results;
- if we should repurchase an additional portion of our 2007 Debentures or stock, we currently intend to fund any repurchases from our available working capital; however, our plan could change;
- we believe that our only significant seasonal products are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry;
- another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives;
- we anticipate modest increased demand from certain of our large industrial customers for the remainder of 2010;
- it is possible that the fertilizer outlook could be adversely affected by lower grain production, unanticipated changes in commodity prices, or unfavorable weather conditions;
- we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms;

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- our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional all-electric and gas HVAC systems;
- we expect to see a continued slow recovery in our Climate Control Business in the short-term as compared to pre-recession levels;
- for the remainder of 2010, we expect our primary cash needs will be for working capital and capital expenditures;
- we and our subsidiaries plan to rely upon internally generated cash flows, cash on hand, and the borrowing availability under the Working Capital Revolver Loan to fund operations and pay obligations;
- based upon our current projections, we believe that cash and borrowing availability under our Working Capital Revolver Loan is adequate to fund operations during the remainder of 2010;
- we plan to fund the committed expenditures from working capital, which may include utilizing our Working Capital Revolver Loan, and financing arrangements;
- our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment in order to comply with the requirements of the Clean Air Act;
- if changes to the production equipment at our chemical facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial;
- we believe that certain facilities within our Chemical Business may be required to pay certain penalties;
- the amount we will incur for capital expenditures, turnarounds and expenses associated with environmental regulatory compliance for the remainder of 2010;
- greenhouse gas regulation could increase the price of the electricity purchased by these chemical facilities and increase costs for our use of natural gas, other raw materials (such as anhydrous ammonia), and other energy sources, potentially restrict access to or the use of natural gas and certain other raw materials necessary to produce certain of our chemical products and require us to incur substantial expenditures to retrofit these chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted;
- we believe that some of this additional UAN production from the Caribbean could be marketed in the United States;
- we do not currently anticipate paying cash dividends on our outstanding common stock in the near future;
- meeting all required covenant tests for the remaining quarter and the year ending in 2010;
- environmental and health laws and enforcement policies thereunder could result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from our facilities or the use or disposal of certain of its chemical products;
- material costs for liabilities could be incurred by us in complying with Environmental Laws and the Healthcare Laws or in paying fines or penalties for violations of such laws;
- we currently have no plans to discontinue the use of our Chemical Business facilities;
- we plan to maintain or replace, as needed, certain facilities in our Chemical Business that contain asbestos insulation around piping or heating surfaces, with non-asbestos insulation through our standard repair and maintenance activities;

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- the El Dorado Facility believes that if it were required to meet more restrictive dissolved minerals permit levels, it should be able to do so; and
- our internally-generated cash flows and our liquidity could be effected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions.

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

- changes in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material changes in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such,
- additional releases (particularly air emissions) into the environment,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to pay or secure additional financing for planned capital expenditures,
- material changes in the cost of certain precious metals, anhydrous ammonia, natural gas, copper and steel,
- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- changes in the production efficiency of our facilities,
- adverse results in any of our pending litigation,
- activating operations at full production rates at the Pryor Facility,
- inability to obtain necessary raw materials;
- other factors described in the MD&A contained in this report; and
- other factors described in “Risk Factors” of our 2009 Form 10-K and “Special Note Regarding Forward-Looking Statements” contained in our 2009 Form 10-K.

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

**PART II  
OTHER INFORMATION**

**[Item 1. Legal Proceedings](#)**

There are no material legal proceedings or material developments in any such legal proceedings pending against us and/or our subsidiaries not reported in Item 3 of our 10-K for year ended December 31, 2009, our Form 10-Q filed for quarters ended March 31, 2010 and June 30, 2010, except as follows:

One of our subsidiaries, Cepolk Holdings, Inc. (“CHI”) has filed a lawsuit in the U.S. District Court, Western District of Oklahoma, against the general partner of Cepolk Limited Partnership (the “Partnership”), styled CHI v. Cepolk Corporation. CHI alleges, among other things, that:

- the general partner failed to make its capital contribution of approximately \$2.0 million to the Partnership as required under the partnership agreement, and
- the general partner breached its fiduciary duty and the general partner has been unjustly enriched, in connection with the general partner’s management of the Partnership and the use of and payments to a company that provides maintenance services (“Maintenance Provider”) to the Partnership’s project, which Maintenance Provider is believed to be owned and controlled by the same people as the general partner.

After CHI filed its lawsuit in the Oklahoma U.S. District Court, the general partner, Partnership and the Maintenance Provider filed a lawsuit in Louisiana against CHI alleging that the Louisiana State Court has jurisdiction and should consider the issues in dispute.

During 2010, EDC became aware that certain personnel at its Whitewright, Texas agricultural distribution site, which personnel had been previously terminated by EDC, disposed of chemicals and debris at the site without authorization. Upon learning of these acts by the former employees, EDC contracted with an environmental company to analyze the areas of such disposal and dispose of any chemicals and contaminated soils. Upon completion of testing, it was determined that the area contained contaminants above state action levels. As a result, EDC notified the appropriate authorities in the state of Texas of the contamination. EDC has installed numerous monitoring wells in coordination with the state, and EDC believes that the cost of this project could be approximately \$200,000.

**[Item 1A. Risk Factors](#)**

Reference is made to Item 1A of our Form 10-K for the year ended December 31, 2009 for our discussion concerning risk factors. There are no material changes from the risk factors disclosed in our Form 10-K.



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### [Item 2. Unregistered Sales of Equity Securities and Use of Proceeds](#)

#### **Sale of Unregistered Securities**

During the three months ended September 30, 2010, we issued the following unregistered equity securities:

In September 2010, we issued 20 shares of common stock upon the holder's conversion of 0.5 shares of our Noncumulative Preferred. Pursuant to the terms of the Noncumulative Preferred, the conversion rate was 40 shares of common stock for each share of Noncumulative Preferred. The common stock was issued pursuant to the exemption from the registration of securities afforded by Section 3(a)(9) of the Securities Act. No commissions or other remuneration was paid for this issuance. We did not receive any proceeds upon the conversion of the Noncumulative Preferred.

### [Item 3. Defaults upon Senior Securities](#)

Not applicable

### [Item 4. \(Reserved\)](#)

### [Item 5. Other Information](#)

Not applicable

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### Item 6. Exhibits

(a) Exhibits The Company has included the following exhibits in this report:

- 10.1 Agreement, effective August 1, 2010, between El Dorado Chemical Company and United Steelworkers of America International Union on behalf of Local 13-434.
- 10.2 Agreement, effective October 17, 2010, between El Dorado Chemical Company and International Association of Machinists and Aerospace Workers, AFL-CIO Local No. 224.
- 31.1 Certification of Jack E. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
- 31.2 Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
- 32.1 Certification of Jack E. Golsen, Chief Executive Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.
- 32.2 Certification of Tony M. Shelby, Chief Financial Officer, furnished pursuant to Sarbanes-Oxley Act of 2002, Section 906.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 4<sup>th</sup> day of November 2010.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

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

By: /s/ Harold L. Rieker, Jr.

Harold L. Rieker, Jr.  
Vice President and Principal Accounting Officer



AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION'  
ON BEHALF OF LOCAL 13-434

Effective: August 1, 2010

EL DORADO CHEMICAL COMPANY  
El Dorado, Arkansas

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**PREAMBLE**

Articles of Agreement between EL DORADO CHEMICAL COMPANY (hereinafter referred to as "Company") and UNITED STEELWORKERS INTERNATIONAL UNION ON BEHALF OF LOCAL 13-434 (hereinafter referred to as "Union"), whom the Company recognizes as the exclusive bargaining agency for all production, chemical, and operating employees included in the bargaining unit at its chemical plant located North of El Dorado, Arkansas, for the purposes of pay, wages, and other conditions of employment. There is excepted from the bargaining unit described all Maintenance employees not otherwise described within the Preamble, guards, shipping attendants, janitors and common laborers, office and clerical employees, non-working Foremen, and all supervisory employees.

Our future success and security requires that we foster a plant culture which underscores the importance of teamwork and focuses on customer satisfaction, methods improvement, demands mutual respect and promotes high morale. We must be prepared to meet the needs of changing circumstances and seize opportunities provided. The Company, the Union and all employees are committed to doing so.

We appreciate qualities and values such as pride in what we do, taking ownership of responsibility, dedication, cooperation, efficiency and optimism. Everyone who depends upon EDC recognizes the importance of creating and maintaining a safe and clean workplace and wants a plant which promotes fair treatment, quality work, and productive, profitable and efficient operations. We each accept and share the responsibility to do our parts to make that happen.

**ARTICLE I  
TERM OF AGREEMENT**

This Agreement shall remain in full force and effect for a period beginning at 12:01 a.m., August 1, 2010, and ending at 12:00 Midnight, July 31, 2013. At reasonable times after June 1, 2013, 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, 2013.

**ARTICLE II  
MANAGEMENT RIGHTS CLAUSE**

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct, to assure discipline, and efficient operation; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition

of the work force; to determine the allocation and assignment of work to employees; to determine the location of business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any classification, operation, service or department; to sell, merge, or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged.

The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

**ARTICLE III  
RIGHT TO ARBITRATE**

All grievances and disputes as to classifications, hours of work, and other working conditions, arising between the Company and the employees shall be governed in manner of settlement by the terms of this Agreement. Whenever any grievance or dispute arises which cannot be otherwise adjusted, the parties hereto agree that the same shall be decided in the manner provided for in Article IV. Only a matter concerning the interpretation or application of a provision of this Agreement shall be the subject of arbitration.

**ARTICLE IV  
GRIEVANCE PROCEDURE AND ARBITRATION**

**Section 1.**

Grievances shall be limited to matters concerning the provisions of the Agreement. A "grievance," as that term is used in this contract, means a claim by an employee, or the Union, that a term of this contract has been violated. All time limits in the first, second, third, and fourth steps listed below shall be to "working days" which shall be interpreted to include only Monday through Friday, but shall not include holidays. Time limits specified herein may be extended by mutual written agreement of the parties in unusual cases.

The Company agrees to investigate situations which may warrant discipline promptly after it learns of the situation. It also commits to administer any discipline warranted within 10 working days after it completes its investigation and assesses relevant facts. If its factual determination and decision whether/how to discipline cannot be completed within 10 working days of the completion of its investigation, the Union will be advised of the need for a reasonable extension of time within which the Company expects to complete the process. The Union's agreement to extend this time will not be unreasonably withheld.

### **First Step**

The aggrieved employee, and/or his Steward, shall verbally discuss the grievance with his team leader. If the team leader's verbal reply is not satisfactory, the employee and/or his Steward shall submit the grievance in writing to his team leader. No grievance shall be considered unless it is filed within fifteen (15) days after the occurrence of the event complained of. The team leader 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 team leader, the Steward shall notify the team leader as to whether his decision is satisfactory.

### **Second Step**

If the written decision of the team leader 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. The Department Head 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 General 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 General Manager, the Workers Committee shall notify the General 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 General Manager, or other duly authorized representative, advised the Workers 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.</div>

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 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 2.**

All work peculiar to any job qualification shall normally be done by employees regularly assigned to that job qualification except in cases of emergency. An employee called out or assigned to fill that vacancy will be considered regularly assigned to that job qualification. 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 job qualifications or duties thereof will be made with the purpose or result of reducing the pay of any job qualification. Any employee 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 team leader 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 at least twenty-four (24) 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 team leader 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 3.**

Except in cases of emergency and for training purposes, no team leader or employee not covered by this Agreement shall do any work peculiar to any job qualification 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 for the day shift personnel shall be eight (8) or ten (10) 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) or ten (10) hours in any one day, in excess of eight (8) or ten (10) hours in succession, or forty (40) hours in any one week.

**Section 2.**

The following reflects the typical weekly work schedule. However, the Company reserves the right to adjust as may be necessary to address unexpected or changed operational

needs. In such circumstances, the Union will be provided 24 hour notice of the schedule change, the reasons for it, and the expected length of time it will be observed.

The Day Shift begins at 7:01AM and ends at 7:00PM.

The Night Shift begins at 7:01PM and ends at 7:00AM.

Operators have three days scheduled off every other weekend. Operators are scheduled for 24 hours work in one week and 60 hours work in the following week.

The Fast Rotation, 12 Hour Shift Scheduled is as follows:

Monday-----OFF	Monday-----Nights
Tuesday-----OFF	Tuesday-----Nights
Wednesday----Days	Wednesday-----OFF
Thursday-----Days	Thursday-----OFF
Friday-----OFF	Friday-----Days
Saturday-----OFF	Saturday-----Days
Sunday-----OFF	Sunday-----Days

Monday-----OFF	Monday-----Days
Tuesday-----OFF	Tuesday-----Days
Wednesday----Nights	Wednesday-----OFF
Thursday-----Nights	Thursday-----OFF
Friday-----OFF	Friday-----Nights
Saturday-----OFF	Saturday-----Nights
Sunday-----OFF	Sunday-----Nights

#### DEFINITIONS:

1. Standard Work Day-From 7:01 AM to 7:00 AM the following day.
2. Standard Work Week-For payroll purposes, the work week extends from 7:01 AM on Monday until 7:00 AM the following Monday.
3. Base Rate-Rates as set forth in Union contract on a normal eight (8) hour working day plus shift differential, plus clothing allowance, plus emergency squad premium.
4. Regular twelve (12) Hour Schedule-Base rate adjusted downward to normal twelve (12) hour working day. Formula is 0.8695656 times base rate.
5. Regularly 12 Hour Schedule Overtime-Excess hours over eight(8) hours in a normal twelve(12) hour shift and is paid a rate of 1-1/2 times regular rate.
6. Premium Overtime- Overtime hours outside of normal twelve(12) hour shift and is paid at a rate of 1.5 times base rate for any work over eighty(80) hours in any two(2) week pay period or over twelve(12) hours in any scheduled work day.
7. In calculating hours worked each day, all time will be reported to the nearest fifteen (15) minutes time period. This formula is used to calculate time worked and not to establish working schedule.
8. Employees working twelve(12) hour shifts will alternate working day shift(7:01 AM to 7:00 PM) and night shift(7:01 PM to 7:00 AM) Employees are scheduled equally for the day and night shifts in a four (4) week period. Pay periods will remain the same.



#### RATES OF PAY:

1. Premium overtime pay 1.5 times the base contract rate will be paid for all hours worked outside an employee's regularly scheduled twelve (12) hour work day, provided the employee additionally works their regular scheduled hours. If the employee has 24 hours notice of work outside their regular schedule and not connected to their regular scheduled hours, and in the same week does not work all his regularly scheduled hours, hours worked outside their regular schedule where they were notified at least twenty-four (24) hours in advance, equal to the number of regular scheduled hours not worked will be paid at the regular rate.
2. Nothing in the policy shall be construed to require the pyramiding of overtime pay. It is understood that continuous time worked in excess of twelve (12) hours, solely as the result of change in shift schedule, shall not be considered as overtime worked but shall be paid 1.5 times the base contract rate of pay for the first twelve (12) hours worked on such new schedule.
3. Employees who have left the plant and are called back to perform work outside of, and not connected to their regularly scheduled hours (call out) shall receive a minimum of four (4) hours pay or work, as directed by the Company, unless they request to be excused earlier and such a request is approved by the Company.
4. When an employee is required to commence work earlier than his regular shift, he shall be paid for all hours worked in absence of his regular starting time at the rate of 1.5 times the base contract rate of pay. (Premium Overtime)
5. An employee who reports for work at his regular starting time shall be assigned a minimum of four (4) hours work. If not work is available, he shall receive four (4) hours pay at his base rate. The above provisions shall not apply when an employee has been notified not to report to work prior to leaving for work or when there has been a previously announced plant or departmental shutdown, or in the case of Acts of God, or any other condition beyond the control of the Company.

#### HOLIDAYS:

1. Holiday allowance will be eight (8) hours, ten (10) hours, twelve (12) hours pay at the base rate, whether worked or not, providing the employee is eligible in accordance with Article IX of the Agreement.
2. An employee working on any of the holidays listed in Article 9, or day observed as such, shall be paid the eight (8) hours, ten (10) hours, twelve (12) hours holiday allowance, in addition to 1.5 times the base rate for each hour worked.
3. Should a recognized holiday occur during an employee's vacation, an eligible employee will receive eight (8) hours holiday pay at their base rate of pay in addition to vacation pay.

VACATION:

1. Under the twelve (12) hour policy, vacation time is changed from weeks of vacation to hours of vacation. That is, two (2) weeks equals eighty four (84) hours, three (3) weeks equal one hundred twenty (120) hours, and four (4) weeks equals one hundred sixty eight (168) hours.
2. After one year and through year six. A 12—hour employee will receive 84 hours’ annual vacation pay. After 12 years, he will receive 168 hours’ annual vacation pay.
3. Vacations are to be scheduled in conformance with the work week of the employee desiring to be on vacation, subject to the provisions of the company vacation policy.
4. Under the twelve (12) hour policy, vacation time paid cannot be considered for purposes of pay in calculating overtime.

**Section 3.**

Except as noted in Section 2 above, the work schedule and shift schedules which are presently in effect shall remain in full force and effect for the terms of this Agreement. Regular hours of work for laboratory shift personnel shall be determined by twelve hour shift, regular hours of work for day personnel are listed below.

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.

Monday-----5:00 am – 3:00 pm	Monday-----OFF
Tuesday-----5:00 am – 3:00 pm	Tuesday-----5:00 am – 3:00 pm
Wednesday---5:00 am - 3:00 pm	Wednesday-----5:00 am – 3:00 pm
Thursday-----5:00 am - 3:00 pm	Thursday-----5:00 am – 3:00 pm
Friday-----OFF	Friday-----5:00 am – 3:00 pm
Saturday-----OFF	Saturday-----Days
Sunday-----OFF	Sunday-----Days

**Section 4.**

The payment of additional compensation for any hours worked in excess of eight (8) hours or ten (10) 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. This section applies to day personnel only.

**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 and eligible for the work to be performed by the amount of overtime hours listed on their overtime cards, low hours first. 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 early to complete the overtime, or calling an employee out from the appropriate overtime cards.

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.

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.

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 eight (8) hour, ten (10) hour (lab) or twelve (12) hours 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 workweek caused by any shift change. However, any employee who is working extra to complete his workweek may be used for filling vacancies in his area in accordance with his job qualification. The Company further agrees that each employee shall receive twenty-four (24) hours' notice prior to any change in his shift, or in lieu thereof, the employee shall receive time and one-half (1-1/2) for the first shift worked; however, no such extra pay shall be paid when an employee's shift is changed incident to his promotion to a higher vacancy or when he is returned to his regular assignment from an advancement. However, if an employee's assignment is temporarily shut down and, as a result, there is no work for him on his regular assignment, he may be so notified and reassigned to fill other operating vacancies on another shift or to work with Maintenance on another shift. If the employee is so notified twenty-four (24) 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 workweek) 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 job qualifications.

**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 EMPLOYEE – DAY EMPLOYEE**

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  
Independence Day  
Labor Day  
Thanksgiving Day  
Day after Thanksgiving  
Christmas Eve  
Christmas Day  
Floating Holiday

Each of the above-mentioned holidays shall be deemed to begin at 7:00 a.m. on the Holiday and end at 7:00 a.m. on the day immediately after the holiday, except when the holiday falls on Sunday, in which case those employees who are working eight (8) hour or ten (10) hour day shift will observe the holiday on the following Monday.

An employee may elect to take a personal holiday in lieu of Floating Holiday. To do so, it must be scheduled with the team leader approval not less than 14 days prior to the date requested.

Employees who are regularly scheduled to work 12 hour shifts will receive 12 hours' pay at his straight time rate for each recognized holiday. Other employees who work on a holiday will be paid eight (8) hours' holiday pay at his straight time rate. In addition, all employees will be paid one and one-half (1-1/2) times his straight time rate for each hour worked on the holiday.

Each employee covered by this Agreement who does not work on a particular holiday shall be paid, with respect to that holiday, a sum equal to his regular straight time for either eight (8) hours, ten (10) hours, or twelve (12) hours worked, depending upon his regular work schedule, provided that no such payment shall be made to an employee, with respect to a holiday, if such employee (a) is scheduled to work on that holiday and, without permission of the Company, fails to report for work; or (b) is on leave of absence; or (c) is

on layoff; or (d) is on sick leave and has not worked or does not work at any time during the 2-week pay period in which the holiday occurs.

Holiday Pay -- Employee will be off on a holiday if so notified that his services are not needed. Employees who fail to receive proper notification will receive time and one-half (1-1/2) for the first shift worked after the said holiday. Proper notification will be twenty-four (24) hours. Such notification shall not be required in the event of unit or equipment mechanical failure, fire, storm, explosion, or Act of God.

Employees will have the option, by seniority, to elect to work or leave if less than all can be excused.

Day Employees -- assigned to the Operating areas -- who normally work Monday through Friday, shall observe a holiday falling on Saturday the preceding Friday, and a holiday falling on Sunday the following Monday, and not report for work unless notified. However, the Christmas Eve holiday shall be observed on the last scheduled work day prior to Christmas Day holiday.

## **ARTICLE X VACATIONS**

### **Section 1.**

Normal vacation accruals will be computed in accordance with the following provisions:

- a) Two weeks (80 hours) after having accrued one (1) year's Company seniority for all employees except 12-hour employees on rotating shift – see (d) below.
- b) Three weeks (120 hours) during the calendar year after having accrued six (6) or more years' Company seniority for all employees.
- c) Four weeks (160 hours) during the calendar year after having accrued twelve (12) or more years' Company seniority for all employees except 12-hour employees on rotating shift – see (d) below.
- d) An employee working a 12-hour rotating shift schedule will receive 84hours' annual vacation pay after accrual of one year Company seniority and through year six. After accrual of 12 years' Company seniority , an employee working a 12-hour rotating shift schedule will receive 168 hours' annual vacation pay.

In computing length of service for vacations, time spent working at the El Dorado Plant will be used.

**Section 2.**

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.

**Section 3.**

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 team leader 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 team leader. No employee may change his vacation dates after the schedule has been prepared except with his team leader's permission. Vacations taken before March 1 will be on a first come e basis.

An employee will not be mandatory for overtime or call-out after 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.

**Section 4.**

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.

**Section 5.**

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 6.**

All vacation (regardless of shift schedule) will be paid using base rate. The only exception will be for positions receiving supplemental pay (Board Operator and Day Technician.) These employees will receive vacation pay at base pay plus the supplemental pay rate only for a vacation taken when they otherwise would have been working in the position for which supplemental pay would have been paid.

Vacation 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 in an agreed upon time frame, he will be transferred back to the area from which he originally bid 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 area realignment and then followed 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 "United Steelworkers International Union (USW) Bids for Company," and the duplicate must be deposited in a locked box marked "United Steelworkers International Union (USW) Workers 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 "United Steelworkers International Union (USW) Bids for Company" and place a copy of the notice in the "United Steelworkers Union (USW) Workers Committee" box at the guard 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 using the overtime procedure and/or temporary shift change of a qualified volunteer

(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.

(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 Area II, Area III, Area IV, Callout will be made by starting with the individual possessing the necessary qualifications to perform the work and the lowest total of overtime hours for the year. The individual that accepts and works the overtime will be responsible for keeping the correct overtime total either on his information card or in the computer and the area team leader will have the ultimate responsibility for properly maintaining the callout system.

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.

If the call-out is canceled, the employee shall be offered makeup overtime. 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 eight (8) hour, ten (10) hour or twelve (12) hour shift.

Employees are ineligible for call-outs that interfere with previously arranged call-outs or their normal schedule.

(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) An employee may, for personal reasons and after receiving approval from the team leader of that area, have his name removed from the call-out list(s). At such time as he desires, he may return his name to the appropriate call-out list. An employee who is off for sick leave or leave of absence will not be available for overtime. If that employee is off work for less than 15 working days, he will maintain the same number of hours of his last day worked. If that employee is off for more than 15 working days then he will be averaged back in by totaling the other employees overtime hours and dividing that total by the number of employees within that area.

(a)(iv) The call-out lists will be maintained under the direction of the area team leader, and it will be their responsibility to keep such records as are necessary to administer the call-out procedure.

(a)(v) 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)(vi) An employee must have a telephone in his residence or be available at the plant in order to be eligible for a call-out.

(a)(vii) Employees will not be eligible for overtime in an operating area until they have qualified on a job in that respective area. Upon qualifying on a job in an area, a new employee will be issued an overtime card and averaged in to his respective shift.

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.

The above procedure may be modified by mutual agreement between the Union and the General 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 secure permission through the Human Resources Director of the Company in order to return to work.

(b)(ii) When an employee's shift is changed for any reason so that he will have only eight (8) or ten (10) or twelve (12) 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 eight (8) or ten (10) or twelve (12) -hour interval between shifts.

(b)(iii) 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)(iv) 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 who are qualified on this job will be given the opportunity to work over in order of their overtime hours with low hours receiving first offer.

An employee 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.

**Section 9. Reduction in Forces.**

1. 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.
3. 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.

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.

**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:

<u>Length of Service</u>	<u>Period Seniority to Exist</u>
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 compiled and be kept at all times available to the Workers Committee, and the Workers 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.

**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 Workers 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 Workers 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 posted vacancy will be the ability to write and to read and comprehend written and verbal operating instructions.

Employees must train for an agreed upon period of time until he can demonstrate acceptable work by performing the job and pass both written and verbal tests. Once the employee has demonstrated they are proficient then they will be deemed qualified and promoted accordingly both in job qualification and pay increased, if applicable.

**ARTICLE XII  
FITNESS FOR DUTY**

**Section 1. Periodic Examinations**

The Company requires all employees to undergo a physical examination annually. It will be conducted by a physician selected by the Company. Each employee must have the ability to perform all essential functions of the job (with or without reasonable accommodation) and meet legal standards applicable to their position. This includes but is not limited to passing a respirator exam per OSHA requirements. Employees will be paid his/her regular rate for all time associated with the examination.

**Section 2.**

In the case of an employee being absent from work due to illness or impairment, he/she will be required to present a certificate of fitness for duty to the Human Resources Director, signed by a licensed physician, before being re-admitted to work. This rule, however, shall not limit the right of the Company to require examination by a physician in the Company's service in exceptional cases of 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 fitness of an employee to return to work or continue to work, a board of three (3) physicians shall be selected, one by the Company, one by the employee, and one selected by the two so named. The decision of the majority of this board shall be final and binding.



**ARTICLE XIII  
AUTHORIZED DEDUCTIONS**

**1. Union Dues.**

Upon receipt of a signed authorization by an employee in the form provided herein, requesting deductions from his or her wages of his or her monthly Union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form of such individual authorization shall be as follows:

"Until further notice you are hereby requested and authorized to deduct from wages due me and payable on the first regular pay day of each month, the sum equal to my monthly dues as set by, UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION AND ON BEHALF OF LOCAL 13-434 , for my account on or before the 15th day of the month following the calendar month for which said deductions are made."

The Financial Secretary of Local Union 13-434 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 UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION ON BEHALF OF ITS LOCAL 13-434 Political Committee. This deduction should be made and remitted to the Union on the first regular pay day of February each year. This authorization is voluntarily made on the specific understanding that the signing of this authorization and the making of payments to the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION are not conditions of membership in the Union or the employment with the Company and that the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION 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  
DISCIPLINE & DISCHARGE**

**Section 1.**

An employee shall not be discharged if fully 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.

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.

**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 Workers 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 General Manager or his representative before posting.

This bulletin board will be locked with keys, released to the Chairman of the Workers Committee, the Chief Steward, and the Chairman of El Dorado Chemical Company Group of Local 13-434 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 Workers 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 Workers 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 General 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 Workers Committee or the workmen employed on such equipment. The Union Workers Committee may make written suggestions to the General 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 Workers 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  
WORKERS COMMITTEE CONFERENCES**

Workers 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 Workers Committee, when scheduled to work the night shift on the day after any such regular meeting, will be excused from work on that night 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 General 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: General 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/her 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.

Employees will be eligible to continue insurance benefits with the company while on short term and long term disability if they so desire. The employee must continue to pay that part of the insurance premiums for coverage to continue.

Employees will accrue vacation time for the twenty-four month period of time.

Under either of the above conditions, if an employee should accept an equal or better assignment elsewhere, his seniority shall be canceled.

When an employee is out of work for the reasons set forth in this section, FMLA and relevant insurance coverage will be applied for the initial 12 weeks of the leave. After the initial 12 weeks, the employee will be entitled to continue health insurance coverage and at costs pursuant to his COBRA rights which will begin upon completion of the initial FMLA coverage.



**ARTICLE XXIII  
JURY DUTY**

An employee who is called for jury duty shall be paid by the Company for each day of jury duty service. However, the employee will be paid only for those days of service when he/she otherwise was scheduled to work his/her regular shift at the plant. The employee must provide a certificate evidencing his jury service to the HR Manager in order to be eligible for payment.

**ARTICLE XXIV  
WAGE RATES AND CLASSIFICATIONS**

Each employee who works during the period beginning 12:01 a.m., August 1, 2010, and ending 12:00 midnight, July 31, 2013, 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 Workers 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: General Manager.

Any notice to be given to the Union may be given by depositing the same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to the UNITED STEELWORKERS OF AMERICA INTERNATIONAL UNION LOCAL 13-434, El Dorado, Arkansas 71731, with a copy of the notice to the Secretary, Local 13-434, of the Union, El Dorado, Arkansas 71731.

**ARTICLE XXVII  
FUNERAL LEAVE**

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or to attend the funeral or any of the relatives of the employee hereinafter mentioned for the time hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) days. One of these days shall be the day of the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law, grandmother-in-law or grandfather-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purpose stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for a deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight-time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as: vacation pay, holiday pay, or sickness benefits payments.

**ARTICLE XXVIII  
MEDICAL INSURANCE BENEFITS**

**Group Insurance and Pension.**

The Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis, in the following employee enrollment categories, payable bi-weekly:

- a. Employee
- b. Employee and Children
- c. Employee and Spouse
- d. Family

Medical claims utilization and fixed costs will determine the cost share assigned to each enrolled employee by enrollment category.

- (1) Effective January 1, 2011, the employee's cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2009, through October 31, 2010.

The specific cost share amounts to be effective January 1, 2011, will be constant throughout that year.

- (2) Effective January 1, 2012, the employee cost share of 24%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2010, through October 31, 2011.

The specific cost share amounts, per pay period, to become effective January 1, 2012, will be constant throughout that year.

- (3) Effective January 1, 2013, the employee cost share of 25%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2011, through October 31, 2012.

The specific cost share amounts, per pay period, to be effective January 1, 2013, will be constant throughout that year.

- (4) Caps on employee contribution rate remain, but increase by 25% in January 2011, 27.5% in January 2012 and 30% in January 2013 in each category of coverage.

(See chart for dollar amounts)

Effective January 1, 2011, 2012, and 2013, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2011	23%
2012	24%
2013	25%

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

	<u>2010</u>	<u>2011</u> 23%	<u>2012</u> 24%	<u>2013</u> 25%
<b><u>MEDICAL</u></b>				
Capped Rates:				
Employee	\$36.15	\$45.19	\$60.12	\$81.41
Employee & Children	\$67.13	\$83.91	\$111.64	\$151.18
Employee & Spouse	\$111.02	\$138.78	\$184.63	\$250.02
Family	\$142.00	\$177.50	\$236.15	\$319.79
<b><u>DENTAL</u></b>				
Employee	\$10.15	\$12.69	\$16.88	\$22.86
Employee Family	\$26.35	\$32.94	\$43.82	\$59.34

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 time to time.

Effective with the date of this Agreement, the Company agrees to pay the cost of employee short-term and long-term disability insurance which it provides and as may be amended from time-to-time as well as 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 deductions amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective August 1, 2010, 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.

**EXHIBIT "A"  
OPERATING DEPARTMENT  
PROGRESSION CHART**

<b>AREA II</b>	<b>AREA III</b>	<b>AREA IV</b>
"A" Operator	"A" Operator	"A" Analyst
"B" Operator	"B" Operator	"B" Analyst
"C" Operator	"C" Operator	"C" Analyst
*"D" Operator	"D" Operator	"D" Analyst
* (First 180 Days)		

**EXHIBIT "B"**

**WAGE RATES AND CLASSIFICATIONS**

	<u><b>8/1/2010</b></u>	<u><b>8/1/2011</b></u>	<u><b>8/1/2012</b></u>
"A" Operator/"A" Analyst	\$21.10	\$21.31	\$21.63
"B" Operator/"B" Analyst	\$19.63	\$19.83	\$20.13
"C" Operator/"C" Analyst	\$18.63	\$18.82	\$19.10
*"D" Operator/"D" Analyst	\$15.46	\$15.62	\$15.85
* (First 180 Days)			

Rates for Control Board Operator, Boiler House Board Operator and certain A Lab Analysts:

Supplemental pay is \$2.50/hour when an Operator is functioning in that capacity.

The premium does not apply to Board Operators in training who have not been certified as required and who are functioning with a certified Board Operator as a resource on his shift who is receiving the supplemental pay on that shift.

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.

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 sixteen cents (\$.16) per hour for each hour worked by an employee during the term of this Agreement. An alternate choice to the employee is to use the contractor service to supply them with uniforms. For those who use the uniform service will be assured of the current level of shirts, pants, jackets and winter work jacket at the \$0.16/hour cost to employees with no cost to repair or cost increase for the term of Agreement unless the employee terminates use of uniforms and returns damaged goods.

### **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.

### **ARTICLE XXX THREE JOB CONSOLIDATION POLICY**

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.

The objective is to provide the site with the highest level of excellence in leadership, safety, environmental, quality, efficiency & production. This will be achieved with the expectation that all individuals continue to grow to the next level of excellence through teamwork and continuous learning. Operator Excellence & Maintenance Work Process are the tools to help drive the site forward.

Teamwork: a cooperative effort by the members of a group or team to achieve a common goal.

Each member will have three jobs, demonstrate their ability to fully function on these three jobs at the required level of competence. Passing the testing procedures explained in this letter will be the minimum requirement for being qualified.

Each job will require a minimum of 12 qualified assigned employees.

EVERYONE will be required to re-qualify on the job qualifications required for job assignment. Re-qualifying will require retesting. The retesting will consist of one or more individuals going over the expectations and responsibilities of the job with the individual that is testing. The expectations will be to understand leadership, safety, environmental, operator excellence, maintenance work process, functions/purpose of each piece of equipment, process theory, required process samples, process control and how to work with the support teams in a productive manner. The retesting will consist of three main parts with the grading being either "acceptable" or "need more training". 1) Oral exam of the above expectations. 2) Field exam. 3) Hands on demonstration. If an operator needs more training in an area, a written test will be required.

Testing for the first time will be handled in the same way as above except the individual(s) will use the guidelines & training procedures (Specifically A-010). The P&ID drawing will be used in all cases for training.

There will be a lead technician selected in each area to "oversee" the testing & retesting. This individual must possess the understanding of the processes and the direction of the site. At times the retesting may require more than one individual such as manager, E & I and/or maintenance technician to assist.

To possess a control board operator position the individual must be qualified on all outside process jobs. The individual will work each qualification for a minimum of 90 days as stated in the training requirement procedure A-010. These individuals must have a basic understanding of the loading jobs & mixed acid in the acid area. The Boiler House qualification will not be required to gain the prill control room qualification.

The boiler house operator will not be required to know all outside jobs to gain the Boiler House qualification.

When a vacancy is open for area realignment this means that a one three-job assignment is vacant. When accepting area realignment to the vacancy the successful realigned individual will take on the one three-job assignment that was vacant giving up their one three-job assignment.

When a vacancy is open for bidding, this means that one three-job assignment is vacant. When accepting a bid to the vacancy the successful bidder individual will take on the one three-job assignment that was vacant giving up their one three-job assignment.

Overtime will be filled by lowest overtime hours of the eligible person with the qualification in which the overtime is available for. If the overtime cannot be filled by these means, then a person that has the qualifications from the past job consolidation policy will be required to fill the vacancy. This will be done by lowest overtime hours as well.

The Company has the right to modify/align technicians to job rotation to meet the needs of the facility as directed by Management.

New Hire will go into vacant job rotation, not necessarily into a loading job.

Job Progression for the 3 Job Rotation is as follows:

- D Operator-----New Hire
- 
- C Operator-----12 months employment or two job qualifications
- 
- B Operator----- 24 months employment
- 
- A Operator-----Three job qualifications required for job assignment & a minimum of
- 
- 180 days employment

For new hires at the Prill Plant, you can't qualify for both loading jobs and one melt job and get "A" pay unless the control room is in your job assigned job rotation.

Two week rotation per job.

It is the expectation of the Union and the Company that every employee will actively train for jobs within their job assignment and when possible jobs not in job assignment. Operators in training will be subject to evaluations every 45 days by their team leader. If progress is not being made by an employee to train and learn job qualifications required for their job assignment then disciplinary action will be as follows:

1. Written warning.
2. 24 hrs off without pay.
3. Suspension up to termination.



An employee in a 3-job rotation who has qualified for a fourth position but despite training and his best efforts to succeed (which will be required) is unable to meet job requirements of the Board operator position will not be discharged but will be reassigned to a 3-job rotation which excludes the Board position. The Union will be part of the assessment and assignment process in a manner to be determined by mutual agreement.

#### **EXTRA CREW**

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."

EL DORADO CHEMICAL COMPANY

IN WITNESS WHEREOF, this instrument is executed on the 23rd of July 2010, to be effective as of 12:01 a.m. on the 1st day of August, 2010.

EL DORADO CHEMICAL COMPANY

BY: /s/ Greg Withrow  
Greg Withrow General Manager

APPROVED:

BY: /s/ Adam Belt  
Adam Belt

BY: /s/ Ken Perdue  
Ken Perdue

BY: /s/ Johnny Wilson  
Johnny Wilson

BY: /s/ Dean Williamson  
Dean Williamson

BY: /s/ Louie Haltom  
Louie Haltom

---

Leo W. Gerard  
International President

---

Stan Johnson  
International Secretary-Treasurer

---

Thomas Conway  
International VP Administration

---

Fredrick D. Redmond  
International VP Human Affairs

---

J.M. Breaux Director, District 13

---

/s/ Joe Wilson  
Joe Wilson  
USW Staff Representative



AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

INTERNATIONAL ASSOCIATION OF  
MACHINISTS AND AEROSPACE WORKERS,  
AFL-CIO  
LOCAL NO. 224

Effective: October 17, 2010

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 agent for the Maintenance employees of the Company at its chemical plant located north of El Dorado, Arkansas, who are eligible for membership in the Union in accordance with the Labor Management Relations Act of 1947.

Our future success and security requires that we foster a plant culture which underscores the importance of teamwork and focuses on customer satisfaction, methods improvement, demands mutual respect and promotes high morale. We must be prepared to meet the needs of changing circumstances and seize opportunities provided. The Company, the Union and all employees are committed to doing so.

We appreciate qualities and values such as pride in what we do, taking ownership of responsibility, dedication, cooperation, efficiency and optimism. Everyone who depends upon EDC recognizes the importance of creating and maintaining a safe and clean workplace and wants a plant which promotes fair treatment, quality work, and productive, profitable and efficient operations. We each accept and share the responsibility to do our parts to make that happen.

**ARTICLE I  
APPLICATION OF AGREEMENT**

The Company hereby recognizes the Union as the exclusive bargaining agency for the employees of the Company at said plant who work in the capacities hereinafter stated in this Article I.

(a) All Maintenance employees, as described in Exhibit "A", engaged in the installation, maintenance and repair of machinery and equipment, but excluding all production, chemical and operating employees, shipping attendants, office and clerical employees, managers, supervisors and guards.

**ARTICLE II  
PERIOD OF AGREEMENT**

This Agreement shall remain in full force and effect for a three year contract term commencing October 17, 2010, at 12:01 a.m., and ending 12:00 midnight, October 16, 2013. At reasonable times after August 1, 2013, the parties will meet to attempt to negotiate a new contract to be effective for the period beginning after midnight, October 16, 2013.

**ARTICLE III  
MANAGEMENT RIGHTS CLAUSE**

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct; to assure discipline and efficient operations; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of the business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any job, operation, service, or department; to sell, merge or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged. The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

**ARTICLE IV  
CHECK-OFF OF UNION DUES and UNION MEMBERSHIP**

Upon receipt of a signed authorization by an employee requesting deductions from his wages for his monthly union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form shall be furnished by the Union.

The Financial Secretary of Local 224, IAM-AW, shall, from time to time, notify the Company in writing of the amount of the monthly deduction to be made, from time to time, under this authorization. All money so deducted by the Company shall be paid to the Union on or before the end of the month during which deductions are made. Upon receipt of written request by current employees as of October 17, 2010, 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  
2nd

Bargaining Unit  
Plant

Section 3. Eligibility for Seniority.

An employee shall be first entitled to seniority in the bargaining unit when he has been continuously employed in that unit for 180 days; his seniority dating from the date of the beginning of such employment.

However, an employee who has been employed in the bargaining unit, who has been laid off prior to his having been employed therein for 180 days continuously, and who is reemployed in the bargaining unit within 180 days from the date upon which he is laid off, shall, upon such reemployment, be entitled to have the number of days which he has worked in the bargaining unit, during the period of his most recent previous employment herein, included in any subsequent computation of his seniority in the bargaining unit and shall be entitled to seniority when he has accrued 180 days on that basis.

The Company shall have the right to layoff or discharge, without cause, any employee who has not worked in the bargaining unit a sufficient length of time to gain seniority, and such action on the part of the Company shall not be the subject of a grievance on the part of the Union under any provision of this Agreement.

Section 4. Filling Vacancies.

(a) Temporary and permanent vacancies will be filled only when the Company sees a need to fill the vacancy. In the event the Company sees a need to fill a vacancy, it will be filled by the employee having the most bargaining unit seniority, who desires the job, and who possesses a skill of the group in which the vacancy occurs. Any person so promoted must accept the duties and responsibilities of the job.

(b) When there is a permanent vacancy in a group and the Company sees a need to fill that vacancy, the Company shall post promptly, and keep posted for fifteen (15) days, notice on its bulletin board of the job vacancy. It shall be the duty of an employee who feels himself entitled to such job on account of his seniority to file his sealed bid for such job with the Plant Manager or his representative, and send a copy thereof to the Chairman of the Shop Committee within said 15-day period. In order to be considered valid, a bid must be signed, dated, and deposited in a locked box marked "I.A. of M. and A.W. Bids" located at the plant entrance gate.

Immediately upon expiration of the posting period of fifteen (15) days, the names of all bidders will be posted on the bulletin board, and the bidder having the most seniority and who desires the job shall be assigned to the group and receive the "C" Mechanic rate of pay if he possesses the necessary skill. In the event no qualified bidder possessing the necessary skill bids on the vacancy, the Company may hire a qualified employee from the outside.

If he does not possess the skill, he will be reduced to the rate that compares to his previous experience beginning not later than the beginning of the work week following the week in which the successful bidder is determined, provided the successful bidder is available to report for work on that day.

If the group vacancy is not filled by the procedure set forth above and the Company sees the need to fill the vacancy, a first-year "E" Mechanic job will be posted for filling outside the bargaining unit.

Notwithstanding any other provisions of this subsection (b), it is agreed that the Company shall have the right at any time during said 15-day posting period to withdraw the posting of a new job in the event the Company decides that such job need not be filled.

(c) Should an employee within a group who is entitled to a promotion desire to waive his opportunity for that promotion, he shall do so by signing a waiver.

(d) In the event that it becomes necessary to establish a permanent rotating shift the Company will notify the Shop Committee to discuss the procedure and shift to be implemented at least thirty (30) calendar days before establishing such shift.

(e) In addition to the hourly rates, employees who are regularly assigned to a specific shift shall be paid a shift differential of forty cents (\$.40) for each hour worked on the evening shift and eighty cents (\$.80) for each hour worked on the graveyard shift. For payroll purposes, employees who are regularly assigned to a three shift rotating schedule shall receive shift pay averaged over all three shifts (forty cents (\$.40) per hour).

NOTE: Maintenance personnel who are not regularly assigned on a rotating shift basis or to the evening or graveyard shift will receive shift differential in accordance with the August 3, 1989, Letter of Understanding (regarding turnarounds and major maintenance projects).

#### 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. The 90 day limit will begin if/when an employee is removed from the duty list and/or call-out list.

Section 9. Discharges and Reemployment.

When there is a reduction in the number of employees in the bargaining unit, the employee last employed in the bargaining unit shall be the first employee laid off. The employee laid off through no fault of his own, who has the greatest bargaining unit seniority, shall (subject to the following provisions of this Article) be the person first reemployed in the event additional employees are employed, provided that the person is qualified to perform the duties of the job to which he would be assigned on reemployment.

A person who has worked in the bargaining unit sufficiently long to be entitled to seniority in that unit, and who is laid off through no fault of his own, who has kept his current address on file with the Company, and who continues to be entitled to seniority under the terms of this Agreement shall (subject to the following provisions of this Article) be given first consideration for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with a copy of such letter to the Chairman of the Shop Committee), addressed to him at his address then on file with the Company, and he shall be allowed fifteen (15) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article V (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed seven (7) days from the date of the delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed

physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended ninety (90) days.

Section 10. Status of Employees Laid Off.

The accrued seniority of an employee who has been laid off through no fault of his own shall continue to exist from the date of his layoff for the following periods:

<u>Years of Service</u>	<u>Period Seniority to Exist</u>
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.

(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 Person" 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 Person" 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, which 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 and/or operator in order that the person being called may judge: (a) whether or not he has the ability to do the work, and (b) about how long he may have to work. It is not intended to have a person come out on one job, then surprise him with a

list of additional jobs to be done. However, due to emergencies, it cannot be guaranteed that he will only be required to do what he was called for.

Notwithstanding the fact that an employee has been called out for work, such employee shall perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused from such work.

If an employee is called out for work and works until the beginning of his regular work schedule, the call-out will be considered as ending at the beginning of his regular schedule.

Section 8A. Advance Scheduling of Overtime.

Overtime may be scheduled up to three (3) weeks in advance of the actual time required. In the event the scheduled overtime is cancelled, eight (8) hours' notice will be given or a call-out will be paid.

Section 8B. Right to Assign Qualified Personnel.

In the event overtime distribution and call-out procedures do not provide the Company with sufficient, qualified personnel to perform the overtime work, the Company shall have the right to assign such work to qualified personnel. The performance of such work is mandatory.

Section 9. Holiday Pay.

The following days shall be considered holidays and normally no work will be performed on the designated holidays except in cases of emergency, around-the-clock shift work, and in those crafts where work is necessary for continued operations:

1. New Year's Day
2. Good Friday
3. Memorial Day
4. July Fourth
5. Labor Day
6. Columbus Day
7. Thanksgiving Day
8. Day after Thanksgiving
9. Last work day before Christmas holiday
10. Christmas Day

When any of these holidays fall on Sunday, the following Monday will be observed as the holiday.

When any of these holidays fall on Saturday, the preceding Friday will be observed as the holiday.

Each employee who is not required to work and who does not work on a holiday shall be paid a bonus equivalent to eight (8) hours at his regular rate at straight time pay, providing he has worked his last scheduled work day immediately preceding the holiday and his first scheduled work day following the holiday unless the failure to work these days is because of confirmed illness or accident no more than five (5) work days before or after the holiday, unless the employee was excused in advance by the Company.

An employee who works on the holiday will receive holiday pay equivalent to the actual hours worked on the holiday, up to a maximum of twelve (12). The Company retains the right to schedule employees to work and the amount of hours worked on holidays.

Section 10. Reporting for Work and Not Used.

Except when no work is available due to Act of God, such as fire, flood, explosion, or tornado, an employee who reports for duty on his regular schedule shall be given the opportunity of working a full 8-hour shift.

**ARTICLE VII  
WAGE RATES AND CLASSIFICATIONS**

Section 1. Wages and Pay Period.

The regular pay periods for employees subject to this Agreement will cover every two (2) scheduled work weeks, and checks will be available to the men on their regular shifts on the Friday following completion of the 2-week period.

Each employee who works during the period beginning 12:01 a.m., October 17, 2010, and ending 12:00 Midnight, October 16, 2013, shall be paid for his work in that classification on the basis of the basic hourly wage rate for that classification shown on Exhibit "A" to this Agreement. Each employee will be paid the applicable clothing allowances provided on Exhibit "A" to this Agreement.

Section 2. Changes in Classification of Work.

(a) Each employee covered by any classification is expected to perform any duties to which he may be assigned within his classification or lower classification.

(b) It is understood and agreed by the parties hereto that two (2) work groups shall be recognized under this Agreement. A tabulation of the groups with explanatory notes is made in Exhibit "B," Part 1, which is a part of this Agreement.

(c) All Maintenance personnel may be assigned to do any jobs that they have the ability to perform subject to the provisions of Article V, Section 5, and Article XIV, Section 5, of the current contract.

(d) The Company reserves the right to increase or reduce, at any time and from time to time, the number of individuals employed in any group mentioned in Exhibit "B", Part 1, to that number of individuals which, in the opinion of the Company, are required to perform work in that group for maintaining the plant. Any such increase or reduction of force in any group shall be made on the basis of bargaining unit seniority in that group. The Company shall advise the employee(s) affected seventy-two (72) hours in advance of any permanent change in the number of persons who shall work in any classification.

### Section 3. Mechanic Classifications, Opportunities and Training

A Committee of Company and Union representatives will meet and work collaboratively and efficiently to address issues regarding the training program and requirements, including the rotating Equipment Test and development of the Machinist Test. Its major objective is to develop appropriate standards and expectations to help provide eligible unit members with the opportunity to be certified when relevant skill standards have been met.

As questions or issues arise as to an individual's eligibility or opportunity to be tested, they will be brought to the attention of this Committee. The Committee will meet as needed with the General Manager to review progress and/or opportunities which may arise.

## **ARTICLE VIII HANDLING OF GRIEVANCES**

### Section 1

Nothing in this section shall prohibit the informal discussion and settlement of grievances between an individual employee and his supervisor. If so requested by the employee, a representative of the Union, who may be an officer or steward, may be present at such informal discussions. The formal grievance procedure shall be as follows: The grievance will be reduced to the writing (on a form supplied by the Company) and shall state clearly, contract violations or causes. The Company will respond in writing at all steps.

#### Step 1

If the complaint is not settled informally, it may be submitted to his Maintenance Supervisor or his designee by the aggrieved employee and/or his Union Representative within 10 days excluding Saturday, Sunday and Holidays, of the aggrieved act. The supervisor will give his answer within five days excluding Saturday, Sunday and Holidays. Grievances settled in step 1 shall be on a non-precedent setting basis.

#### Step 2

If the grievance is not settled in Step 1, the grievance may be referred within ten days, (following receipt of the Supervisor's answer in Step 1) to the Maintenance Manager or his

designee. Maintenance Manager or his designee will meet with the shop steward for the discussion of the grievance and after meeting with the shop steward the Maintenance Manager or his designee will give his answer within seven days, excluding Saturday, Sunday and Holidays.

### Step 3

If the grievance is not settled in Step 2, the grievance may be referred within ten days, excluding Saturday, Sunday and Holidays (following receipt of the Maintenance Manager or his designee's answer in Step 2) to the General Manager who will meet with the Union Officers and the International or District Lodge Representative after the meeting with the Union Officers/DBR the Company will answer within ten days, excluding Saturday, Sunday and Holidays.

a) If the grievance is not settled in Step 3, the grievance may be referred within 30 days, excluding Saturday, Sunday and Holidays, (following receipt of the Company's answer in Step 3) to arbitration. If agreeable to both parties, mediation may be used prior to arbitration to resolve the grievance.

The party desiring arbitration will make application to the Federal Mediation and Conciliation Service for a panel of seven arbitrators. The Company and the Union shall alternatively strike until one arbitrator is left. The notice to the FMCS shall contain a requirement that the arbitrator be available to hear the case in 90 days. Both the Company and the Union shall have the right to reject two (2) panels submitted by the Federal Mediation and Conciliation Service. The decision of the arbitrator shall be final and binding upon all parties to this agreement. The arbitrator shall have no power to add to or subtract from or modify any of the terms of this agreement or any agreement made supplementary hereto, nor to establish or change any rate, but shall interpret and adjust grievances in accordance, herewith, and shall render his decision within 30 days from the close of the hearing or date post hearing briefs may be filed. Such decisions are to be put into effect within 30 days of receipt. The cost of the arbitrator shall be borne equally by the parties.

b) Time limits as provided herein may be extended by mutual agreement.

If the Union considers that an employee has been discharged unjustly, the Committee shall file such claim within 15 days, excluding Saturday, Sunday and Holidays, with the Company at Step 3 in this procedure.

## **ARTICLE IX SHOP COMMITTEE AND STEWARDS**

### Section 1. Shop Committee.

The Shop Committee, composed of four (4) members from the employee work force, and management representatives, shall hold regular meetings on a bimonthly basis. It shall be the responsibility of the Shop Committee to submit a written agenda of each subject it wishes to discuss

with the Company no less than forty-eight (48) hours before the day of any such meeting. Only three (3) employees in any one group at any one time shall be a member of the Committee.

Section 2. Stewards.

(a) A Steward and an assistant Steward may be elected in each work group by the employees of that group, and the Union shall submit to the Company, in writing, the names of each person so designated. The Company shall consider the person so designated as Steward and assistant Steward of each work group until notified, in writing, to the contrary.

(b) Duly-elected Stewards or Committeemen shall be deemed to possess top ranking seniority for purposes of layoff and recall rights within his respective work group or classification while acting as such.

**ARTICLE X  
LEAVE OF ABSENCE**

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with the consent of the Company so long as he does not desire to be off over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service.

Section 2. Union Business.

(a) The Company shall, upon a minimum of thirty (30) days' prior written request from an employee and the President of Local No. 224 of International Association of Machinists and Aerospace Workers, grant a leave of absence, extending not longer than fourteen (14) days, to the employee applying for such leave in order that he may, during that leave, engage in work pertaining to the business of Local No. 224 of International Association of Machinists and Aerospace Workers.

Such a leave shall not be granted to more than one (1) employee at any one time. Such employee shall not be granted such a leave for more than an aggregate of thirty (30) days in any one (1) calendar year.

(b) The Company shall grant (upon a minimum of sixty (60) days advance prior written request of an employee and the President or Vice President of International Association of Machinists and Aerospace Workers) a leave of absence for a period not to exceed one (1) year in order that the employee requesting such leave may, during the period of such leave, work as any employee of International Association of Machinists and Aerospace Workers. Not more than one (1) employee shall be permitted to be absent from work at any one time on any such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employment of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously-accrued seniority, whichever is less, during the period of his disability as a result thereof. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employment of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the classification in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better job elsewhere, his seniority shall be cancelled.

Section 4. Notice to the Company.

When an employee becomes aware of the fact that he is going to be absent from work due to sickness, accident, or other emergency, he must notify his supervisor as far in advance of his scheduled shift as he/she has knowledge of such intended absence, but no less than one (1) hour before the time he is due to report to work. In the event the employee cannot contact his Supervisor, it is permissible to contact any member of Management.

Section 5. Military Reserve Training.

(a) Any regular employee (not probationary) may be granted a special leave of absence for a period not to exceed fourteen (14) days, plus a reasonable period to cover travel time, when required for the purpose of engaging in a training program for Enlisted Reserve, Reserve Officers, or National Guard Encampment, provided:

1. He furnishes the Company with a copy of orders from the military authorities calling him for duty; and
2. He gives advance notice to his immediate supervisor so that arrangements may be made for his replacement during the period of his leave.

(b) Only one (1) leave of absence for Military Reserve Training shall be granted to any employee during a calendar year.

When an employee is out of work for the reasons set forth herein, FMLA and relevant insurance coverage will be applied for the initial twelve (12) weeks of his leave. After the initial twelve (12) weeks, the employee will be entitled to continue health insurance coverage and at costs pursuant to his COBRA rights which will begin upon completion of the initial FMLA coverage.

**ARTICLE XI  
VACATIONS**

Section 1.

Normal vacation accruals will be computed in accordance with the following provisions:

- (a) Two weeks (80 hours) - after having accrued one (1) year's Company seniority;
- (b) Three weeks (120 hours) - during the calendar year in which an employee accrues six (6) years' plant seniority;
- (c) Four weeks (160 hours) – during the calendar year in which an employee accrues twelve (12) years' plant seniority.

Employees will receive vacation pay at the wage rate (including any supplemental step-up pay which may apply) for the job they would have been working at the time of vacation.

Section 2.

- (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 3.

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 Service

The rights of employees of the Company who enter Military Service during the term of this Agreement will be governed in all respects by applicable laws.

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. Such examinations and certifications will be handled in accordance with relevant law.

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. 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, disability, national origin, age or any other characteristic prohibited by applicable law.

## Section 3. Wage Rate Changes.

There shall be no change in the basic hourly wage rates set forth in Exhibit "A" to this Agreement, or in the clothing allowance set forth in Exhibit "A" to this Agreement, during the term of this Agreement.

## Section 4. 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 5. 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 6. Recess Period (Smoking).

Where an employee is required to work continuously in restricted and confined areas where smoking is not permitted, the Supervisor 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 7. 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 Supervisor, 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 8. 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 9. 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 employees available to do the work.

Section 10. 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 11. 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 12. Minor Operating Functions.

Maintenance personnel may perform minor operating functions when requested by production supervision, but only when accompanied by a qualified member of the operations group. Typical example: Assisting in closing or opening large block valves that are difficult for one person to handle.

Section 13. Uniforms

Employees are encouraged to elect to use the contractor service to supply them with uniforms. Those who use the uniform service will be assured of the current level of shirts and pants and the winter jacket at \$0.16/hour cost to employees with no cost to repair for the term of this Agreement, unless the employee terminates use of uniforms and returns damaged goods.

**ARTICLE XV  
VALIDITY OF CONTRACT**

In the event any of the provisions of this agreement may conflict with State or Federal statutes now existing or subsequently enacted or with legal executive orders or regulations or applicable court decision, the requirements of law shall overrule such provisions of this agreement, it being the intent thereof that neither the Company nor the Union may insist upon the observance of any provision hereof where the other party to the agreement is obligated by law to adopt a course in conflict with this agreement. The remaining provisions of this agreement not affected thereby will remain in full force and effect.

**ARTICLE XVI  
NOTICE**

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to:

El Dorado Chemical Company  
P.O. Box 231  
El Dorado, Arkansas 71731  
Attention: Plant Manager

Any notice to be given to the Union may be given by depositing same in the U.S. Mail in a seal envelope, registered, postage prepaid, and addressed to:

Recording Secretary  
International Association of Machinists  
and Aerospace Workers, AFL-CIO,  
Local No. 224  
Box 1332  
El Dorado, Arkansas

A copy of notices should be likewise mailed to:

President, International Association of  
Machinists and Aerospace Workers  
AFL-CIO Machinists Building  
9000 Machinist Place  
Upper Marlboro, Maryland 20772-2687

**ARTICLE XVII**  
**FUNERAL LEAVE**

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or attend the funeral of any one of the relatives of the employee hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee or spouse, the employee shall be permitted to be absent from work for a period not to exceed two (2) continuous days.

(b) If, to attend the funeral for the deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as vacation pay, holiday pay, or sickness benefits payments.

Any request for such time off with pay based on false statements will subject the employee making the request to immediate disciplinary action or discharge.

**ARTICLE XVIII  
GROUP INSURANCE**

**Group Insurance and Pension.**

The Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis, in the following employee enrollment categories, payable bi-weekly:

- a. Employee
- b. Employee and Children
- c. Employee and Spouse
- d. Family

Medical claims utilization and fixed costs will determine the cost share assigned to each enrolled employee by enrollment category.

- (1) Effective January 1, 2011, the employee's cost share of 23%, per pay period, will be based on the total claims utilization and fixed costs commencing November 1, 2009, through October 31, 2010.

The specific cost share amounts to be effective January 1, 2011, will be constant throughout that year.

- (2) Effective January 1, 2012, the employee cost share of 24%, per pay period, will be based on the total claims utilization and fixed costs during the period, commencing November 1, 2010, through October 31, 2011.

The specific cost share amounts, per pay period, to become effective January 1, 2012, will be constant throughout that year.

- (3) Effective January 1, 2013, the employee cost share of 25%, per pay period, will be based on the total claims utilization and fixed costs, during the period commencing November 1, 2011, through October 31, 2012.

- (4) Cap on employee contribution rate remain, but increase by 25% in January 2011, 27.5% in January 2012 and 30% in January 2013 in each category of coverage.

(See chart for dollar amounts)

The specific cost share amounts, per pay period, to be effective January 1, 2013, will be constant throughout that year.

Effective January 1, 2011, 2012, and 2013, of each year, the maximum employee cost share amounts, per pay period, are as follows:

2011	23%
2012	24%
2013	25%

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>MEDICAL</u></b>		23%	24%	25%
Capped Rates:				
Employee	\$36.15	\$45.19	\$60.12	\$81.41
Employee & Children	\$67.13	\$83.91	\$111.64	\$151.18
Employee & Spouse	\$111.02	\$138.78	\$184.63	\$250.02
Family	\$142.00	\$177.50	\$236.15	\$319.79
<b><u>DENTAL</u></b>				
Employee	\$10.15	\$12.69	\$16.88	\$22.86
Employee Family	\$26.35	\$32.94	\$43.82	\$59.34

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 time to time.

Effective with the date of this Agreement, the Company agrees to pay the cost of employee's short-term and long-term disability insurance which it provides and as may be amended from time-to-time as well as 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 deduction amounts for the current group medical plan.

The Savings Incentive Plan for Employees in effect on October 17, 2010, 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  
CHANGE OR MODIFICATION OF AGREEMENT**

Section 1

If either party shall desire to change any provisions of the agreement; it shall give written notice of such desire to the other party by certified mail at least 60 days in advance of its expiration date.

Section 2

The giving of notice provided in Section 1 shall constitute an obligation upon both parties to negotiate in good faith all questions at issue, with the intent of reaching written agreement prior to the expiration date.

Section 3

If the parties have not reached agreement on or before the expiration date, all the provisions of the agreement shall remain in effect unless specifically terminated in accordance with the provisions of Article XXIII below.

**ARTICLE XXII  
TERMINATION OF AGREEMENT**

Section 1

At any time after the expiration date, if no agreement on the question at issue has been reached, either party may give written notice to the other party of intent to terminate the Agreement in (not less than) 10 days. All the provisions of the Agreement shall remain in full force and effect until the specified time has elapsed. During this period, attempts to reach an agreement shall be continued.

Section 2

In the event that parties fail to resolve their differences within the specified time, all obligations under this agreement are automatically canceled at the expiration thereof. Provided, however, that nothing in the foregoing shall take away the right of the parties to mutually agree to a written extension of this Agreement.

This Agreement may be opened for change by specific areas by mutual agreement of the parties without affecting the remainder of the contract. Any changes must be ratified by the Union membership prior to implementation.

EL DORADO CHEMICAL COMPANY

By: /s/ Greg Withrow  
Greg Withrow, General Manager

INTERNATIONAL ASSOCIATIO OF MACHINISTS  
AND AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By: /s/ Larry G Booth  
Larry G. Booth  
Directing Business Representative

MEMBERS OF THE SHOP COMMITTEE:

/s/ Jim McKnight  
Jim McKnight

/s/ Clay Barker  
Clay Barker

/s/ Steve Taylor  
Steve Taylor

/s/ Jason Arnold  
Jason Arnold

/s/ Chris Smith  
Chris Smith

**EXHIBIT "A"**  
**BASIC HOURLY WAGE RATE**

Classification	10/17/10	10/17/11	10/17/12
"A" Mechanic	\$21.10	\$21.31	\$21.63
"B" Mechanic	\$19.63	\$19.83	\$20.13
"C" Mechanic	\$18.90	\$19.09	\$19.38
"D" Mechanic	\$13.98	\$14.12	\$14.33
"E" Mechanic-New Hire (First 180 Days)	**	**	**

\*\* Rate of pay determined by Company on basis of employees qualifications.

The Company shall have the right to select and appoint employee(s) as Lead. In addition to the regular work of their classification, a Lead may be assigned to train, assist, assign employees, carry out the instructions of supervision, and to perform any other duties pertaining to the maintenance department, which may be assigned by management. The selection of Lead personnel and the duration of their appointment is within the sole discretion of management. While so assigned, Lead(s) shall receive a premium of one dollar (\$1.00) above their regular hourly rate.

Specialist I	\$23.28	\$23.51	\$23.86
Specialist II	\$25.28	\$25.53	\$25.91
Specialist III	\$27.28	\$27.55	\$27.96

## **RATE CHANGES DURING TERM OF AGREEMENT**

The parties agree that the Company shall have the right to establish pay practices and rates which assure the Company's ability to attract and retain skilled/qualified bargaining unit members. Before implementation, the Company will discuss the rates and/or changes with the Union.

### **CLOTHING ALLOWANCE**

In addition to the hourly rates set forth in Exhibit "A", there shall be paid a clothing allowance of each hour worked, as indicated below:

Clothing Allowance
Per Hour
\$.16

**EXHIBIT "B"**

**RECOGNIZED MAINTENANCE WORK GROUPS**

Group I - Mechanical

Includes work ordinarily done by the following work groups:

1. Pipefitter, Plumber
2. Welder, Lead Burner
3. Heavy Duty Operator, Rigger
4. Machinist
5. General Mechanic
6. Tank Car Repairman,
7. Carpenter, Painter, Mason, Insulator, Concrete Finisher
8. Rotating Machinery

Group II - Electrical/Instrumentation

Includes work ordinarily done by:

1. Electrician
2. Instrument Repairman



**CERTIFICATION**

I, Jack E. Golsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LSB Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

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



**CERTIFICATION**

I, Tony M. Shelby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LSB Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

/s/ Tony M. Shelby  
Tony M. Shelby  
Executive Vice President of Finance  
and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

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

November 4, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

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

November 4, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein and not for any other purpose.