LSB INDUSTRIES INC
Form 10-K
February 28, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

or

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

For the transition period from __________ to __________

Commission File Number: 1-7677

LSB INDUSTRIES, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the Registrant s voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the voting common stock was last sold as of June 30, 2011, was approximately $796 million. As a result, the Registrant is a large accelerated filer as of December 31, 2011. For purposes of this computation, shares of the Registrant s common stock beneficially owned by each executive officer and director of the Registrant were deemed to be owned by affiliates of the Registrant as of June 30, 2011. Such determination should not be deemed an admission that such executive officers and directors of our common stock are, in fact, affiliates of the Registrant or affiliates as of the date of this Form 10-K.

As of February 15, 2012, the Registrant had 22,318,223 shares of common stock outstanding (excluding 4,320,462 shares of common stock held as treasury stock).

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PART I

ITEM 1. BUSINESS

General

LSB Industries, Inc. (LSB or Registrant) was formed in 1968 as an Oklahoma corporation and became a Delaware corporation in 1977. LSB is a diversified holding company involved in manufacturing and marketing operations through its subsidiaries. LSB and its wholly-owned subsidiaries (the Company , We , Us , or Our) own the follow core businesses:

Climate Control Business manufactures and sells a broad range of heating, ventilation and air conditioning (HVAC) products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers and other related products used to control the environment in various structures. Our markets include commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems.

Chemical Business manufactures and sells nitrogen-based chemical products produced from four facilities located in El Dorado, Arkansas (the El Dorado Facility); Cherokee, Alabama (the Cherokee Facility); Pryor, Oklahoma (the Pryor Facility); and Baytown, Texas (the Baytown Facility) for the agricultural industrial, and mining markets. Our products include high purity and commercial grade anhydrous ammonia for industrial and agricultural applications, industrial and fertilizer grade ammonium nitrate (AN), urea ammonium nitrate (UAN), sulfuric acids, nitric acids in various concentrations, nitrogen solutions, diesel exhaust fluid (DEF) and various other products.

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

In recent years, we have put heavy emphasis on our geothermal heating and air conditioning products, which are considered green technology and a form of renewable energy. We believe our geothermal systems are among the most energy efficient systems available in the market for heating and cooling applications in commercial/institutional and single family new construction as well as replacement and renovation markets. Based upon industry information available to us, we believe we have the leading market share. In addition, even though the general construction level has been lower than some previous years in both the commercial/institutional and residential sectors, we believe we have continued to increase our market share of the growing geothermal heating and cooling market.

Our Chemical Business is a supplier to some of the world s leading chemical and industrial companies. By focusing on specific geographic areas, we have developed freight and distribution advantages over many of our competitors, and we believe our Chemical Business has established leading regional market positions.

We sell most of our industrial and mining products to customers pursuant to contracts containing minimum volumes and/or cost plus a profit provision. These contractual sales stabilize the effect of commodity cost changes and fluctuations in demand for these products due to the cyclicality of the end markets. Periodically we enter into forward sales commitments for agricultural products but we sell most of our agricultural products at the current spot market price in effect at time of shipment.

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

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Current State of the Economy

Since our two core business segments serve several diverse markets, we consider market fundamentals for each market individually as we evaluate economic conditions. From a macro standpoint, we believe the U.S. economy is poised for modest growth if the European sovereign debt issues do not negatively affect the global economy beyond current concerns.

Climate Control Business Sales for 2011 were 12% higher than the same period in 2010, including a 43% increase in hydronic fan coil sales, a 7% increase in geothermal and water source heat pump sales, and a 6% increase in other HVAC sales. From a market sector perspective, the increase is due to a 19% improvement in commercial/institutional product sales partially offset by a 7% decrease in residential product sales. The improvement in commercial/institutional sales was in most major product lines. For 2011, sales and order levels of our commercial/institutional products increased in most major markets (education, multi-family, healthcare, office and hospitality) although sales and order levels of our single-family residential products decreased from 2010 reflecting the slowdown in new residential construction. The latest information available from the Construction Market Forecasting Service provided by McGraw-Hill (CMFS) indicates that in 2012 both the commercial/institutional and residential construction sectors we serve are expected to increase modestly over 2011 levels.

Chemical Business Our Chemical Business primary markets are agricultural, industrial and mining. During 2011, approximately 45% of our Chemical Business sales in 2011 were into the agricultural fertilizer markets to customers that primarily purchase at spot market prices and not pursuant to contractual pricing arrangements. Our agricultural sales volumes and prices depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat, cotton and forage. The current 2012 outlook according to most market indicators, including reports in Green Markets, Fertilizer Week and the USDA s World Agricultural Supply and Demand Estimates, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could change if there are unanticipated changes in commodity prices, acres planted or unfavorable weather conditions. Our Cherokee and Pryor Facilities produce anhydrous ammonia from natural gas and UAN from ammonia. During 2011, agricultural customer demand for and the selling prices of ammonia and UAN continued to increase while natural gas prices were generally lower compared to 2010. As a result, gross margins increased significantly for these two products. On the other hand, our El Dorado Facility produces agricultural grade AN from purchased ammonia and is at a cost disadvantage compared to competitive product produced from natural gas. During 2011, certain of the mid-south market area for agricultural grade AN was in a drought condition, which could negatively affect customer demand for that product if the drought continues into the spring of 2012. As a result, we are shipping agricultural grade AN to other freight logical markets and are attempting to divert production capacity to other products to help mitigate the negative effects of the drought.

The remaining 55% of our Chemical Business sales were into industrial and mining markets of which approximately 57% of these sales are to customers that have contractual obligations to purchase a minimum quantity and allow us to recover our cost plus a profit, irrespective of the volume of product sold. During 2011, our sales volumes to industrial and mining customers increased 2% and 11%, respectively, as compared to 2010, while sales dollars increased 28% and 34%, respectively. For 2012, we expect slight growth in these markets based on projections from the American Chemistry Council and customer feedback.

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

Website Access to Company s Reports

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

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of net sales, gross profit, operating income and identifiable assets attributable to each of our lines of business and of the amount of our export sales in the aggregate and by major geographic area for each of the last three years appear in Note 18 of the Notes to Consolidated Financial Statements included elsewhere in this report.

Climate Control Business

General

Our Climate Control Business manufactures and sells a broad range of standard and custom designed geothermal and water source heat pumps and hydronic fan coils as well as large custom air handlers and modular chiller systems, including modular geothermal chillers. These products are for use in commercial/institutional and residential HVAC systems. Our products are installed in some of the most recognizable commercial/institutional developments in the U.S., including the Prudential Tower, Rockefeller Plaza, Trump Tower, Time Warner Center and many others. In addition, we have a significant presence in the lodging sector with installations in numerous Hyatt, Marriott, Four Seasons, Starwood, Ritz Carlton and Hilton hotels, among others.

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

	2011	2010	2009
Percentage of net sales of the Climate Control Business:			
Geothermal and water source heat pumps	65%	69%	68%
Hydronic fan coils	19%	15%	17%
Other HVAC products	16%	16%	15%
	100%	100%	100%
Percentage of LSB s consolidated net sales:			
Geothermal and water source heat pumps	23%	28%	34%
Hydronic fan coils	7%	6%	9%
Other HVAC products	5%	7%	7%
	35%	41%	50%

Market Conditions Climate Control Business

As discussed above, CMFS has projected the commercial/institutional and residential construction sectors will rebound somewhat during 2012.

In addition, we believe that tax credits and incentives, and certain planned direct spending by the federal government contained in the American Reinvestment and Recovery Act of 2009, have and could continue to stimulate sales of our geothermal heat pump products, as well as other green products.

Geothermal and Water Source Heat Pumps

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

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We also provide geothermal heat pumps in residential and commercial/institutional applications. Geothermal systems, which circulate water or a combination of water and antifreeze through an underground heat exchanger, are considered to be the most energy efficient systems currently available in the market. We believe the energy efficiency, longer life, and relatively short payback periods of geothermal systems, as compared with other systems, as well as tax incentives that are available to homeowners and businesses when installing geothermal systems, will increase demand for our geothermal products. Our products are sold to the commercial/institutional markets, as well as single and multi-family residential new construction, renovation and replacements.

Hydronic Fan Coils

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

Production, Capital Investments and Backlog Climate Control Business

We manufacture our products in many sizes and configurations, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial/institutional or residential structures. Most customers place their product orders well in advance of required delivery dates.

During 2011, we invested approximately $5.7 million in additional property, plant and equipment (PP&E) primarily relating to the purchase of production equipment and facility upgrades for additional capacity relating to our Climate Control Business.

As of December 31, 2011, we have committed to spend an additional $0.3 million primarily for production equipment and facility upgrades in 2012. In addition, planned spending in 2012 is approximately $12 million although any commitment for any investment will be based on factors including but not limited to: the maintenance, repair, and replacement of existing equipment and facilities; efficiency/productivity improvements; and an increase in our capacity to produce and distribute products as related to expectations for growth in the markets we serve. See discussions under Liquidity and Capital Resources-Capital Expenditures of Item 7 of Part II of this report, including Advanced Manufacturing Energy Credits awarded to two subsidiaries of the Climate Control Business.

The backlog of confirmed customer product orders (purchase orders from customers that have been accepted and received credit approval) for our Climate Control Business was approximately $44.5 million and $47.6 million as of December 31, 2011 and 2010, respectively. The backlog of product orders generally does not include amounts relating to shipping and handling charges, service orders or service contract orders. The backlog also excludes contracts for our construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.

Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders. We expect to ship substantially all of these orders within the next twelve months; however, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms.

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Distribution Climate Control Business

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

	2011	2010	2009
Net sales to OEMs as a percentage of:			
Net sales of the Climate Control Business	21%	24%	23%
LSB s consolidated net sales	7%	10%	11%

Market Climate Control Business

Our Climate Control Business market includes commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems.

Raw Materials and Components Climate Control Business

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

Competition Climate Control Business

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

Continue to Introduce New Products Climate Control Business

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

Chemical Business

General

Our Chemical Business manufactures products for three principal markets:

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

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

	2011	2010	2009
Percentage of net sales of the Chemical Business:			
Agricultural products	45%	39%	41%
Industrial acids and other chemical products	32%	36%	37%
Mining products	23%	25%	22%
	100%	100%	100%
Percentage of LSB s consolidated net sales:			
Agricultural products	29%	22%	20%
Industrial acids and other chemical products	20%	21%	18%
Mining products	15%	15%	11%
	64%	58%	49%

Market Conditions Chemical Business

As discussed above and in more detail below under Overview-Economic Conditions of the MD&A contained in this report, we believe that customer demand for our industrial, mining and agricultural products for 2012 will be sufficiently strong to allow us to run the four chemical plants at optimal production rates, which is an important operating characteristic in chemical process plants. The industrial and mining volumes are driven by general economic conditions as well as contractual arrangements with certain large customers. Fertilizer demand depends upon acres planted of crops requiring fertilizer to enhance yield. The fertilizer outlook could be affected by significant changes in commodity prices, acres planted or weather conditions.

Agricultural Products

Our Chemical Business produces UAN, agricultural grade AN and anhydrous ammonia, all of which are nitrogen-based fertilizers. Farmers and ranchers decide which type of nitrogen-based fertilizer to apply based on the crop planted, soil and weather conditions, regional farming practices and relative nitrogen fertilizer prices. Our agricultural markets include a high concentration of pastureland and row crops, which favor our products. We sell these agricultural products to farmers, ranchers, fertilizer dealers and distributors primarily in the ranch land and grain production markets in the U.S. We develop our market position in these areas by emphasizing high quality products, customer service and technical advice. During the past few years, we have been successful in expanding outside our traditional markets by barging to distributors on the Tennessee and Ohio rivers, and by railing into certain Western States. Our Chemical Business produces a high performance AN fertilizer that, because of its uniform size, is easier to apply than many competing nitrogen-based fertilizer products. Our historical sales of agricultural products are shown in the following table. The sales shown do not reflect amounts used internally, such as ammonia, in the manufacture of other products, or intercompany sales.

	2011		2010		2009	
	Tons	Net Sales	Tons	Net Sales	Tons	Net Sales
			(In Thousands)			
Agricultural Products						
UAN	421	$ 129,507	191	$ 36,794	170	$ 28,109
AN	157	57,703	201	56,758	226	57,182
Ammonia	51	26,392	49	22,430		
Other*		17,997		19,616		19,009

Total	$ 231,599	$ 135,598	$ 104,300

* Includes phosphate and potassium products purchased and sold through our retail and wholesale distribution centers.

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Our Chemical Business establishes long-term relationships with wholesale agricultural distributors and retailers and also sells directly to agricultural end-users through its network of wholesale and retail distribution centers. In addition, our Chemical Business sells at market prices substantially all of the UAN produced at the Pryor Facility pursuant to an agreement. The term of the agreement is through June 2014, but may be terminated earlier by either party pursuant to the terms of the agreement.

Industrial Acids and Other Chemical Products

Our Chemical Business manufactures and sells industrial acids and other chemical products primarily to the polyurethane, paper, fibers, fuel additives, emission control, and electronics industries. We are a major supplier of concentrated nitric acid and mixed nitrating acids, specialty products used in the manufacture of fibers, gaskets, fuel additives, ordnance, and other chemical products. In addition, our Chemical Business produces and sells blended and regular nitric acid. Our Chemical Business is also a niche market supplier of industrial and high purity ammonia for many specialty applications, including the reduction of air emissions from power plants.

We believe the Baytown Facility is one of the largest nitric acid manufacturing units in the U.S., with demonstrated capacity exceeding 1,350 short tons per day. The majority of the Baytown Facility s production is sold to a customer pursuant to a long-term contract (the Bayer Agreement) that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit. The term of the Bayer Agreement is through June 2014, with certain renewal options.

Our Chemical Business competes based upon service, price, location of production and distribution sites, product quality and performance and provides inventory management as part of the value-added services offered to certain customers.

Mining Products

Our Chemical Business manufactures industrial grade AN and 83% AN solution for the mining industry. Pursuant to a long-term cost-plus supply agreement (the Orica Agreement), our Chemical Business sells to Orica International Pte Ltd. a significant annual volume of industrial grade AN produced at the El Dorado Facility. The term of the agreement is through December 2014.

Major Customer Chemical Business

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

	2011	2010	2009
Net sales to Orica as a percentage of:			
Net sales of the Chemical Business	17%	18%	14%
LSB s consolidated net sales	11%	11%	7%

Raw Materials Chemical Business

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

The El Dorado Facility purchases approximately 200,000 tons of anhydrous ammonia annually and produces and sells approximately 470,000 tons of nitrogen-based products per year. Although anhydrous ammonia is produced from natural gas, the price does not necessarily follow the spot price of natural gas in the U.S. Anhydrous ammonia is an internationally traded commodity and the relative price is set in the world market while natural gas is primarily a nationally traded commodity. The ammonia supply to the El Dorado Facility is transported from the Gulf of Mexico by pipeline. Under an agreement with its principal supplier of anhydrous ammonia, our subsidiary, El Dorado Chemical Company (EDC), purchases a majority of its anhydrous ammonia requirements through December 2012 from this supplier. We believe that we can obtain anhydrous ammonia from other sources in the event of an interruption of service under the above-referenced contract.

The Cherokee Facility normally consumes 5 to 6 million MMBtu of natural gas to produce and sell approximately 300,000 to 370,000 tons of nitrogen-based products per year. Natural gas is a primary raw material for producing anhydrous ammonia, UAN and other products. Periodically, the Cherokee Facility purchases anhydrous ammonia to supplement its annual production capacity of approximately 175,000 tons. Anhydrous ammonia can be delivered to the Cherokee Facility by truck, rail or barge.

Based on 2011 production rates, the Pryor Facility consumes 5 to 6 million MMBtu of natural gas to produce and sell approximately 300,000 tons of UAN and approximately 35,000 tons of anhydrous ammonia.

The Cherokee and Pryor Facilities natural gas feedstock requirements are generally purchased at spot market price. Periodically, we will enter into firm purchase commitments and/or futures/forward contracts to economically hedge the cost of certain of the natural gas requirements

The Baytown Facility typically consumes more than 100,000 tons of purchased anhydrous ammonia per year; however, the majority of the Baytown Facility s production is sold to a customer pursuant to the Bayer Agreement that provides for a pass-through of certain costs, including the anhydrous ammonia costs, plus a profit.

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

- ammonia based upon the low Tampa price per metric ton as published by Fertecon and FMB Ammonia reports and
- natural gas based upon the daily spot price at the Henry Hub pipeline pricing point.

	Ammonia Price Per Metric Ton		Natural Gas Prices Per MMBtu	
	High	Low	High	Low
2011	$ 705	$ 475	$ 4.92	$ 2.80
2010	$ 470	$ 300	$ 7.51	$ 3.18
2009	$ 355	$ 125	$ 6.10	$ 1.85

As of February 15, 2012, the published price, as described above, for ammonia was $400 per metric ton and natural gas was $2.53 per MMBtu.

Sales Strategy Chemical Business

Our Chemical Business has pursued a strategy of developing industrial and mining customers that purchase substantial quantities of products, including contractual obligations to purchase minimum quantities and pricing arrangements that provide for the pass through of raw material and other manufacturing costs. These arrangements help mitigate the volatility risk inherent in the raw material feedstocks and/or the changes in demand for our products. For 2011, approximately 55% of the Chemical Business sales were into industrial and mining markets of which approximately 57% of these sales were pursuant to these types of arrangements. The remaining 45% of our 2011 sales were into agricultural markets primarily at the price in effect at time of shipment. Periodically, we enter into firm purchase commitments and/or futures/forward contracts to economically hedge the cost of natural gas for the purpose of securing the profit margin on a certain portion of our firm sales price commitments in our Chemical Business.

The spot sales prices of our agricultural products may not have a correlation to the anhydrous ammonia and natural gas feedstock costs but rather reflect market conditions for like and competing nitrogen sources. This lack of correlation can compromise our ability to recover our full cost to produce the product in this market. Additionally, the lack of sufficient non-seasonal sales volume to operate our manufacturing facilities at optimum levels can preclude the Chemical Business from reaching full performance potential. Looking forward, we are pursuing profitable growth of our Chemical Business including the potential to increase the output of our existing production facilities. Our strategy also calls for increased emphasis on the agricultural sector, while remaining committed to further developing industrial customers who assume the volatility risk associated with the cost of natural gas and ammonia.

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Seasonality Chemical Business

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

Regulatory Matters Chemical Business

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

Competition Chemical Business

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

Employees

As of December 31, 2011, we employed 1,841 persons. As of that date, our Climate Control Business employed 1,276 persons, none of whom were represented by a union, and our Chemical Business employed 492 persons, with 149 represented by unions under agreements that expire in July through November of 2013.

Environmental Matters

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

We are obligated to monitor certain discharge water outlets at our Chemical Business facilities. We are also contractually obligated through at least December 2053 to pay a portion of the operating costs of a municipally owned wastewater pipeline currently being constructed, which will serve the El Dorado Facility. Additionally, we have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration.

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1. Discharge Water Matters

The El Dorado Facility owned by EDC generates process wastewater, which includes cooling tower and boiler water quality control streams, contact storm water (rain water inside the facility area which picks up contaminants) and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by a state National Pollutant Discharge Elimination System (NPDES) discharge water permit issued by the Arkansas Department of Environmental Quality (ADEQ), which permit is generally required to be renewed every five years. The El Dorado Facility is currently operating under a NPDES discharge water permit, which became effective in 2004 (2004 NPDES permit). In November 2010, a preliminary draft of a discharge water permit renewal, which contains more restrictive ammonia limits, was issued by the ADEQ for EDC s review. EDC submitted comments to the ADEQ on the draft permit in December 2010.

The El Dorado Facility has generally demonstrated its ability to comply with applicable ammonia and nitrate permit limits, but has, from time to time, had difficulty demonstrating consistent compliance with the more restrictive dissolved minerals permit levels. As part of the El Dorado Facility s long-term compliance plan, EDC has pursued a rulemaking and permit modification with the ADEQ. The ADEQ approved a rule change, but on August 31, 2011, the U.S. Environmental Protection Agency (EPA) formally disapproved the rule change. On October 7, 2011, EDC filed a lawsuit against the EPA in the U.S. District Court, El Dorado, Arkansas, appealing the EPA s decision disapproving the rule change. At this time, we do not believe that the occasional noncompliance will have a material adverse impact on EDC. We do not believe this matter regarding the dissolved minerals will be an issue once the pipeline discussed below is operational.

During January 2010, EDC received an Administrative Order from the EPA noting certain violations of the 2004 NPDES permit and requesting EDC to demonstrate compliance with the permit or provide a plan and schedule for returning to compliance. EDC provided a response which states that the El Dorado Facility is now in compliance with the permit, except for an occasional difficulty demonstrating consistent compliance with the more restrictive dissolved minerals permit limits; that the El Dorado Facility expects to be able to maintain compliance and that a majority of the alleged violations were resolved through a consent administrative order with the ADEQ. In June 2011, EDC received an Administrative Complaint from the EPA reciting past violations of the 2004 NPDES permit that had not been addressed by previous ADEQ Consent Administrative Orders and seeking a penalty of $124,000. EDC has met with EPA to discuss the Administrative Complaint and EDC s plans for addressing the occasional noncompliance with the NPDES Permit, as discussed above. EDC has met, and continues to meet, with the EPA to explain its objections against the proposed penalty. In December 2011, EDC was notified by the EPA that the matter has been taken over by the United States Department of Justice (DOJ), the current Administrative Complaint will be withdrawn, and the EPA and DOJ will handle this as a joint enforcement matter. On January 11, 2012, EPA filed a motion requesting authorization to withdraw the Administrative Complaint so that it could proceed with a judicial enforcement proceeding against EDC and certain other companies in the El Dorado, Arkansas, area that have also agreed to use the pipeline discussed below, all of whom have alleged outstanding NPDES permit violations. It is anticipated that EPA s motions will be granted. A liability of $124,000 has been established at December 31, 2011 relating to this matter.

The city of El Dorado, Arkansas (the City) received approval to construct a pipeline for disposal of wastewater generated by the City and by certain companies in the El Dorado area. However, in November 2011, opponents of the pipeline filed a lawsuit against the City and the pipeline consultants for alleged violations of the Freedom of Information Act. We do not believe that this lawsuit will affect the City s approval, or the City s construction, of the pipeline. The companies intending to use the pipeline will contribute to the cost of construction and operation of the pipeline. Although EDC believes it can comply with the more restrictive permit limits without the pipeline, EDC will participate in the construction of the pipeline that will be owned by the City in order to ensure that EDC will be able to comply with future permit limits. During April 2011, certain companies, including EDC, and the City entered into a funding agreement and operating agreement, pursuant to which each party to the agreements has agreed to contribute to the cost of construction and the annual operating costs of the pipeline for the right to use the pipeline to dispose its wastewater. EDC anticipates its capital cost in connection with the construction of the pipeline will be approximately $4.0 million, of which $0.5 million has been capitalized as of December 31, 2011. The City plans to complete the construction of the pipeline by mid-2014. Once the pipeline is completed, EDC s estimated share of the annual operating costs is to be $100,000 to $150,000. The initial term of the operating agreement is through December 2053.

In addition, the El Dorado Facility is currently operating under a consent administrative order (2006 CAO) that recognizes the presence of nitrate contamination in the shallow groundwater. The 2006 CAO required EDC to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ relating to the El Dorado Facility. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to a new consent administrative order and based upon the risk assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment, which costs (or range of costs) cannot currently be reasonably estimated. Therefore, no liability has been established at December 31, 2011, in connection with this matter.

2. Air Matters

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

Further, if it is determined that the equipment at any of our chemical facilities has not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed $27,500 per day as to each facility not in compliance and be required to retrofit each facility with the best available control technology.

Our Chemical Business has provided to the EPA a proposed settlement offer in connection with this matter. While the total capital cost to achieve the emission rates being proposed by our Chemical Business in the settlement offer has not been determined, the total capital cost could be significant and involving up to nine of our affected nitric acid plants. Our Chemical Business proposed settlement offer did not provide an amount of any proposed civil penalty, if any, but we anticipate that the EPA will require a civil penalty. Therefore a liability of $100,000 has been established at December 31, 2011, in connection with this matter.

3. Other Environmental Matters

In 2002, two subsidiaries within our Chemical Business, sold substantially all of their operating assets relating to a Kansas chemical facility (Hallowell Facility) but retained ownership of the real property. At December 31, 2002, even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. In connection with this sale, our subsidiary leased the real property to the buyer under a triple net long-term lease agreement. However, our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. Based on the assessment discussed above, we account for transactions associated with the Hallowell Facility as discontinued operations.

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

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Our subsidiary and Chevron are pursuing with the state of Kansas a course of long-term surface and groundwater monitoring to track the natural decline in contamination. Currently, our subsidiary and Chevron are in the process of performing additional surface and groundwater testing. We have accrued for our allocable portion of costs for the additional testing, monitoring and risk assessments that could be reasonably estimated.

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

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

At December 31, 2011, our estimated allocable portion of the total estimated liability (which is included in current accrued and other liabilities) related to the Hallowell Facility is $105,000. The estimated amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability could occur in the near term.

ITEM 1A. RISK FACTORS

Risks Related to Us and Our Business

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

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

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

Weather conditions adversely affect our Chemical Business.

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

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

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

Environmental and regulatory matters entail significant risk for us.

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

If changes to the production equipment at our chemical facilities are required in order to comply with environmental regulations, the amount of capital expenditures necessary to bring the equipment into compliance is unknown at this time and could be substantial.

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

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

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

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

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. Legislation is being considered that would regulate greenhouse gas emissions at some point in the future. The EPA has instituted a mandatory greenhouse gas reporting requirement that began in 2010, which impacts all of our chemical manufacturing sites.

Greenhouse gas regulation could increase the price of the electricity and other energy sources purchased by our chemical facilities; increase costs for natural gas and other raw materials (such as anhydrous ammonia); potentially restrict access to or the use of certain raw materials necessary to produce our chemical products; and require us to incur substantial expenditures to retrofit our chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, 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.

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

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

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

For 2011, six customers of our Chemical Business accounted for approximately 57% of its net sales and 36% of our consolidated sales, and our Climate Control Business had one customer (including affiliates and their distributors) that accounted for approximately 18% of its net sales and 6% of our consolidated sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer on substantially similar terms.

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

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

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

Since we source certain of our raw materials and components on a global basis, we may experience long lead times in procuring those raw materials and components purchased overseas, as well as being subject to tariff controls and other international trade barriers, which may increase the uncertainty of raw material and component availability and pricing volatility.

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

Potential increase of imported ammonium nitrate from Russia.

Since May 2000, U.S. imports of fertilizer grade AN from Russia have been controlled by the terms of an antidumping Suspension Agreement under which maximum volumes and minimum prices have been set for Russian AN imports. In recent years, annual volumes of such imports were limited to 150,000 metric tons and minimum prices were tied to the prevailing U.S. market price.

In March 2011, the Russian Federation notified the U.S. Department of Commerce (Commerce Department) that it had decided to withdraw from the Suspension Agreement. Accordingly, the Agreement terminated effective May 2, 2011. As of that date, Russian AN imports have been subject to an antidumping duty order. The antidumping order, unlike the suspension agreement, does not place any volume restrictions on Russian AN imports and does not ensure that Russian prices are tied to the prevailing U.S. market price. Instead, the order requires that Russian AN be priced fairly , as defined by comparisons with Russian home market or third country AN prices or based on Russian production costs. Because Russian producers continue to benefit from natural gas supplied to them at state-set prices that are below market value, and because natural gas is by far the largest material input into the production of AN, depending upon the analysis and methodologies used by the Commerce Department, the price of Russian AN exported to the U.S. may be below prevailing U.S. market prices and below our cost to produce fertilizer grade AN.

With the termination of the Suspension Agreement on May 2, 2011, every shipment of Russian fertilizer grade AN imported into the U.S. is subject to an antidumping duty cash deposit of approximately 254% of the value of the imports unless and until a review process is completed at the Commerce Department through which a Russian producer or exporter may demonstrate that it is not dumping to that extent and is entitled to a different rate.

In addition, the Commerce Department and the U.S. International Trade Commission have this year completed a sunset review of the antidumping duty order against AN from Russia to determine whether the order should remain in effect. These agencies have decided that the antidumping duty order is still needed to address unfair trade in Russian AN, and, as a result, the order will remain in place for at least an additional five years, until 2016.

There is also an outstanding antidumping duty order against AN from Ukraine, which is scheduled to be reviewed by the same two agencies beginning in June of 2012. This review will decide whether the antidumping measure against Ukrainian AN will remain in place for another five years beyond 2012. If, as a result of the sunset review, the antidumping order were to be revoked, we would likely face large volumes of unfairly priced Ukrainian AN in the U.S. market, with loss of revenue and market share for our AN business.

For 2011, net sales of fertilizer grade AN accounted for 11% and 7% of our Chemical Business net sales and consolidated net sales, respectively. If the suspension agreement is changed, as discussed above, this change could result in Russia substantially increasing the amount of AN sold in the U.S. at prices less than the U.S. producers are required to charge in order to cover their cost plus a profit, and could have an adverse effect on our revenues and operating results.

Our previously idled Pryor Facility has a limited operating history.

During the fourth quarter of 2010, the Pryor Facility reached sustained production of anhydrous ammonia. Subsequently, the Pryor Facility reached sustained production of UAN. However, the Pryor Facility experienced substantial downtime in 2011 due to unplanned maintenance to correct operational performance issues. Our ability to operate the Pryor Facility at consistent production levels for extended periods is unknown due to our limited operating history at this facility and equipment reliability issues from time to time.

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We may have inadequate insurance.

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

LSB is a holding company and depends, in large part, on receiving funds from its subsidiaries to fund our indebtedness.

Because LSB is a holding company and operations are conducted through its subsidiaries, including Pryor Chemical Company (PCC) and ThermaClime, LLC (ThermaClime) and its subsidiaries, LSB s ability to meet its obligations depends, in large part, on the operating performance and cash flows of its subsidiaries and the ability of its subsidiaries to make distributions and pay dividends to LSB. Under its loan agreements, ThermaClime and its subsidiaries may only make distributions and pay dividends to LSB under limited circumstances and in limited amounts.

Loss of key personnel could negatively affect our business.

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

We are effectively controlled by the Golsen Group.

Jack E. Golsen, our Chairman of the Board and Chief Executive Officer (CEO), members of his immediate family (spouse and children), including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the Golsen Group) owned as of February 15, 2012, an aggregate of 3,263,964 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together votes as a class and represents approximately 18% of the voting power of our issued and outstanding voting securities as of that date. Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

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

Although we have paid dividends on our outstanding series of preferred stock (two of the three outstanding series of preferred stock are owned by the Golsen Group), we have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our board of directors has not made a decision whether or not to pay such dividends on our common stock in 2012**.** In addition, there are certain limitations contained in our loan agreements, which limit our subsidiaries from up streaming funds to LSB that may limit our ability to pay dividends on our outstanding common stock.

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

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

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

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

We have authorized and unissued (including shares held in treasury) 52,682,177 shares of common stock and 4,229,539 shares of preferred stock as of December 31, 2011. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Climate Control Business

Our Climate Control Business conducts its operations in seven facilities, all located in the greater Oklahoma City, Oklahoma area, totaling approximately 1 million square feet including the following:

Our Climate Control Business manufactures most of its geothermal and water source heat pump products in facilities totaling approximately 440,000 square feet. We own these facilities, with a portion being subject to a mortgage. For 2011, we utilized approximately 64% of the production capacity of this manufacturing facility, based primarily on two ten-hour shifts per day and a four-day workweek. We also utilize approximately 126,000 square feet of an existing facility for a distribution center, which facility we own.

Our Climate Control Business conducts its fan coil manufacturing operation in facilities totaling approximately 230,000 square feet. We own a majority of these facilities, subject to a mortgage. For 2011, our fan coil manufacturing operation utilized approximately 52% of the production capacity, based primarily on one ten-hour shift per day and a four-day workweek.

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Our Climate Control Business conducts its large air handler manufacturing operation in a facility consisting of approximately 120,000 square feet. We own this facility, subject to a mortgage. For 2011, we utilized approximately 71% of the production capacity of this manufacturing facility, based primarily on one eight-hour shift on a five-day workweek and a partial second shift in selected areas.

During the fourth quarter of 2011, the modular chiller manufacturing operation of the Climate Control Business completed the process of establishing separate production facilities in order to increase production capacity and accommodate anticipated sales volume increases due to an expected increase in market share and to new products currently under development. This new production facility consists of approximately 70,000 square feet in an existing facility owned by us.

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

Chemical Business

Our Chemical Business primarily conducts manufacturing operations in facilities located:

- on 150 acres of a 1,400 acre tract of land in El Dorado, Arkansas,
- on 160 acres of a 1,300 acre tract of land in Cherokee, Alabama,
- on 58 acres in an industrial park in Pryor, Oklahoma and
- on property within Bayer s manufacturing complex in Baytown, Texas.

We own all of these manufacturing facilities except the Baytown Facility. Except for certain assets that are owned by EDN for use in the production process within the Baytown Facility, the Baytown Facility is owned by Bayer. EDN operates and maintains the Baytown Facility pursuant to the Bayer Agreement. Certain real property and equipment located at the El Dorado and Cherokee Facilities are being used to secure a $72 million term loan.

EDC also distributes its agricultural products through 16 wholesale and retail distribution centers, with 14 of the centers located in Texas (11 of which we own and 3 of which we lease); 1 center located in Tennessee (owned); and 1 center located in Missouri (owned).

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

For 2011, the following was our percentage of utilization based on continuous operation, which is adjusted for downtime for planned major maintenance activities (Turnarounds).

	Percentage of Capacity
El Dorado Facility (1)	77%
Cherokee Facility (2)	100%
Pryor Facility (3)	67%
Baytown Facility	84%

(1) The percentage of capacity for the El Dorado Facility relates to its nitric acid capacity. The El Dorado Facility has capacity to produce other nitrogen products in excess of its nitric acid capacity. The low percentage of utilization is a direct result of unplanned downtime during the year.

(2) The percentage of capacity for the Cherokee Facility relates to its ammonia production capacity. The Cherokee Facility is able to purchase anhydrous ammonia by truck, rail or barge to supplement its ammonia production capacity.

(3) The percentage of capacity for the Pryor Facility relates to current operating ammonia production capacity. The Pryor Facility has additional operational capacity for nitric acid and AN solution in excess of its current ammonia capacity. The low percentage of utilization as compared to our other facilities is a result of unplanned downtime during the year, primarily during the third quarter, as we continued to work out various operational performance issues.

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ITEM 3. LEGAL PROCEEDINGS

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

certain environmental matters relating to water and air issues in our Chemical Business, including, without limitation, the following:

1. On October 7, 2011, EDC has filed a lawsuit in the U.S. District Court, Western District of Arkansas, in connection with the EPA s disapproval of a rule change previously approved by the ADEQ to reduce the more restrictive dissolved mineral level requirements placed in EDC s NPDES permit.
2. The penalty assessed against EDC in the sum of $124,000 for certain alleged violations of the El Dorado Facility s NPDES permit has been referred to the DOJ by the EPA and the EPA has requested that the Administrative Complaint relating to the alleged violation be withdrawn and be handled by the DOJ and the EPA as a joint enforcement matter.
3. The EPA has sent information requests to most, if not all, of the operators of nitric acid plants in the United States, including our El Dorado and Cherokee Facilities and the Baytown Facility to determine compliance with the construction and maintenance of these plants over the years under the Clean Air Act. If it is determined that the equipment in any of our nitric acid plants are not meeting 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 not in compliance and be required to retrofit each facility with the best available control technology. Our Chemical Business has provided to the EPA a proposed settlement offer in connection with this matter. While the total capital cost to achieve the emission rates being proposed by our Chemical Business in the settlement offer has not been determined, the total capital could be significant and involving up to nine of our affected nitric acid plants. Our Chemical Business proposed settlement offer did not provide an amount of any proposed civil penalty, if any, but we anticipate that the EPA will require a civil penalty. Therefore a liability of $100,000 has been established at December 31, 2011, in connection with this matter.

certain environmental remediation matters at our former Hallowell Facility.

2. Other

The Jayhawk Group

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

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

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The Jayhawk Group has filed suit against us and Golsen alleging that the Jayhawk Group should have been able to tender all of its Series 2 Preferred pursuant to the tender offer, notwithstanding the above-described agreement, based on the following claims against us and Golsen:

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

The Jayhawk Group seeks damages up to $12 million based on the additional number of common shares it allegedly would have received on conversion of all of its Series 2 Preferred through the February 2007 tender offer, plus punitive damages. In May 2008, the General Counsel for the Jayhawk Group offered to settle its claims against us and Golsen in return for a payment of $100,000, representing the approximate legal fees it had incurred investigating the claims at that time. Through counsel, we verbally agreed to the settlement offer and confirmed the agreement by e-mail. Afterward, the Jayhawk Group s General Counsel purported to withdraw the settlement offer, and asserted that Jayhawk is not bound by any settlement agreement. We contend that the settlement agreement is binding on the Jayhawk Group. During September 2011, this case was tried before the court in the U.S. District Court for the District of Kansas. We are awaiting the court s decision in this matter. Our insurer, Chartis, a subsidiary of AIG, has agreed to defend this lawsuit on our behalf and to indemnify under a reservation of rights to deny liability under certain conditions. We have incurred expenses associated with this matter up to our insurance deductible of $250,000, and our insurer is paying defense costs in excess of our deductible in this matter. Although our insurer is defending this matter under a reservation of rights, we are not currently aware of any material issue in this case that would result in our insurer denying coverage. Therefore, no liability has been established at December 31, 2011 as a result of this matter.

Other Claims and Legal Actions

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of $250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible. At December 31, 2011, our accrued general liability insurance claims were $739,000 and are included in accrued and other liabilities. It is possible that the actual development of claims could be different from our estimates but, after consultation with legal counsel, if those general liability insurance claims for which we have not recognized a liability were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Jack E. Golsen (1) Chairman of the Board and Chief Executive Officer. Mr. Golsen, age 83, first became a director in 1969. His term will expire in 2013. Mr. Golsen, founder of LSB, is our Chairman of the Board of Directors and Chief Executive Officer and has served in those capacities since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma s leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen is a Trustee of Oklahoma City University and has served on its Finance Committee for many years. During his career, he acquired or started the companies which formed the Company. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A. which was formerly owned by the Company. In 1972, he was recognized nationally as the person who prevented a widespread collapse of the Wall Street investment banking industry. Refer to The Second Crash by Charles Ellis, and six additional books about the Wall Street crisis.

Barry H. Golsen, J.D. (1) Vice Chairman of the Board, President, and President of the Climate Control Business. Mr. Golsen, age 61, first became a director in 1981. His term will expire in 2012. Mr. Golsen was elected President of

LSB in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994. Mr. Golsen has served in several capacities with various LSB subsidiary companies and has been the President of our Climate Control Business for more than ten years. Mr. Golsen served as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

David R. Goss Executive Vice President of Operations and Director. Mr. Goss, age 71, first became a director in 1971. His term will expire in 2012. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than ten years. He has served as a member of the executive management team since our inception in 1969. Mr. Goss is a graduate of Rutgers University.

Tony M. Shelby Executive Vice President of Finance and Director. Mr. Shelby, age 70, first became a director in 1971. His term will expire in 2014. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than ten years. Mr. Shelby has served as a member of the LSB executive management team since our inception in 1969. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of LSB and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University.

Steven J. Golsen (1) Chief Operating Officer of the Climate Control Business and Director. Mr. Golsen, age 59, first became a director in 2011. His term will expire in 2014. Mr. Golsen is our Chief Operating Officer of our Climate Control Business. Mr. Golsen has served as the Chief Operating Officer of our Machine Tool Business and Climate Control Business for more than ten years. Mr. Golsen has been employed by the Company since 1976. Mr. Golsen attended the University of New Mexico and University of Oklahoma.

Jim D. Jones (2) Senior Vice President and Treasurer. Mr. Jones, age 69, has been Senior Vice President and Treasurer since July 2003, and has served as an officer of LSB since April 1977. Mr. Jones is a certified public accountant and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Jones is a graduate of the University of Central Oklahoma.

David M. Shear (1) Senior Vice President and General Counsel. Mr. Shear, age 52, has been Senior Vice President and General Counsel since July 2004 and General Counsel and Secretary since 1990. Mr. Shear attended Brandeis University, graduating cum laude in 1981. At Brandeis University, Mr. Shear was the founding Editor-In-Chief of Chronos, the first journal of undergraduate scholarly articles. Mr. Shear attended the Boston University School of Law, where he was a contributing Editor of the Annual Review of Banking Law. Mr. Shear acted as a staff attorney at the Bureau of Competition with the Federal Trade Commission from 1985 to 1986. From 1986 through 1989, Mr. Shear was an associate in the Boston law firm of Weiss, Angoff, Coltin, Koski and Wolf.

Michael D. Tepper Senior Vice President of International Operations. Mr. Tepper, age 73, has served in substantially the same capacity for more than ten years. Mr. Tepper is a graduate of the Wharton School of the University of Pennsylvania.

Michael G. Adams Vice President and Corporate Controller. Mr. Adams, age 62, has been Vice President and Corporate Controller since 2008 and has served as an officer of LSB since March 1990. Mr. Adams is a certified public accountant and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Adams is a graduate of the University of Oklahoma.

Harold L. Rieker Jr. Vice President and Principal Accounting Officer. Mr. Rieker, age 51, has been Vice President and Principal Accounting Officer since 2008 and has served as an officer of LSB since March 2006. Mr. Rieker is a certified public accountant and was with the accounting firm of Grant Thornton LLP. Mr. Rieker is a graduate of the University of Central Oklahoma.

(1) Barry H. Golsen and Steven J. Golsen are the sons of Jack E. Golsen and David M. Shear is married to the niece of Jack E. Golsen.

(2) The Company and Mr. Jones entered into a settlement order with the SEC, which resulted in Mr. Jones entering into an agreement with the Oklahoma Accounting Board placing him on probation through July 2011. Under the order with the SEC, the Company and Mr. Jones agreed, without admitting or denying any wrongdoing, not to commit violations of certain provisions of the Securities Exchange Act of 1934, as amended. Mr. Jones also consented not to appear before the SEC as an accountant, but can apply for reinstatement at any time after July 2011. Mr. Jones has filed a petition with the SEC for reinstatement and is awaiting the SEC s response.

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PART II

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

Market Information

Our common stock is trading on the New York Stock Exchange under the symbol LXU . The following table shows, for the periods indicated, the high and low sales prices.

	Year Ended December 31,			
	2011		2010	
Quarter	High	Low	High	Low
First	$ 40.31	$ 23.65	$ 15.99	$ 12.61
Second	$ 49.21	$ 35.35	$ 19.96	$ 13.23
Third	$ 46.88	$ 28.41	$ 18.99	$ 12.71
Fourth	$ 40.61	$ 24.85	$ 24.58	$ 18.60

Stockholders

As of February 15, 2012, we had 540 record holders of our common stock. This number does not include investors whose ownership is recorded in the name of their brokerage company.

Dividends

We have not paid cash dividends in our outstanding shares of common stock during the two most recent fiscal years but have paid cash dividends on our outstanding series of convertible preferred stock during this period. See discussion concerning dividends and restrictions in payment of dividends below under Liquidity and Capital Resources Dividends of the MD&A contained in this report.

Equity Compensation Plans

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

Sale of Unregistered Securities

There were no unregistered sales of equity securities in 2011 that have not been previously reported in a Quarterly Report on Form
10-Q or Current Report on Form 8-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the three months ended December 2011, there were no purchases of equity securities by the Company and affiliated purchasers.

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Preferred Share Rights Plan

We have adopted a preferred share rights plan to protect us against certain creeping acquisitions, open market purchases and certain mergers and other combinations with acquiring companies. The rights plan will impact a potential acquirer unless the acquirer negotiates with our board of directors and the board of directors approves the transaction. Pursuant to the rights plan, one preferred share purchase right (a Right) is attached to each currently outstanding or subsequently issued share of our common stock. Prior to becoming exercisable, the Rights trade together with our common stock. In general, if a person or group acquires or announces a tender or exchange offer for 15% or more of our common stock (except for the Golsen Group and certain other limited excluded persons), then the Rights become exercisable. Each Right entitles the holder (other than the person or group that triggers the Rights being exercisable) to purchase from us one one-hundredth of a share of Series 4 Junior Participating Preferred Stock, no par value (the Preferred Stock), at an exercise price of $47.75 per one one-hundredth of a share, subject to adjustment. If a person or group acquires 15% or more of our common stock, each Right will entitle the holder (other than the person or group that triggered the Rights being exercisable) to purchase shares of our common stock (or, in certain circumstances, cash or other securities) having a market value of twice the exercise price of a Right at such time. Under certain circumstances, each Right will entitle the holder (other than the person or group that triggered the Rights being exercisable) to purchase the common stock of the acquirer having a market value of twice the exercise price of a Right at such time. In addition, under certain circumstances, our board of directors may exchange each Right (other than those held by the acquirer) for one share of our common stock, subject to adjustment. Our board of directors may redeem the Rights at a price of $0.01 per Right generally at any time before 10 days after the Rights become exercisable. Our board of directors may exchange all or part of the Rights (except to the person or group that triggered the Rights being exercisable) for our common stock at an exchange ratio of one common share per Right until the person triggering the Right becomes the beneficial owner of 50% or more of our common stock.

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ITEM 6. SELECTED FINANCIAL DATA (1)

	Year ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars In Thousands, Except Per Share Data)				
Selected Statement of Income Data:					
Net sales	$ 805,256	$ 609,905	$ 531,838	$ 748,967	$ 586,407
Interest expense	$ 6,658	$ 7,427	$ 6,746	$ 11,381	$ 12,078
Provisions for income taxes (2)	$ 46,208	$ 19,787	$ 15,024	$ 18,776	$ 2,540
Income from continuing operations	$ 83,984	$ 29,715	$ 21,849	$ 36,560	$ 46,534
Net income	$ 83,842	$ 29,574	$ 21,584	$ 36,547	$ 46,882
Net income applicable to common stock	$ 83,537	$ 29,269	$ 21,278	$ 36,241	$ 41,274
Income (loss) per common share applicable to common stock:					
Basic:					
Income from continuing operations	$ 3.81	$ 1.39	$ 1.01	$ 1.71	$ 2.09
Net income (loss) from discontinued operations	$ (.01)	$ (.01)	$ (.01)	$	$ .02
Net income	$ 3.80	$ 1.38	$ 1.00	$ 1.71	$ 2.11
Diluted:					
Income from continuing operations	$ 3.59	$ 1.33	$ .97	$ 1.58	$ 1.82
Net income (loss) from discontinued operations	$ (.01)	$ (.01)	$ (.01)	$	$ .02
Net income	$ 3.58	$ 1.32	$ .96	$ 1.58	$ 1.84
Selected Balance Sheet Data:					
Total assets	$ 502,009	$ 387,981	$ 338,633	$ 335,767	$ 307,554
Redeemable preferred stock	$ 44	$ 45	$ 48	$ 52	$ 56
	$ 79,460	$ 95,392	$ 101,801	$ 105,160	$ 122,107

Long-term debt, including current portion					
Stockholders equity	$ 293,270	$ 179,370	$ 150,607	$ 130,044	$ 94,283
Selected other data:					
Cash dividends declared per common share	$	$	$	$	$

(1) See discussions included in Item 7 of Part II of this report.

(2) In the fourth quarter of 2007, we began recognizing a provision for regular federal income taxes as the result of reversing the valuation allowance on federal NOL carryforwards and other timing differences and the associated utilization of the federal NOL carryforwards.

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2011 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this MD&A may be deemed to be forward-looking statements. See Special Note Regarding Forward-Looking Statements.

Overview

General

LSB is a manufacturing and marketing company operating through our subsidiaries. LSB and its wholly-owned subsidiaries own the following core businesses:

Climate Control Business manufactures and sells a broad range of HVAC products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers, modular geothermal and other chillers and other related products used to control the environment in commercial/institutional and residential new building construction, renovation of existing buildings and replacement of existing systems. For 2011, approximately 35% of our consolidated net sales relates to the Climate Control Business.

Chemical Business manufactures and sells nitrogen-based chemical products produced from four facilities located in El Dorado, Arkansas; Cherokee, Alabama; Pryor, Oklahoma; and Baytown, Texas for the agricultural, industrial and mining markets. Our products include high purity and commercial grade anhydrous ammonia for industrial and agricultural applications, industrial and fertilizer grade AN, UAN, sulfuric acids, nitric acids in various concentrations, nitrogen solutions, DEF and various other products. For 2011, approximately 64% of our consolidated net sales relates to the Chemical Business.

Economic Conditions

Since our two core business segments serve several diverse markets, we consider market fundamentals for each market individually as we evaluate economic conditions. From a macro standpoint, we believe the U.S. economy is poised for modest growth if the European sovereign debt issues do not negatively affect the global economy beyond current concerns.

Climate Control Business Sales for 2011 were 12% higher than the same period in 2010, including a 43% increase in hydronic fan coil sales, a 7% increase in geothermal and water source heat pump sales, and a 6% increase in other HVAC sales. From a market sector perspective, the increase is due to a 19% improvement in commercial/institutional product sales partially offset by a 7% decrease in residential product sales. The improvement in commercial/institutional sales was in most major product lines. For 2011, sales and order levels of our commercial/institutional products increased in most major markets (education, multi-family, healthcare, office and hospitality) although sales and order levels of our single-family residential products decreased from 2010 reflecting the slowdown in new residential construction. The latest information available from CMFS indicates that in 2012 both the commercial/institutional and residential construction sectors we serve are expected to increase modestly over 2011 levels.

Chemical Business Our Chemical Business primary markets are agricultural, industrial and mining. During 2011, approximately 45% of our Chemical Business sales in 2011 were into the agricultural fertilizer markets to customers that primarily purchase at spot market prices and not pursuant to contractual pricing arrangements. Our agricultural sales volumes and prices depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat, cotton and forage. The current 2012 outlook according to most market indicators, including reports in Green Markets, Fertilizer Week and the USDA s World Agricultural Supply and Demand Estimates, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could change if there are unanticipated changes in commodity prices, acres planted or unfavorable weather conditions. Our Cherokee and Pryor Facilities produce anhydrous ammonia from natural gas and UAN from ammonia. During 2011, agricultural

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customer demand for and the selling prices of ammonia and UAN continued to increase while natural gas prices were generally lower compared to 2010. As a result, gross margins increased significantly for these two products. On the other hand, our El Dorado Facility produces agricultural grade AN from purchased ammonia and is at a cost disadvantage compared to competitive product produced from natural gas. During 2011, certain of the mid-south market area for agricultural grade AN was in a drought condition, which could negatively affect customer demand for that product if the drought continues into the spring of 2012. As a result, we are shipping agricultural grade AN to other freight logical markets and are attempting to divert production capacity to other products to help mitigate the negative effects of the drought.

The remaining 55% of our Chemical Business sales were into industrial and mining markets of which approximately 57% of these sales are to customers that have contractual obligations to purchase a minimum quantity and allow us to recover our cost plus a profit, irrespective of the volume of product sold. During 2011, our sales volumes to industrial and mining customers increased 2% and 11%, respectively, as compared to 2010, while sales dollars increased 28% and 34%, respectively. For 2012, we expect slight growth in these markets based on projections from the American Chemistry Council and customer feedback.

2011 Results

Our consolidated net sales for 2011 were $805.3 million compared to $609.9 million for 2010. The sales increase of approximately $195.4 million included an increase of $160.8 million in our Chemical Business and an increase of approximately $31.1 million in our Climate Control Business.

Our consolidated operating income was $136.4 million for 2011 compared to $55.9 million for 2010. The increase in operating income of $80.5 million included an increase of $84.6 million in our Chemical Business partially offset by a decrease of $2.6 million in our Climate Control Business. In addition, our general corporate expense and other business operations net expenses increased $1.5 million.

Our resulting effective income tax rate for 2011 was approximately 36% compared to 40% for 2010.

Climate Control Business

Our Climate Control sales for 2011 were $281.6 million, or approximately $31.1 million above 2010, and included a $16.5 million increase in hydronic fan coil sales, a $12.2 million increase in geothermal and water source heat pump sales, and a $2.4 million increase in other HVAC sales. From a commercial/institutional market sector perspective, the net increase included a $35.4 million increase in commercial/institutional product sales partially offset by approximately $4.3 million decrease in residential product sales. The increase in the commercial/institutional sector of our business was generally attributable to the gain in market share of most Climate Control operations, whereas the decline in the residential product sales is due to the slowdown in single-family residential construction during 2011.

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

- Education
- Single-Family Residential
- Multi-Family Residential
- Healthcare
- Hospitality
- Retail
- Government

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

The following table shows information relating to our product order intake level, net sales and backlog of confirmed customer product orders of our Climate Control Business:

	New Orders (1)		Net Sales		Ending Backlog (1)	
	2011	2010	2011	2010	2011	2010
	(In Millions)					
First Quarter	$ 71.6	$ 54.2	$ 63.6	$ 53.7	$ 58.3	$ 36.0
Second Quarter	64.3	71.7	77.2	59.8	$ 49.9	$ 48.2
Third Quarter	65.7	67.5	71.8	64.5	$ 48.4	$ 54.8
Fourth Quarter	60.8	61.3	69.0	72.5	$ 44.5	$ 47.6
Fiscal Year	$ 262.4	$ 254.7	$ 281.6	$ 250.5		

(1) Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval. Our backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we expect to ship substantially all of these orders within the next twelve months; however, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms. Product orders and backlog, as reported, generally do not include amounts relating to shipping and handling charges, service orders or service contract orders. In addition, product orders and backlog, as reported, exclude contracts related to our construction business due to the relative size of individual projects and, in some cases, extended timeframe for completion beyond a twelve-month period.

For January 2012, our new orders received were approximately $21.7 million and our backlog was approximately $47.3 million at January 31, 2012.

Our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to some conventional HVAC systems. Tax legislation continues to provide incentives for customers purchasing products using forms of renewable energy. Homeowners who install GHPs are eligible for a 30% tax credit. Businesses that install GHPs are eligible for a 10% tax credit and five year accelerated depreciation on the balance of the system cost. Under currently enacted legislation, these tax credits for homeowners and tax credits and accelerated depreciation for business owners are effective through December 31, 2016. During 2012, businesses also have the option of electing 50% bonus depreciation on qualifying equipment, such as GHPs, that are placed in service during the year.

We expect the Climate Control Business to experience low to moderate sales growth in the short-term. Although a significant part of the Climate Control Business sales are products that are used for renovation and replacement application, its sales in the medium-term and long-term will be primarily driven by growth in new construction, as well as the introduction of new products. We continue to increase our sales and marketing efforts for all of our Climate Control products in an effort to increase our share of the existing market for our products as well as expand the market for and application of our products, including GHPs.

Chemical Business

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

Our Chemical Business sales for 2011 were $511.9 million, an increase of $160.8 million. Sales increased across all product lines due to both increased pricing and volume. Agricultural sales for 2011 were $231.6 million compared to $135.6 million for 2010. The increase of $96.0 million or 71% was primarily due to a substantial increase in sales volume of UAN as a result of additional volume resulting from the Pryor Facility s first full year of production supported by strong demand and higher sales prices.

Sales of industrial acids and other products for 2011 were $161.8 million compared to approximately $126.9 million for 2010. Also sales of mining products for 2011 were $118.5 million compared to $88.6 million for 2010. The combined increase in sales of $64.8 million or 30% includes the impact from the increase in ammonia feedstock costs resulting in higher selling prices to certain industrial and mining customers that have contractual obligations allowing us to recover our costs plus a profit.

The Chemical Business operating income for 2011 was $116.5 million or $84.6 million higher than 2010 primarily as a result of increased sales volume and higher margins on UAN.

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

	Percentage Change of	
	Tons	Dollars
	Increase	
Chemical products:		
Agricultural	37%	71%
Industrial acids and other	2%	28%
Mining	11%	34%
Total weighted-average change	14%	46%

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

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

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

	2011	2010
Natural gas average price per MMBtu based upon Henry Hub pipeline pricing point	$ 3.99	$ 4.38
Ammonia average price based upon low Tampa price per metric ton	$ 574	$ 405

At December 31, 2011, our Chemical Business had firm purchase commitments to purchase approximately 3.0 million MMBtu of natural gas through August 2012 at a weighted-average cost of $3.62 per MMBtu and a weighted-average market value of $3.06 per MMBtu (approximately 1.8 million MMBtu relate to the first quarter of 2012 at a weighted-average cost of $3.75 per MMBtu and a weighted-average market value of $2.99 per MMBtu).

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

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Since the Pryor Facility did not reach sustained production until the fourth quarter of 2010, most of its operating expenses for 2010 were not attributable to the production of product and were therefore expensed as incurred rather than charged to inventory. For 2010, approximately $13.3 million of Pryor Facility operating expenses were classified as selling, general and administrative expense (SG&A). During 2011, most of the Pryor Facility s operating expenses were attributable to the production of product were classified as cost of sales.

Property and Business Interruption Insurance Recoveries

Chemical Business During 2011, we recognized an insurance recovery relating to a business interruption claim, of which $8.6 million was recorded as a reduction to cost of sales. We used the proceeds for recovery of working capital expended during the business interruption for which the claim was filed. In addition, the cash flows relating to this insurance recovery are included in cash flows from continuing operating activities. During 2010, we recognized insurance recoveries relating to property insurance claims, of which $7.3 million was recorded as other income.

Completion of Planned Improvement Project at Pryor Facility 2012

The permitted production level of ammonia at the Pryor Facility is 700 tons per day (TPD), but due to production limitations caused by restrictions in the flow of process gas through heat exchangers and other mechanical restrictions, the ammonia plant was unable to sustain production above 500 TPD during 2011. Beginning on January 3, 2012, a planned improvement project was performed at the Pryor Facility to increase anhydrous ammonia production levels, during which time the facility was not in production. The plant was gradually brought back into production on February 3, 2012. The current production rate is approximately 600 TPD. During the period the plant was down, approximately $1.6 million of maintenance costs for the project and approximately $2.1 million of operating costs were expensed as incurred.

Liquidity and Capital Resources

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

	December 31, 2011	December 31, 2010
	(Dollars In Millions)	
Cash and cash equivalents	$ 124.9	$ 66.9
Short-term investments (1)	10.0	10.0
	$ 134.9	$ 76.9
Long-term debt:		
2007 Debentures	$	$ 26.9
Secured Term Loan	72.2	48.8
Other	7.3	19.7
Total long-term debt, including current portion	$ 79.5	$ 95.4
Total stockholders equity	$ 293.3	$ 179.4

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

At December 31, 2011, our cash, cash equivalents and short-term investments totaled $134.9 million and our $50 million revolving credit facility (the Working Capital Revolver Loan) was undrawn and available to fund operations, if needed, subject to the amount of our eligible collateral and outstanding letters of credit.

For 2012, we expect our primary cash needs will be for working capital to fund our operations, capital expenditures, and general obligations. We expect to fund these cash needs from internally generated cash flows and cash on hand. Our internally generated cash flows and liquidity could be affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions.

During 2011, the holders of the remaining 5.5% convertible debentures (2007 Debentures) converted $26.9 million principal amount of the 2007 Debentures into 979,160 shares of LSB common stock in accordance with the conversion terms of the debentures, including the $2.0 million converted as discussed below under Related Party Transactions .

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

On May 26, 2011, the principal amount of the Secured Term Loan was increased an additional $15 million to $75 million pursuant to the terms of the Amended Agreement. The use of proceeds from the Secured Term Loan was for general corporate working capital purposes.

The Secured Term Loan requires quarterly principal payments of approximately $0.9 million, plus interest and a final balloon payment of $56.3 million due on March 29, 2016. At December 31, 2011, the weighted-average interest rate was approximately 4.10%. The Secured Term Loan is secured by the real property and equipment located at our El Dorado and Cherokee Facilities.

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

The Working Capital Revolver Loan, which certain subsidiaries (the Borrowers) are parties to, is available to fund these subsidiaries working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, the Borrowers may borrow on a revolving basis up to $50.0 million based on specific percentages of eligible accounts receivable and inventories. At December 31, 2011, we had approximately $48.6 million of borrowing availability under the Working Capital Revolver Loan based on eligible collateral and outstanding letters of credit. The Borrowers are negotiating an amendment to extend the maturity of the Working Capital Revolver Loan. We expect the amendment will provide for certain improvements to the terms and conditions to reflect the Borrowers current level of business activity and financial condition. The amendment is expected to be completed before the maturity date.

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

In 2009, we filed a universal shelf registration statement on Form S-3, with the SEC. The shelf registration statement provides that we could offer and sell up to $200 million of our securities consisting of equity (common and preferred), debt (senior and subordinated), warrants and units, or a combination thereof. The shelf registration statement expires in November 2012 unless we decide to file a post effective amendment, which is subject to a review by the SEC. **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.**

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Income Taxes

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

Subject to examination by taxing authorities, we believe that we do not have any material uncertain tax positions other than the failure to file original or amended state income tax returns in some jurisdictions where LSB or some of its subsidiaries may have a filing responsibility. We had approximately $709,000 accrued for uncertain tax liabilities at December 31, 2011.

Capital Expenditures

Capital Expenditures-2011

Cash used for capital expenditures during 2011 was $44.2 million, including $6.0 million for the benefit of our Climate Control Business and $35.8 million for the benefit of our Chemical Business. The Chemical Business capital expenditures also included approximately $0.6 million associated with maintaining compliance with environmental laws, regulations and guidelines. The capital expenditures were funded from working capital.

Committed and Planned Capital Expenditures-2012

At December 31, 2011, we had committed capital expenditures of approximately $11.7 million for 2012. The committed expenditures included $10.2 million for the benefit of our Chemical Business, including approximately $1.8 million relating to the wastewater pipeline discussed below associated with environmental laws, regulations and guidelines. In addition, our committed expenditures included $0.3 million for the benefit of our Climate Control Business and approximately $1.2 million for general corporate facility upgrades. We plan to fund these expenditures from working capital.

In addition to committed capital expenditures at December 31, 2011, we had additional planned capital expenditures for 2012 of $43.7 million, of which $31.2 is for the benefit of our Chemical Business and $12.3 million is for the benefit of our Climate Control Business.

The planned capital expenditures are subject to economic conditions and approval by senior management. If these capital expenditures are approved, most of these expenditures will likely be funded from working capital and internal cash flows. In addition, see discussion below under Wastewater Pipeline relating to expenditures associated with the participation of the 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 or planned capital expenditures for 2012.

Wastewater Pipeline

The El Dorado Facility generates process wastewater, which is subject to a wastewater discharge permit issued by the ADEQ, which permit is generally renewed every five years. During April 2011, certain companies, including EDC, and the city of El Dorado, Arkansas (the City) entered into a funding agreement and operating agreement related to a wastewater pipeline to be constructed by the City. Each party to the agreements has agreed to contribute to the cost of construction and the annual operating costs of the pipeline for the right to use the pipeline to dispose of its wastewater. EDC anticipates its capital cost in connection with the construction of the pipeline will be approximately $4.0 million, of which $0.5 million has been capitalized as of December 31, 2011. The City plans to complete the construction of the pipeline by mid-2014. Once the pipeline is completed, EDC s estimated share of the annual operating costs is to be $100,000 to $150,000. The initial term of the operating agreement is through December 2053.

Information Request from EPA

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

Further, if it is determined that the equipment at any of our chemical facilities has not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed $27,500 per day as to each facility not in compliance and be required to retrofit each facility with the best available control technology. We believe this technology is already employed at the Baytown Facility.

Our Chemical Business has provided to the EPA a proposed settlement offer in connection with this matter. While the total capital cost to achieve the emission rates being proposed by our Chemical Business in the settlement offer has not been determined, the total capital cost could be significant and involving up to nine of our affected nitric acid plants. Our Chemical Business proposed settlement offer did not provide an amount of any proposed civil penalty, if any, but we anticipate that the EPA will require a civil penalty. Therefore a liability of $100,000 has been established at December 31, 2011, in connection with this matter.

Advanced Manufacturing Energy Credits

On January 8, 2010, two subsidiaries within the Climate Control Business were awarded Internal Revenue Code §48C tax credits (also referred to as Advanced Manufacturing Energy Credits) of approximately $9.6 million. The award was based on anticipated capital expenditures made from February 2009 through June 2014 for machinery that will be used to produce geothermal heat pumps and green modular chillers. As these subsidiaries invest in the qualifying machinery, we will be entitled to an income tax credit equal to 30% of the machinery cost, up to the total credit amount awarded. As of December 31, 2011, we utilized $0.8 million of §48C tax credits and we anticipate utilizing approximately $0.4 million of these tax credits to partially offset our federal income tax liability for 2011.

Estimated Plant Turnaround Costs 2012

Our Chemical Business expenses the maintenance, repairs and minor renewal costs relating to Turnarounds as they are incurred. Based on our current plan for Turnarounds during 2012, we estimate that we will incur approximately $9.5 million to $10.5 million of these Turnaround costs. These costs do not include the costs relating to lost absorption or reduced margins due to the associated plants being shut down. We plan to fund these expenditures from our available working capital. However, it is possible that the actual costs could be significantly different from our estimates.

Expenses Associated with Environmental Regulatory Compliance

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of $4.8 million in 2011 in connection with environmental regulatory issues. For 2012, we expect to incur expenses ranging from $3.5 million to $4.5 million in connection with environmental regulatory issues. However, it is possible that the actual costs could be significantly different than our estimates.

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Proposed Legislation and Regulations Concerning Greenhouse Gas Emissions

The manufacturing facilities within our Chemical Business use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state courts and administrative agencies, including the EPA, are considering the scope and scale of greenhouse gas emission regulation. Legislation is being considered that would regulate greenhouse gas emissions at some point in the future. The EPA has instituted a mandatory greenhouse gas reporting requirement that began in 2010, which impacts all of our chemical manufacturing sites. Greenhouse gas regulation could increase the price of the electricity and other energy sources purchased by our chemical facilities; increase costs for natural gas and other raw materials (such as anhydrous ammonia); potentially restrict access to or the use of certain raw materials necessary to produce our chemical products; and require us to incur substantial expenditures to retrofit our chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, 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.

Authorization to Repurchase Stock

As previously reported, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period. The stock repurchase authorization will remain in effect until such time as our board of directors decides to end it. If we should repurchase stock, we currently intend to fund any repurchases from our available working capital; however, our plan could change in the near term.

Dividends

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

- unrestricted payments up to $15.0 million to LSB, which amount was paid during the second quarter of 2011;
- loans to LSB entered into subsequent to March 29, 2011, provided the aggregate amount of such loans do not exceed $2.0 million at any time outstanding;
- amounts not to exceed $5.0 million annually under a certain management agreement between LSB and ThermaClime, provided certain conditions are met;
- the repayment of costs and expenses incurred by LSB that are directly allocable to ThermaClime or its subsidiaries for LSB s provision of services under certain services agreement;
- the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with LSB; and
- an amount not to exceed fifty percent (50%) of ThermaClime s consolidated net income during each fiscal year determined in accordance with generally accepted accounting principles plus income taxes paid to LSB within the previous bullet above, provided that certain other conditions are met.

Holders of our common stock and preferred stocks are entitled to receive dividends only when and if declared by our board of directors. We have not paid cash dividends on our outstanding common stock in many years, and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our board of directors has not made a decision whether or not to pay such dividends on our common stock in 2012**.**

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During 2011, dividends totaling $304,700 were declared and paid on our outstanding preferred stock using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

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

On January 26, 2012, our board of directors declared the following dividends:

- $0.06 per share on our outstanding non-redeemable Series D Preferred for an aggregate dividend of $60,000, payable on March 31, 2012; and
- $12.00 per share on our outstanding non-redeemable Series B Preferred for an aggregate dividend of $240,000, payable on March 31, 2012.

All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Group. See Related Party Transactions of this MD&A for a discussion as to the amount of dividends paid to the Golsen Group during 2011. There are no optional or mandatory redemption rights with respect to the Series B Preferred or Series D Preferred.

Compliance with Long Term Debt Covenants

As discussed below under 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 2012.

Loan Agreements Terms and Conditions

Working Capital Revolver Loan At December 31, 2011, there were no outstanding borrowings under the Working Capital Revolver Loan. In addition, the net credit available for borrowings under our Working Capital Revolver Loan was approximately $48.6 million at December 31, 2011, based on our eligible collateral and outstanding letters of credit as of that date. The Working Capital Revolver Loan requires that ThermaClime meet certain financial covenants, including an EBITDA requirement of greater than $25 million; a minimum fixed charge coverage ratio of not less than 1.10 to 1; and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. As of December 31, 2011 and as defined in the agreement, ThermaClime s EBITDA was approximately $95 million; the fixed charge coverage ratio was 6.8 to 1; and the senior leverage coverage ratio was 0.8 to 1.

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

The Secured Term Loan requires quarterly principal payments of approximately $0.9 million, plus interest and a final balloon payment of $56.3 million due on March 29, 2016. At December 31, 2011, the stated interest rate on the Secured Term Loan includes a variable interest rate of approximately 3.57% on the principal amount of $48.1 million (the variable interest rate is based on three-month LIBOR plus 300 basis points, which rate is adjusted quarterly) and a fixed interest rate of 5.15% on the principal amount of $24.1 million. At December 31, 2011, the resulting weighted-average interest rate was approximately 4.10%.

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The Secured Term Loan is secured by the real property and equipment located at our El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately $72 million at December 31, 2011.

The Secured Term Loan borrowers are subject to numerous covenants under the Amended Agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens; limitations on mergers, acquisitions, dissolution and sale of assets; and limitations on declaration of dividends and distributions to LSB, all with certain exceptions. At December 31, 2011, the carrying value of the restricted net assets (including pledged assets) of ThermaClime and its subsidiaries was approximately $97 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. As of December 31, 2011 and as defined in the agreement, Secured Term Loan borrowers fixed charge coverage ratio was 5.1 to 1 and the leverage ratio was 0.8 to 1.

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

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

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

Seasonality

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

Related Party Transactions

Golsen Group

In January 2011, we paid interest of $137,500 relating to the portion of the 2007 Debentures held by the Golsen Group that was accrued at December 31, 2010. In March 2011, we paid dividends totaling $300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. In March 2011, the Golsen Group sold $3,000,000 of the 2007 Debentures it held to a third party. In July 2011, the Golsen Group converted $2,000,000 principal amount of the 2007 Debentures into 72,800 shares of LSB common stock in accordance with the term of the 2007 Debentures. During 2011, we incurred interest expense of $60,500 relating to the $2,000,000 of the 2007 Debentures that was held by the Golsen Group, of which $55,000 was paid in June 2011 and the remaining amount was forfeited and credited to capital in excess of par value as the result of the conversion. In addition in July 2011, the Golsen Group converted an $8,000 convertible promissory note into 4,000 shares of LSB common stock in accordance with the terms of such note.

Also see discussion under Related Party Transactions Transactions with Landmark of Item 13 of Part III of this report.

Results of Operations

The following Results of Operations should be read in conjunction with our consolidated financial statements for the years ended December 31, 2011, 2010, and 2009 and accompanying notes and the discussions above under Overview and Liquidity and Capital Resources.

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

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

	2011	2010	2009
		(In Thousands)	
Net sales:			
Climate Control	$ 281,565	$ 250,521	$ 266,169
Chemical	511,854	351,086	257,832
Other	11,837	8,298	7,837
	$ 805,256	$ 609,905	$ 531,838
Gross profit:			
Climate Control	$ 88,178	$ 86,364	$ 92,409
Chemical	130,687	49,295	42,422
Other	4,153	2,966	2,583
	$ 223,018	$ 138,625	$ 137,414
Operating income:			
Climate Control	$ 32,759	$ 35,338	$ 37,706
Chemical	116,503	31,948	15,122
General corporate expense and other business operations, net	(12,819)	(11,361)	(12,118)
	136,443	55,925	40,710
Interest expense	(6,658)	(7,427)	(6,746)
Gain (losses) on extinguishment of debt	(136)	(52)	1,783
Non-operating income (expense), net:			
Climate Control	2	3	8
Chemical	1	7	31
Corporate and other business operations	(3)	43	91
Provisions for income taxes	(46,208)	(19,787)	(15,024)
Equity in earnings of affiliate Climate Control	543	1,003	996

Income from continuing operations	$ 83,984	$ 29,715	$ 21,849

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Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for 2011 and 2010:

	2011	2010	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Geothermal and water source heat pumps	$ 183,789	$ 171,561	$ 12,228	7.1%
Hydronic fan coils	54,379	37,923	16,456	43.4%
Other HVAC products	43,397	41,037	2,360	5.8%
Total Climate Control	$ 281,565	$ 250,521	$ 31,044	12.4%
Gross profit Climate Control	$ 88,178	$ 86,364	$ 1,814	2.1%
Gross profit percentage Climate Control (1)	31.3%	34.5%	(3.2)%	
Operating income Climate Control	$ 32,759	$ 35,338	$ (2,579)	(7.3)%

(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 15% improvement in sales of our commercial products generally related to increases in the education, hospitality, multi-family, and healthcare market sectors. Offsetting this increase was a 7% decline in sales of our residential products, primarily due to the softness in the single-family residential construction market. During 2011, we continued to maintain a market share leadership position of approximately 41%, based on preliminary market data supplied by the Air-Conditioning, Heating and Refrigeration Institute (AHRI);
- Net sales of our hydronic fan coils increased primarily due to an 18% increase in the number of units sold due to increased construction and renovation activities in the markets we serve and a 21% increase in the average unit sales price due to change in product mix. During 2011, we continued to have a market share leadership position of approximately 30% based on preliminary market data supplied by the AHRI;
- Net sales of our other HVAC products increased primarily as the result of an increase in the sales of our modular chillers and construction services.

Gross Profit Climate Control

The increase in gross profit in our Climate Control Business was primarily the result of higher sales volume as discussed above. The gross profit percentage decline of 3.2% was primarily due to higher raw material and component costs and product mix, including a higher content of commercial products with lower gross margins than our residential products.

Operating Income Climate Control

Although our gross profit increased, operating income decreased primarily as the result of an increase in expenses discussed below due, in part, to the increase in sales volume as well as changes in our customer/product mix. Specifically, warranty expenses increased by $2.1 million (which were also impacted by extending our warranty coverage period for certain products effective during 2010), employee health insurance costs increased by $0.9 million primarily due to higher actual spending and an increase in the number of employees, freight expenses increased by $0.9 million, and commissions of $0.8 million.

Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for 2011 and 2010:

	2011	2010	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Agricultural products	$ 231,599	$ 135,598	$ 96,001	70.8%
Industrial acids and other chemical products	161,776	126,846	34,930	27.5%
Mining products	118,479	88,642	29,837	33.7%
Total Chemical	$ 511,854	$ 351,086	$ 160,768	45.8%
Gross profit Chemical	$ 130,687	$ 49,295	$ 81,392	165.1%
Gross profit percentage Chemical (1)	25.5%	14.0%	11.5%	
Operating income Chemical	$ 116,503	$ 31,948	$ 84,555	264.7%

(1) As a percentage of net sales

Net Sales Chemical

For 2011, overall sales prices for the Chemical Business increased 30% and the volume of tons sold increased 14%, compared with 2010, generally as a result of the following:

- Agricultural products sales Agricultural products sales increased $96.0 million, or 71%, primarily due to increased sales volumes and selling prices for UAN and ammonia, partially offset by lower sales of agricultural grade AN. As the result of the Pryor Facility beginning sustained production in the fourth quarter of 2010, tons of agricultural products sold from this facility increased, including 189,000 tons of UAN. In addition, the increase in UAN sales was driven by an increase in market demand for crop nutrients and strong grain commodity prices.
- Industrial acids and other chemical products sales Industrial acids and other products sales increased $34.9 million, or 28%, primarily due to improved economic conditions, new customers and increased selling prices resulting from the pass through of higher raw material costs pursuant to the terms of sales agreements with certain customers.
- Mining products sales Mining products sales increased $29.8 million, or 34% and volumes increased 11%. Sales prices were driven higher by a general increase in raw material and other costs, which we are able to pass through to certain customers pursuant to the terms of supply agreements. Our industrial grade AN is primarily sold to one customer pursuant to a multi-year supply contract in which the customer agrees to purchase, and we agree to reserve certain minimum volumes. The customer took less than the minimum quantity of product as defined in the contract. Pursuant to the terms of the contract, the customer was invoiced for both product taken and for the reserved plant production capacity that was not utilized.

Gross Profit Chemical

The increase in gross profit of $81.4 million is a result of the increased sales volume in all three product lines, accompanied by higher margins on UAN and ammonia due to higher average selling prices relative to production costs. In addition, we recognized an $8.6 million business interruption recovery in 2011, which was recorded as a reduction to cost of sales.

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Operating Income   Chemical

In addition to the increase in gross profit of $81.4 million discussed above, our Chemical Business   operating income includes operating and other expenses associated with the Pryor Facility of approximately $2.8 million for 2011 compared to $13.6 million for 2010. Due to limited and intermittent production at the Pryor Facility during 2010, costs identifiable with production were classified as cost of sales and the remaining operational expenses were primarily classified as SG&A. This increase in operating income was partially offset by gains totaling $7.3 million from property insurance recoveries received in 2010.

Other

The business operation classified as   Other   primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as   Other   and general corporate expenses and other business operations, net, for 2011 and 2010:

	2011	2010	Change	Percentage Change
		(Dollars In Thousands)		
Net sales Other	$ 11,837	$ 8,298	$ 3,539	42.6%
Gross profit Other	$ 4,153	$ 2,966	$ 1,187	40.0%
Gross profit percentage Other (1)	35.1%	35.7%	(0.6)%	
General corporate expense and other business operations, net	$ (12,819)	$ (11,361)	$ (1,458)	12.8%

(1) As a percentage of net sales

Provision For Income Taxes

The provision for income taxes for 2011 was $46.2 million compared to $19.8 million for 2010. The resulting effective tax rate for 2011 was 36% compared to 40% for 2010. As previously reported, during 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 2010.

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Year Ended December 31, 2010 Compared to Year Ended December 31, 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 2010 and 2009:

	2010	2009	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Geothermal and water source heat pumps	$ 171,561	$ 179,865	$ (8,304)	(4.6)%
Hydronic fan coils	37,923	46,381	(8,458)	(18.2)%
Other HVAC products	41,037	39,923	1,114	2.8%
Total Climate Control	$ 250,521	$ 266,169	$ (15,648)	(5.9)%
Gross profit Climate Control	$ 86,364	$ 92,409	$ (6,045)	(6.5)%
Gross profit percentage Climate Control (1)	34.5%	34.7%	(0.2)%	
Operating income Climate Control	$ 35,338	$ 37,706	$ (2,368)	(6.3)%

(1) As a percentage of net sales

Net Sales Climate Control

Net sales of our geothermal and water source heat pump products decreased primarily as a result of a 9.3% decline in sales of our commercial/institutional products due to the slowdown in the construction and renovation activities in the markets we serve partially offset by a 5.9% increase in sales of our residential products, principally during the second half of 2010. During 2010, we continued to maintain a market share leadership position of approximately 38%, based on market data supplied by the AHRI;

Net sales of our hydronic fan coils decreased primarily due to a 7.4% decline in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and a 13.3% decrease in the average unit sales price due to a change in product mix. During 2010, we continue to have a market share leadership position of approximately 29% based on market data supplied by the AHRI;

Net sales of our other HVAC products increased as the result of higher sales of custom air handlers and modular chillers partially offset by lower sales in our engineering and construction services.

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 offset by an improvement in product mix, primarily the increase in residential product sales. The gross profit as a percentage of sales was approximately the same for both periods.

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 commission expenses of $1.0 million due primarily to lower sales volume, a net decrease in warranty expenses of $0.8 million primarily as a result of lower sales volume partially offset by the impact of increasing our warranty coverage period for certain products, and decreases in expenses relating to employee health insurance costs primarily due to a reduction in actual spending and product liability costs due primarily to a decline in the value of claims ($1.0 million and $0.8 million, respectively).

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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 2010 and 2009:

	2010	2009	Change	Percentage Change
		(Dollars In Thousands)		
Net sales:				
Agricultural products	$ 135,598	$ 104,300	$ 31,298	30.0%
Industrial acids and other chemical products	126,846	95,997	30,849	32.1%
Mining products	88,642	57,535	31,107	54.1%
Total Chemical	$ 351,086	$ 257,832	$ 93,254	36.2%
Gross profit Chemical	$ 49,295	$ 42,422	$ 6,873	16.2%
Gross profit percentage Chemical (1)	14.0%	16.5%	(2.5)%	
Operating income Chemical	$ 31,948	$ 15,122	$ 16,826	111.3%

(1) As a percentage of net sales

Net Sales Chemical

For 2010, overall sales prices for the Chemical Business increased 13% and the volume of tons sold increased 24%, compared with 2009, generally as a result of the following:

Agricultural products sales-Agricultural products sales increase of $31.3 million, or 30%, was primarily a result of price increases driven by a general increase in market demand reflecting an improving economy and the impact of higher raw material costs. In addition, tons of agricultural products sold increased 10% including an increase of 19,000 tons of UAN and 49,000 tons of ammonia sold into agricultural markets from the Pryor Facility partially offset by 25,000 fewer tons of fertilizer grade AN due to unfavorable weather conditions in the first quarter 2010.

Industrial acids and other chemical products sales-Industrial acids and other products sales increase of $30.8 million, or 32%, primarily related to a 27% increase in tons sold including an increase of 134,000 tons, 18,000 tons and 11,000 tons from the Baytown, El Dorado and Cherokee Facilities, respectively. The increase in volume is primarily due to improved economic conditions, spot sales opportunities and new customers.

Mining products sales-Mining products sales increase of $31.1 million, or 54%, includes an increase of tons sold of 31%, including volume increases of 66,000 tons of industrial grade AN and 13,000 tons of ammonia nitrate solutions. In addition, sales prices were higher driven by a general increase in raw material and other costs, which we are able to pass through to certain customers pursuant to the terms of supply agreements. Our industrial grade AN is primarily sold to one customer pursuant to a multi-year take or pay supply contract in which the customer agreed to purchase, and our El Dorado Facility agreed to reserve certain minimum volumes of industrial grade AN during 2010. The cost-plus supply contract, effective January 1, 2010, increased the annual minimum volume from 210,000 tons to 240,000 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.

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Gross Profit Chemical

Gross profit increased $6.9 million on an increase in sales of $93.3 million. The increase was due, in part, to reduced costs per ton as the result of improved production efficiencies and higher volumes. Gross profit for agricultural products was $6.4 million higher, which included $7.4 million from agricultural ammonia sales at the recently started Pryor Facility, an increase of $6.9 million from UAN and other agricultural products sales primarily due to rising prices, partially offset by a decrease of $7.9 million from fertilizer grade AN sales. The average price of one of our primary raw material feedstocks (anhydrous ammonia) increased in 2010, which contributed to the lower gross profit on fertilizer grade AN sales. In addition, gross profit on industrial and mining products was $6.8 million higher. Also impacting gross profit were:

$5.8 million reduction in gross profit from firm sales commitments made in prior periods,

$1.2 million reduction in gains from precious metals recoveries,

$1.3 million reduction in gross profit due to other plant variances, and

$2.0 million reduction in losses on natural gas and ammonia hedging contracts.

Primarily as a result of these items and due to increased volumes to customers with contractual arrangements allowing us to recover our raw material costs, our overall gross profit as a percentage of sales decreased 2.5%.

Operating Income Chemical

In addition to the increase in gross profit of $6.9 million discussed above, our Chemical Business operating income includes operating and other expenses associated with the Pryor Facility of approximately $13.6 million for 2010 compared to $16.0 million for 2009. In 2010, we also recorded a gain of $5.7 million from insurance recoveries at our Pryor Facility, and other insurance gains of $1.6 million.

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 2010 and 2009:

	2010	2009	Change	Percentage Change
		(Dollars In Thousands)		
Net sales Other	$ 8,298	$ 7,837	$ 461	5.9%
Gross profit Other	$ 2,966	$ 2,583	$ 383	14.8%
Gross profit percentage Other (1)	35.7%	33.0%	2.7%	
General corporate expense and other business operations, net	$ (11,361)	$ (12,118)	$ 757	(6.2)%

(1) As a percentage of net sales

Net Sales Other

The increase in net sales classified as Other relates primarily to the 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 $0.8 million primarily as the result of the increase in gross profit classified as Other as discussed above.

Interest Expense

Interest expense was $7.4 million for 2010 compared to $6.7 million for 2009, an increase of approximately $0.7 million. This increase primarily relates to losses (realized and unrealized) of $1.5 million recognized in 2010 associated with our interest rate contracts compared to $0.7 million in 2009.

Loss and Gain on Extinguishment of Debt

During 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 $52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired. During 2009, we acquired $11,100,000 aggregate principal amount of the 2007 Debentures for approximately $8,938,000 and recognized a gain on extinguishment of debt of $1,783,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

Provision For Income Taxes

The provision for income taxes for 2010 was $19.8 million compared to $15.0 million for 2009. The resulting effective tax rate for 2010 was 40% compared to 41% for 2009. During 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 2010.

Cash Flow From Continuing Operating Activities

Historically, our primary cash needs have been for operating expenses, working capital and capital expenditures. We have financed our cash requirements primarily through internally generated cash flow, 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 2011, net cash provided by continuing operating activities was $90.0 million primarily as the result of net income of $83.8 million plus an adjustment of $19.2 for depreciation and amortization partially offset by net cash used by the increase in accounts receivable of $13.5 million primarily relating to the Chemical Business as the result of increased sales of our agricultural and mining products and increased sales from our Pryor Facility and by the net change in prepaid and accrued income taxes of $12.8 million due, in part, to payments made to taxing authorities partially offset by the recognition of income taxes for 2011.

Cash Flow from Continuing Investing Activities

Net cash used by continuing investing activities for 2011 was $44.6 million that consisted primarily of $44.2 million for capital expenditures of which $6.0 million and $35.8 million are for the benefit of our Climate Control and Chemical Businesses, respectively.

Cash Flow from Continuing Financing Activities

Net cash provided by continuing financing activities was $12.9 million that primarily consisted of proceeds from the Secured Term Loan and short-term financing totaling $31.8 million (net of debt issuance costs/fees) partially offset by payments on long-term debt and short-term financing totaling $20.3 million.

Critical Accounting Policies and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies. For each of the last three years ended December 31, 2011, 2010, and 2009, we did not experience a material change in accounting estimates. However, it is reasonably possible that the estimates and assumptions utilized as of December 31, 2011 could change in the near term. In addition, the more critical areas of financial reporting impacted by management s judgment, estimates and assumptions include the following:

Accounts Receivable and Credit Risk Our accounts receivable are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on accounts receivable balances. Our estimate is based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts that are past due (based upon the terms of the sale). Our periodic assessment of our accounts receivable is based on our best estimate of amounts that are not recoverable. In addition, our sales to contractors and independent sales representatives are generally subject to a mechanic s lien or bond protection in the Climate Control Business. Sales to other customers are generally unsecured. Credit is extended to customers based on an evaluation of the customer s financial condition and other factors. Concentrations of credit risk with respect to trade receivables are monitored and this risk is reduced due to the large number of customers comprising our customer bases and their dispersion across many different industries and geographic areas (primarily as it relates to the Climate Control Business) and payment terms of 15 days or less relating to most of our significant customers in the Chemical Business, however, thirteen customers (including their affiliates), primarily relating to the Chemical Business, account for approximately 41% of our total net receivables at December 31, 2011. We do not believe this concentration in these thirteen customers represents a significant credit risk due to the financial stability of these customers. At December 31, 2011 and 2010, our allowance for doubtful accounts of $955,000 and $636,000, respectively, were netted against our accounts receivable. For 2011, 2010, and 2009, our provision for losses on accounts receivable was $347,000, $145,000, and $90,000, respectively.

Inventories Inventories are stated at the lower of cost (determined using the first-in, first-out (FIFO) basis) or market (net realizable value). Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. Additionally, we review inventories and record inventory reserves for slow-moving inventory items. At December 31, 2011 and 2010, the carrying value of certain nitrogen-based inventories produced by our Chemical Business was reduced to market because cost exceeded the net realizable value by $16,000 and $177,000, respectively. In addition, the carrying value of certain slow-moving inventory items (Climate Control products) was reduced to market because cost exceeded the net realizable value by $1,767,000 and $1,616,000 at December 31, 2011 and 2010, respectively. For 2011, 2010, and 2009, our provision for (realization of) losses on inventory was $590,000, $184,000, and $(2,404,000), respectively.

Precious Metals Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. As of December 31, 2011 and 2010, precious metals were $17.8 million and $12.0 million, respectively, and are included in supplies, prepaid items and other in the consolidated balance sheets. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed. Occasionally, during major maintenance or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within the manufacturing equipment. Recoveries of precious metals are recognized at historical FIFO costs. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals. For 2011, 2010, and 2009, the amounts expensed for precious metals, net of recoveries and gains, were approximately $1.9 million, $5.2 million and $3.3 million, respectively. These precious metals expenses, net, are included in cost of sales.

Accrued Insurance Liabilities We are self-insured up to certain limits for group health, workers compensation and general liability claims. Above these limits, we have commercial stop-loss insurance coverage for our contractual exposure on group health claims and statutory limits under workers compensation obligations. We also carry umbrella insurance of $100 million for most general liability and auto liability risks. We have a separate $30 million insurance policy covering pollution liability at our Chemical Business facilities. Additional pollution liability coverage for our other facilities is provided in our general liability and umbrella policies. Our accrued insurance liabilities are based on estimates of claims, which include the reported incurred claims amounts plus the reserves established by our insurance adjustors and/or estimates provided by attorneys handling the claims, if any. In addition, our accrued insurance liabilities include estimates of incurred, but not reported, claims based on historical claims experience. The determination of such claims and the appropriateness of the related liability is periodically reviewed and revised, if needed. Changes in these estimated liabilities are charged to operations. Potential legal fees and other directly related costs associated with insurance claims are not accrued but rather are expensed as incurred. At December 31, 2011 and 2010, our accrued group health and workers compensation insurance claims were $2,535,000 and $2,459,000, respectively, and our accrued general liability insurance claims were $739,000 and $1,230,000 respectively. These accrued insurance claims are included in accrued and other liabilities. It is reasonably possible that the actual development of claims could be different than our estimates.

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

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations at the time of sale using a percentage of sales and cost per unit of equipment, based upon our historical and estimated future warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, or component thereof, or project installation, when such costs are probable and reasonably estimable. It is reasonably possible that our estimated accrued warranty costs could change in the near term.

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

At December 31, 2011 and 2010, our accrued product warranty obligations were $5.4 million and $4.0 million, respectively and are included in current and noncurrent accrued and other liabilities in the consolidated balance sheets. For 2011, 2010, and 2009, our warranty expense was $6.5 million, $4.5 million, and $5.3 million, respectively.

Executive Benefit Agreements We have entered into benefit agreements with certain key executives. Costs associated with these individual benefit agreements are accrued based on the estimated remaining service period when such benefits become probable they will be paid. Total costs accrued equal the present value of specified payments to be made after benefits become payable. In 1992, we entered into individual benefit agreements with certain key executives (1992 Agreements) that provide for annual benefit payments for life (in addition to salary). The liability for these benefits under the 1992 Agreements is $1.3 million and $1.2 million as of December 31, 2011 and 2010, respectively, and is included in current and noncurrent accrued and other liabilities in the consolidated balance sheets.

In 1981, we entered into individual death benefit agreements with certain key executives. In addition, as part of the 1992 Agreements, should the executive die prior to attaining the age of 65, we will pay the beneficiary named in the agreement in 120 equal monthly installments aggregating to an amount specified in the agreement. In 2005, we entered into a death benefit agreement with our CEO. As of December 31, 2011 and 2010, the liability for death benefits is $4.0 million and $4.1 million, respectively, which is included in current and noncurrent accrued and noncurrent liabilities in the consolidated balance sheets.

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

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

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

Contingencies Certain conditions may exist which may result in a loss, but which will only be resolved when future events occur. We and our legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, we would accrue for such contingent losses when such losses can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably possible, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. Loss contingency liabilities are included in current and noncurrent accrued and other liabilities and are based on current estimates that may be revised in the near term. In addition, we recognize contingent gains when such gains are realized or realizable and earned. We are a party to various litigation and other contingencies, the ultimate outcome of which is not presently known. Should the ultimate outcome of these contingencies be adverse, such outcome could create an event of default under ThermaClime s Working Capital Revolver Loan and the Secured Term Loan and could adversely impact our liquidity, capital resources and results of operations.

Regulatory Compliance - Our Chemical Business is subject to specific federal and state regulatory compliance laws and guidelines. We have developed policies and procedures related to regulatory compliance. We must continually monitor whether we have maintained compliance with such laws and regulations and the operating implications, if any, and amount of penalties, fines and assessments that may result from noncompliance. At December 31, 2011, liabilities totaling $329,000 have been accrued relating to a penalty assessed for past violations of a discharge water permit at the El Dorado Facility, estimated civil penalty associated with the Clean Air Act involving certain nitric acid plants within our chemical facilities, and to remediation and surface and groundwater monitoring costs associated with our former Kansas facility. This liability is included in current accrued and other liabilities and is based on current estimates that may be revised in the near term.

Asset Retirement Obligations - We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We are also contractually obligated through at least December 2053 to pay a portion of the operating costs of a municipally owned wastewater pipeline currently being constructed, which will serve the El Dorado Facility. Additionally, we have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Currently, there is insufficient information to estimate the fair value for most of our asset retirement obligations. In addition, we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable. As a result, no asset retirement obligations have been recognized except for $75,000 to retire an injection well at the Pryor Facility. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

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

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During 2011, the compensation and stock option committee of our board of directors approved the grants under the 2008 Incentive Stock Plan of 249,000 shares of qualified stock options (the 2011 Qualified Options) to certain employees and our board of directors (with the recipient abstaining) approved the grant of 5,000 shares of non-qualified stock options (2011 Non-Qualified Options) to one of our outside directors. The exercise price of the 2011 Qualified and Non-Qualified Options was equal to the market value of our common stock at the date of grant, which date was also the service inception date. The weighted-average fair value per 2011 Qualified Option was $16.00 and $16.25 per 2011 Non-Qualified Option and the total estimated fair value was $4.1 million. The fair value for the 2011 Qualified and Non-Qualified Options was estimated using a Black-Scholes-Merton option pricing model with the following assumptions:

- a weighted-average risk-free interest rate of 1.21% based on an U.S. Treasury zero-coupon issue with a term approximating the estimated expected life as of the grant date;
- no dividend yield based on historical data;
- a weighted-average expected volatility of 48.59% of the expected market price of our common stock based on historical volatility of our common stock primarily over approximately six years from the date of grant; and
- a weighted-average expected life of the options of 5.90 years based on the historical exercise behavior of these employees and outside director, if applicable.

In addition, we estimated a total weighted-average expected forfeiture rate of 2.97% for these options.

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

Recognition of Insurance Recoveries If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. At December 31, 2011, there were no insurance claim receivable balances relating to insurance claims.

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

At December 31, 2011, we had two classes of contracts that were accounted for on a fair value basis, which were commodities futures/forward contracts (commodities contracts) and interest rate contracts. All of these contracts were used as economic hedges for risk management purposes but were not designated as hedging instruments. The valuations of these assets and liabilities were determined based on quoted market prices or, in instances where market quotes were not available, other valuation techniques or models used to estimate fair values.

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At December 31, 2011, the valuations of contracts classified as Level 2 related to interest rate swap contracts. For interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These interest rate contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. The valuation inputs included the total contractual weighted-average pay rate of 3.27% and the total estimated market weighted-average receive rate of 0.99%. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts.

Our assets and liabilities classified as Level 3 were minimal at December 31, 2011.

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

Performance and Payment Bonds

We are contingently liable to sureties in respect of insurance bonds issued by the sureties in connection with certain contracts entered into by subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of December 31, 2011, we have agreed to indemnify the sureties for payments, up to $12.2 million, made by them in respect of such bonds. All of these insurances bonds are expected to expire or be renewed in 2012.

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.

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Aggregate Contractual Obligations

Our aggregate contractual obligations as of December 31, 2011 are summarized in the following table (1) (2).

Contractual Obligations	Total	2012	2013	2014	2015	2016	Thereafter
	Payments Due in the Year Ending December 31, (In Thousands)						
Long-term debt:							
Secured Term Loan	$ 72,188	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 57,188	$
Capital leases	749	378	336	35			
Other	6,523	807	851	900	952	1,007	2,006
Total long-term debt	79,460	4,935	4,937	4,685	4,702	58,195	2,006
Interest payments on long-term debt (3)	13,262	3,414	3,164	2,936	2,717	769	262
Interest rate contracts (4)	2,241	839	553	467	322	60	
Capital expenditures (5)	9,900	9,900					
Wastewater pipeline project (6)	8,114	2,208	733	298	125	125	4,625
Operating leases	20,267	5,635	4,585	3,453	1,554	1,127	3,913
Firm purchase commitments and futures/forward contracts	12,172	12,172					
Contractual obligations carbon credits	223	223					
Accrued contractual manufacturing and profit sharing obligations	3,091	3,091					
Other contractual obligations included in noncurrent accrued and other liabilities (7)	5,156		112	113	70	66	4,795
Total	$ 153,886	$ 42,417	$ 14,084	$ 11,952	$ 9,490	$ 60,342	$ 15,601

(1) The table does not include amounts relating to future purchases of anhydrous ammonia by EDC pursuant to a supply agreement through December 2012. The terms of this supply agreement does not include minimum volumes or take-or-pay provisions.

(2) The table does not include our estimated accrued warranty costs of $5.4 million at December 31, 2011 as discussed above under Critical Accounting Policies and Estimates .

(3) The estimated interest payments relating to variable interest rate debt are based on interest rates at December 31, 2011.

(4) The estimated future cash flows are based on the estimated fair value of these contracts at December 31, 2011.

(5) Capital expenditures include only committed amounts in our 2012 capital expenditure budget but exclude amounts relating to the wastewater pipeline project.

(6) The future cash flows include capital expenditures and operating costs based on estimates at December 31, 2011

(7) The future cash flows relating to executive and death benefits are based on estimates at December 31, 2011.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

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

Forward Sales Commitments Risk

Periodically, our Climate Control and Chemical Businesses enter into forward 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 December 31, 2011, we had no embedded losses associated with sales commitments with firm sales prices.

Commodity Price Risk

Our Climate Control Business buys substantial quantities of copper and steel for use in manufacturing processes and our Chemical Business buys substantial quantities of anhydrous ammonia and natural gas as feedstocks generally at market prices. As part of our raw material price risk management, periodically, our Climate Control Business enters into futures contracts for copper and our Chemical Business enters into firm purchase commitments and/or futures/forward contracts for anhydrous ammonia and natural gas.

At December 31, 2011, our futures/forward copper contracts were for 375,000 pounds of copper through May 2012 at a weighted-average cost of $3.42 per pound ($1.28 million) and a weighted-average market value of $3.45 per pound ($1.29 million), which contracts are generally accounted for on a mark-to-market basis.

During 2011, certain subsidiaries within the Chemical Business entered into contracts to purchase natural gas for anticipated production needs. Since these contracts are considered normal purchases because they provide for the purchase of natural gas that will be delivered in quantities expected to be used over a reasonable period of time in the normal course of business and are documented as such, these contracts are exempt from the accounting and reporting requirements relating to derivatives. At December 31, 2011, our purchase commitments under these contracts were for approximately 3.0 million MMBtu of natural gas through August 2012 at the weighted-average cost of $3.62 per MMBtu ($10.9 million) and a weighted-average market value of $3.06 per MMBtu ($9.2 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 December 31, 2011, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.24% on $25 million and matures in April 2012. Also, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.595% on $25 million and matures in April 2012. In addition, we have an interest rate swap, which sets a fixed three-month LIBOR of 3.23% on a declining balance (from $23.8 million to $18.8 million) for the period beginning April 2012 through March 2016. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2011, the fair value of these contracts (unrealized loss) was $2.2 million.

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The following table presents principal amounts and related weighted-average interest rates by maturity date for our interest rate sensitive debt agreements and the estimated future cash flows and related estimated weighted-average receive rate for our interest rate sensitive interest rate swaps as of December 31, 2011.

	Years ending December 31, (Dollars In Thousands)						
	2012	2013	2014	2015	2016	Thereafter	Total
Expected maturities of long-term debt (1):							
Variable interest rate debt (2)	$ 3,750	$ 3,750	$ 3,750	$ 3,750	$ 57,188	$	$ 72,188
Weighted-average interest rate	4.10%	4.10%	4.10%	4.10%	4.10%		4.10%
Fixed interest rate debt	$ 1,185	$ 1,187	$ 935	$ 952	$ 1,007	$ 2,006	$ 7,272
Weighted-average interest rate	6.71%	6.72%	6.73%	6.71%	6.66%	6.62%	6.68%
Estimated future cash flows of interest rate swaps (3):							
Variable to Fixed	$ 839	$ 553	$ 467	$ 322	$ 60	$	$ 2,241
Weighted-average pay rate	3.35%	3.23%	3.23%	3.23%	3.23%		3.27%
Weighted-average receive rate	0.60%	0.76%	1.00%	1.57%	1.92%		0.99%

(1) The variable and fixed interest rate debt balances and weighted-average interest rate are based on the aggregate amount of debt outstanding as of December 31, 2011.

(2) Includes the Secured Term Loan that includes a fixed interest rate of 5.15% on the principal amount of $24.1 million at December 31, 2011.

(3) The estimated future cash flows and related weighted-average receive rate are based on the estimated fair value of these contracts as of December 31, 2011.

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The following table presents our purchase commitments under firm purchase commitments and futures/forward contracts and related weighted-average contract costs by contract terms as of December 31, 2011.

	Years ending December 31, (Dollars In Thousands, Except For Per Pound and MMBtu)						
	2012	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Firm purchase commitments and Futures/Forward contracts:							
Copper:							
Total cost of contracts	$ 1,281						$ 1,281
Weighted-average cost per pound	$ 3.42						$ 3.42
Natural Gas:							
Total cost of contracts	$ 10,891						$ 10,891
Weighted-average cost per MMBtu	$ 3.62						$ 3.62

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Our long-term debt agreements are the only financial instruments with fair values significantly different from their carrying amounts. At December 31, 2011 and 2010, the fair value for variable interest rate debt (excluding the secured term loan at December 31, 2010) approximates their carrying value. At December 31, 2010, the estimated fair value of the secured term loan is based on defined LIBOR rates plus 6% utilizing information obtained from the lender. The fair values of fixed interest rate borrowings, other than the 2007 Debentures, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration our current credit worthiness. At December 31, 2010, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures.

	December 31, 2011		December 31, 2010	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Interest Rate:				
Secured Term Loan	$ 72,188	$ 72,188	$ 26,721	$ 48,773
Working Capital Revolver Loan				
Other debt			2,437	2,437
Fixed Interest Rate:				
5.5% Convertible Senior Subordinated Notes			27,976	26,900
Other bank debt and equipment financing	7,211	7,272	17,251	17,282
	$ 79,399	$ 79,460	$ 74,385	$ 95,392

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, 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 December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on our assessment, we believe that, as of December 31, 2011, our internal control over financial reporting is effective based on those criteria.

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

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Report of Independent Registered Public Accounting Firm

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

We have audited LSB Industries, Inc. s internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). LSB Industries, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, LSB Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of LSB Industries, Inc. as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011 of LSB Industries, Inc. and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
Oklahoma City, Oklahoma
February 28, 2012

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ITEM 9B. OTHER INFORMATION

None.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained within this report may be deemed Forward-Looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words believe , expect , anticipate , intend , and sim expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein include, but not limited to, the following:

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 outlook for the types of nitrogen fertilizer products we produce and sell;

modest increase in the commercial/institutional and residential construction sectors we serve;

demand for our geothermal products;

investments will continue to increase our capacity to produce and distribute our Climate Control products;

shipment of backlog;

ability to pass to our customers the majority of any cost increases in the form of higher prices;

sufficient sources for materials and components;

customer demand for our industrial, mining and agricultural products for 2012 will be sufficiently strong to allow us to run the four chemical plants at optimal production rates;

capital spending for 2012;

ability to obtain anhydrous ammonia from other sources;

compliance by the El Dorado Facility of the terms of its NPDES permit;

dissolved mineral issue should not be an issue once the pipeline is operational;

sales growth of the Climate Control Business;

sales in the medium-term and long-term will be primarily driven by growth in new construction, as well as the introduction of new products;

geothermal systems are considered to be the most energy efficient systems currently available;

our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional HVAC systems;

homeowners who install GHP s are eligible for a 30% tax credit, businesses that install GHPs are eligible for a 10% tax credit and five year accelerated depreciation on the balance of the system cost, and during 2012, businesses also have the option of electing 50% bonus depreciation on qualifying equipment, such as GHPs, that are placed in service during the year;

cash needs for 2012 will be for working capital and capital expenditures;

we plan to rely upon internally generated cash flows and cash on hand to fund operations and pay obligations;

fund committed capital expenditures from working capital;

in conjunction with our long-term compliance plan, EDC intends to participate in a wastewater pipeline project for disposal of wastewater that the city of El Dorado, Arkansas will construct and own;

the ability for the El Dorado Facility to use the wastewater pipeline will ensure EDC s ability to comply with future permit limits;

cost relating to settlement with the EPA relating to issues involving the Clean Air Act;

EDC anticipates that its share of the cost to construct the pipeline will be approximately $4.0 million and its share of future operating costs will not be significant and the city plans to complete the construction by mid-2014;

production levels at our Pryor Facility;

costs of Turnarounds during 2012 for our chemical facilities;

ability to fund our cash needs from internally-generated cash flows and cash on hand;

the expenses in connection with environmental regulatory issues for 2012;

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 stock, we currently intend to fund any repurchases from our available working capital or the proposed financing;
- meeting all required covenant tests for all quarters and the year ending in 2012;
- costs relating to environmental and health laws and enforcement policies thereunder;
- growth of U.S. economy if European sovereign debt issues do not negatively affect the global economy;
- amending our Working Capital Revolver; and
- material uncertain tax positions.

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 the American Reinvestment and Recovery act, or in interpretation of such,
- releases of pollutants into the environment exceeding our permitted limits,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to secure additional financing for planned capital expenditures or financing obligations coming due in the near future,
- material changes in the cost of certain precious metals, anhydrous ammonia, natural gas, copper, steel and purchased components,
- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- problems with product equipment,

- changes in the production efficiency of our facilities,
- adverse results in our contingencies including pending litigation,
- changes in production rates at the Pryor Facility,
- inability to obtain necessary raw materials and purchased components,
- material changes in our accounting estimates,
- significant problems within our production equipment,
- fire or natural disasters,
- inability to obtain or retain our insurance coverage,
- inability to negotiate a satisfactory settlement with the EPA,
- other factors described in the MD&A contained in this report, and
- other factors described in Risk Factors .

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

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

General

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

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

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

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

Directors

Robert C. Brown, M.D., age 80. Dr. Brown first became a director in 1969. His term will expire in 2012. Dr. Brown has practiced medicine for many years and was Vice President and Treasurer of Plaza Medical Group, P.C. until its acquisition by Integris Health on October 31, 2011. Dr. Brown received both his undergraduate and medical degrees from Tufts University after which he spent two years as a doctor in the United States Navy and over three years at the Mayo Clinic. Dr. Brown is also a Clinical Professor at Oklahoma University Health Science Center. Dr. Brown has experience with and insight into all aspects of developing and growing a company and as President and Chief Executive Officer oversaw the launch and sale of a medical claims clearinghouse which was sold, ultimately, to WebMD. Dr. Brown is currently President and Chief Executive Officer of ClaimLogic L.L.C., a medical claims clearinghouse specializing in the provision of medical clearinghouse services to university affiliated hospitals and other medical providers throughout the United States. Dr. Brown served as President of the Medical Staff of Baptist Medical Center of Oklahoma. He is a Board member of Integris Physicians Services, Inc. Dr. Brown s leadership experience, entrepreneurial business experience and broad range of knowledge of our history and business through his service as a director, among other factors, led the Board to conclude that he should serve as a director.

Charles A. Burtch, age 76. Mr. Burtch first became a director in 1999. His term will expire in 2013. Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica s asset-based lending division for the western third of the United States. He retired in 1998 and has since been engaged as a private investor. Mr. Burtch is a graduate of Arizona State University. Mr. Burtch s financial experience and his experience as executive vice president of a large commercial bank, among other factors, led the Board to conclude that he should serve as a director.

Robert A. Butkin, age 59. Mr. Butkin first became a director in August 2007. His term will expire in 2013. Mr. Butkin is currently a Professor of Law at the University of Tulsa College of Law. He was Dean of the Tulsa College of Law from 2005 to 2007. Mr. Butkin also serves as President and as a member of the board of BRJN Capital Corporation, a private investment company. Mr. Butkin served as Assistant Attorney General for the State of Oklahoma from 1987 to 1993, and served from 1995 to 2005 as the State Treasurer of Oklahoma. He has served in various community and professional organizations, including holding the presidency of the Southern State Treasurers Association. He chaired the Banking, Collateral and Cash Management Committee for the National Association of State Treasurers (NAST). In addition, from 1981 to 1995, he served on the Board of Citizens Bank of Velma, Oklahoma, and he served as Chairman of the Board of that bank from 1991 to 1994. Mr. Butkin serves on the board of several non-profits, including the Jasmine Moran Children s Museum (1995-present); Leadership Oklahoma (Advisory Board, 1998-present); and the Oklahoma Academy (2003-present). He attended and received a Bachelor of Arts degree from Yale College. He received his Juris Doctorate from the University of Pennsylvania Law School in 1978. Mr. Butkin s leadership skills and financial experience obtained through serving as State Treasurer of Oklahoma, chairman of the banking committee of NAST, leading his private investment company, and service as the dean of a major law school in the State of Oklahoma, among other factors, led the Board to conclude that he should serve as a director.

Barry H. Golsen, J.D., age 61. Mr. Golsen first became a director in 1981. His term will expire in 2012. Mr. Golsen was elected President of LSB in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994 Mr. Golsen has served in several capacities with various LSB subsidiary companies and has been the President of our Climate Control Business for more than 10 years. Mr. Golsen served as a director of the Oklahoma branch of the Federal Reserve Bank. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma. Mr. Golsen s extensive experience in the climate control industry, his depth of knowledge and understanding of the business in which we operate, and his demonstrated leadership skills within the Company, among other factors, led the Board to conclude that he should serve as a director.

Jack E. Golsen, age 83. Mr. Golsen first became a director in 1969. His term will expire in 2013. Mr. Golsen, founder of LSB, is our Chairman of the Board of Directors and Chief Executive Officer and has served in those capacities since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma s leading industrialists. Mr. Golsen is a Trustee of Oklahoma City University and has served on its Finance Committee for many years. During his career, he acquired or started the companies which formed the Company. He has served on the boards of insurance companies, several banks and was Board Chairman of Equity Bank for Savings N.A., which was formerly owned by the Company. In 1972, he was recognized nationally as the person who prevented a widespread collapse of the Wall Street investment banking industry. Refer to The Second Crash by Charles Ellis, and six additional books about the Wall Street crisis. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico. Mr. Golsen s demonstrated leadership skills and extensive experience and understanding in all industries in which we operate, his financial experience and broad business knowledge, among other factors, led the Board to conclude that he should serve as a director.

Steven J. Golsen, age 59. Mr. Golsen first became a director in 2011. His term will expire in 2014. Mr. Golsen also serves as the Chief Operating Officer of our Climate Control Business. Mr. Golsen has been employed by the Company since 1976. Mr. Golsen has served as the Chief Operating Officer of our Machine Tool Business and our Climate Control Business for more than 10 years. Mr. Golsen attended the University of New Mexico and University of Oklahoma. Mr. Golsen s extensive experience, his intimate knowledge and understanding of multiple aspects of our business (particularly our Climate Control Business) and his demonstrated management and leadership skills within the Company, among other factors, led the Board to conclude that he should serve as a director.

David R. Goss, age 71. Mr. Goss first became a director in 1971. His term will expire in 2012. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than 10 years. He has served as a member of the executive management team since our inception in 1969. Mr. Goss is a graduate of Rutgers University. Mr. Goss s accounting and financial experience and extensive knowledge of the industries in which we operate, among other factors, led the Board to conclude that he should serve as a director.

Bernard G. Ille, age 85. Mr. Ille first became a director in 1971. His term will expire in 2014. Mr. Ille served as President and Chief Executive Officer of United Founders Life from 1966 to 1988. He served as President and Chief Executive Officer of First Life Assurance Company from 1988, until it was acquired by another company in 1994. During his tenure as President of these two companies, he served as Chairman of the Oklahoma Guaranty Association for 10 years and was President of the Oklahoma Association of Life Insurance Companies for two terms. He was a director of Landmark Land Company, Inc., which was the parent company of First Life for many years until his retirement in March 2011. He is also a director for Quail Creek Bank, N.A. Mr. Ille is currently President of BML Consultants, a consulting firm, and a private investor. He is a graduate of the University of Oklahoma. Mr. Ille s leadership of a major insurance company in Oklahoma, his financial and insurance background, and his investment experience, among other factors, led the Board to conclude that he should serve as a director.

Gail P. Lapidus, age 60. Ms. Lapidus first became a director in February 2010. Her term will expire in 2012. Ms. Lapidus is the Executive Director and Chief Executive Officer of Family & Children s Services (FCS), a premiere human services provider in the Tulsa, Oklahoma metro area. Ms. Lapidus has been with the 85-year-old agency for 35 years and has served as its Executive Director since 1986. During her tenure, FCS has become the largest outpatient community mental health center in the state of Oklahoma for children, families and individuals without sufficient economic resources or health insurance. FCS, which has an annual budget of more than $35 million and a staff of over 500, has attracted national recognition and research grants for the services it provides. Ms. Lapidus received her undergraduate degree and a Master s Degree in Social Work from the University of Oklahoma where she was later named an inaugural inductee into the Hall of Honor for outstanding leadership in professional practice. Ms. Lapidus s management and leadership experience as the executive director of FCS, among other factors, led the Board to conclude that she should serve as a director.

Donald W. Munson, age 79. Mr. Munson first became a director in 1997. His term will expire in 2014. From 1988, until his retirement in 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to 1998, he served as Executive Vice President of Lennox Industries Division Operations, President of Lennox Canada and Managing Director of Lennox Industries European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company located in Scotland, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. He is currently a consultant. Mr. Munson is a resident of England. He has degrees in mechanical engineering and business administration from the University of Minnesota. Mr. Munson s extensive experience in the climate control industry, and his leadership skills obtained through his service as senior executive and a managing director of Lennox Industries, among other factors, led the Board to conclude that he should serve as a director.

Ronald V. Perry, age 62. Mr. Perry first became a director in August 2007. His term will expire in 2014. In 2011, after 32 years, Mr. Perry stepped down as President of Prime Time Travel, which he founded . He continues with Prime Time Travel as a member of the Executive Committee, Director and Treasurer. He is an elected member of the Board of Directors of Metro Technology Centers. Mr. Perry has served in various charitable and civic organizations. He has had leadership positions with Leadership OKC, Rotary Club of OKC and the American Heart Association. He is also past President of the Board of Directors for the Regional Food Bank of Oklahoma. In 2007, the mayor of Oklahoma City appointed Mr. Perry to serve as a commissioner on the Oklahoma City Convention and Visitors Bureau. Mr. Perry graduated from Oklahoma State University, with a Bachelor s degree in Business Administration and then served as a captain in the United States Army. His leadership skills, business experience and promotions experience, among other factors, led the Board to conclude that he should serve as a director.

Horace G. Rhodes, age 84. Mr. Rhodes first became a director in 1996. His term will expire in 2013. Mr. Rhodes is the Chairman of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such capacity and has practiced law for many years. From 1972 until 2001, he served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association (OLHIGA). Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma. Mr. Rhodes experience as a leader of an Oklahoma law firm, his depth of understanding of corporations and business transactions obtained through 40 years of practice as a corporate lawyer with expertise in mergers and acquisitions, his financial and investment experience gained through one year as treasurer and seven years as president of a life insurance company, together with his unique financial experience as an insurance industry regulator for three years, among other factors, led the Board to conclude that he should serve as a director.

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Tony M. Shelby, age 70. Mr. Shelby first became a director in 1971. His term will expire in 2014. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than 10 years. Mr. Shelby has served as a member of the LSB executive management team since our inception in 1969. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of LSB and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University. Mr. Shelby s financial and accounting experience, his demonstrated leadership skills within the Company, and extensive understanding of the industries in which we operate, among other factors, led the Board to conclude that he should serve as a director.

John A. Shelley, age 61. Mr. Shelley first became a director in 2005. His term will expire in 2012. Mr. Shelley is the President and Chief Executive Officer of The Bank of Union located in Oklahoma. He has held this position since 1997. Prior to 1997, Mr. Shelley held various senior level positions in financial institutions in Oklahoma, including the position of President of Equity Bank for Savings, N.A., a savings and loan that was owned by us prior to 1994, former member of the Board of Directors of the Oklahoma Bankers Association and former Commissioner of the Oklahoma Securities Commission. He is a Trustee of the Advantage Health Plans Trust and a Trustee of the Oklahoma City Retailers Foundation Affiliated fund of the Oklahoma City Community Foundation. Mr. Shelley is a graduate of the University of Oklahoma. Mr. Shelley s experience in the banking industry and his financial experience obtained through his service as Chief Executive Officer of the Bank of Union, among other factors, led the Board to conclude that he should serve as a director.

Executive Officers

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

Family Relationships

Jack E. Golsen Father of Barry H. Golsen and Steven J. Golsen; Brother-in-law of Robert C. Brown.
Barry H. Golsen Son of Jack E. Golsen; Brother of Steven J. Golsen; Nephew of Robert C. Brown.
Steven J. Golsen Son of Jack E. Golsen; Brother of Barry H. Golsen; Nephew of Robert C. Brown.
Robert C. Brown Father of Heidi Brown Shear; Uncle of Barry H. Golsen and Steven J. Golsen.
David M. Shear Nephew by marriage to Jack E. Golsen; Son-in-law of Robert C. Brown.
Heidi Brown Shear, Vice President and Managing Counsel of the Company Daughter of Robert C. Brown and spouse of David M. Shear.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934, as amended (the Exchange Act), requires our directors, officers, and beneficial owners of more than 10% of LSB s common stock to file with the Securities and Exchange Commission reports of holdings and changes in beneficial ownership of LSB s stock. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to us with respect to 2011, or written representations that no Form 5 was required to be filed, we believe that during 2011 all our directors and officers and beneficial owners of more than 10% of LSB s common stock filed timely their required Forms 3, 4, or 5, except for Horace Rhodes, Gail Lapidus, James Murray, Kristy Carver and Harold Rieker, each of whom filed one inadvertently late Form 4 to report one transaction each, Bernard G. Ille reported one Form 4 transaction late on a timely-filed Form 5, Paul Rydlund filed one inadvertently late Form 4 to report three transactions, and Michael Adams filed one inadvertently late Form 4 to report two transactions,.

Code of Ethics

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

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

Audit Committee

We have a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Bernard Ille (Chairman through February 24, 2012), Charles Burtch (Chairman effective February 24, 2012), Horace Rhodes and John Shelley. The Board has determined that each member of the Audit Committee is independent, as defined in the listing standards of the NYSE as of our fiscal year end. The Board has adopted an Audit Committee Charter, which governs the responsibilities of the Audit Committee. During 2011, the Audit Committee held five meetings.

Audit Committee Financial Expert

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

Nominating and Corporate Governance Committee

We have a separately-designated standing Nominating and Corporate Governance Committee (the Nominating Committee). The members of the Nominating Committee are Messrs. John Shelley (Chairman), Bernard Ille, and Horace Rhodes. The Board has determined that each member of the Nominating Committee is independent, in accordance with Section 10A-3 of the Exchange Act and the listing standards of the NYSE. The Board has adopted a Nominating and Corporate Governance Committee Charter which governs the responsibilities of the Nominating Committee. The Board has also adopted Corporate Governance Guidelines. During 2011, the Nominating Committee held three meetings.

Compensation and Stock Option Committee

We have a separately-designated Compensation and Stock Option Committee (the Compensation Committee). The members of the Compensation Committee are Messrs. Horace Rhodes (Chairman), Charles Burtch and Bernard Ille, each of whom is a non-employee, independent director in accordance with the rules of the NYSE. The Board has adopted a Compensation and Stock Option Committee Charter, which governs the responsibilities of the Compensation Committee. During 2011, the Compensation Committee held five meetings.

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

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

Decisions regarding non-equity compensation of our non-executive officers and our executive officers named in the Summary Compensation Table (the named executive officers) other than the Chief Executive Officer and the President, are made by our Chief Executive Officer and presented for approval or modification by the Committee. Historically, the Compensation Committee has generally adopted such recommendations of the Chief Executive Officer.

The agenda for meetings of the Compensation Committee is determined by its Chairman with the assistance of our Chief Executive Officer. Committee meetings are regularly attended by the Chief Executive Officer. At each Compensation Committee meeting, the Compensation Committee also meets in executive session without the Chief

Executive Officer. The Committee may delegate authority to the Chief Executive Officer in order to fulfill certain administrative duties regarding the compensation programs.

The Compensation Committee has authority under its charter to retain, approve fees for, and terminate advisors, consultants and agents as it deems necessary to assist in the fulfillment of its responsibilities. If an outside consultant is engaged, the Compensation Committee reviews the total fees paid to such outside consultant by the Company to ensure that the consultant maintains its objectivity and independence when rendering advice to the Compensation Committee. For 2011, no outside consultants were engaged by the Compensation Committee or by management of the Company.

Committee Charters

A current copy of the following charters and guidelines are available on our website at www.lsb-okc.com and are also available from the Company upon request to the Secretary:

Audit Committee Charter

Nominating and Corporate Governance Committee Charter

Corporate Governance Guidelines

Compensation and Stock Option Committee Charter

Compensation Committee Interlocks and Insider Participation

The Compensation Committee has the authority to set the compensation of all of our officers. This Compensation Committee considers the recommendations of the Chief Executive Officer when setting the compensation of our officers. The Chief Executive Officer does not make a recommendation regarding his own salary, and does not make any recommendation as to the President s salary. The members of the Compensation Committee are the following non-employee directors: Horace G. Rhodes (Chairman), Charles A. Burtch, and Bernard G. Ille. Neither Mr. Rhodes, Mr. Burtch nor Mr. Ille is, or ever has been, an officer or employee of the Company or any of its subsidiaries. None of our executive officers or members of the Compensation Committee had any relationship requiring disclosure under Item 404 of Regulation S-K during 2011.

ITEM 11. EXECUTIVE COMPENSATION

Overview of Compensation Program

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

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

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

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

Compensation Philosophy and Objectives

The Compensation Committee believes that the most effective executive compensation program rewards the executive s achievements and contribution towards the Company achieving its long-term strategic goals. However, the Compensation Committee does not believe that executive compensation should be tied to specific numeric or formulaic financial goals or only to stock price performance. The Compensation Committee recognizes that, given the volatility of the markets in which we do business, general economic conditions, and numerous other factors, our financial performance for a particular period may or may not be an accurate measurement of our senior executive officers performance.

The Compensation Committee values both personal contribution and teamwork as factors to be rewarded. The Compensation Committee evaluates both performance and compensation to ensure that we maintain our ability to attract and retain highly talented employees in key positions, with the goal of ensuring that compensation to our senior executive officers remains competitive while considering the internal pay ratios among executives and other key employees. The Compensation Committee believes that executive compensation packages should include cash and bonus compensation, as well as other benefit programs to encourage senior executive officers to remain with the Company and have interests aligned with those of the Company. As a result, the Compensation Committee reviews the number of stock options exercised by senior executive officers during recent periods, if any, as well as stock options currently held by the senior executive officers. This analysis enables the Compensation Committee to determine whether the grant of additional stock-based compensation may be advisable to ensure that our senior executive officers long term interests are aligned with those of the Company. Based on the foregoing, the Compensation Committee focuses on the following criteria when developing our executive compensation program:

Compensation should be based on the level of job responsibility, executive performance, and our performance;

Compensation should enable us to attract and retain key talent;

Compensation should be competitive with compensation offered by other companies that compete with us for talented individuals in our geographic area;

Compensation should reward performance;

Compensation should motivate executives to achieve our strategic and operational goals; and

Executive compensation should be reasonable when compared to the average compensation of our other employees.

EXECUTIVE SUMMARY

Setting Executive Compensation

The Compensation Committee sets annual cash and non-cash executive compensation to reward the named executive officers for achievement and to motivate the named executive officers to achieve long-term business objectives. The Compensation Committee is unable to use direct comparisons to a peer group in determining the compensation package because of the diverse nature of our lines of business. The Compensation Committee reviewed some generally available national and regional compensation information for companies of our size. This information was used to determine whether our compensation amounts are within the range of similarly sized companies. The Compensation Committee considered base salary and current bonus awards in determining overall compensation. The Compensation Committee does not have a policy allocating long term and currently paid compensation, but does consider stock options to be long-term compensation. The Compensation Committee also considered the allocation between cash and non-cash compensation amounts, but does not have a specific formula or required allocation between such compensation amounts. Instead, such amounts are taken into account as part of the overall compensation determination. The Compensation Committee compares the Chief Executive Officer s total compensation to the total compensation of our other named executive officers. However, the Compensation

Committee has not established a target ratio between total compensation of the Chief Executive Officer and the median total compensation level for the next lower tier of management. The Compensation Committee also considers internal pay equity among the named executive officers and in relation to next lower tier of management and average compensation of all employees in order to maintain compensation levels that are consistent with the individual contributions and responsibilities of those executive officers. The Compensation Committee does not consider amounts payable under severance agreements when setting the annual compensation of the named executive officers. Although the Compensation Committee has not engaged outside consultants to assist in conducting its annual review of the total compensation program, it may do so in the future.

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Consideration of Stockholder Say-On-Pay Advisory Vote.

At our annual meeting of stockholders held in June 2011, our stockholders voted, on a non-binding, advisory basis, on the compensation of our named executive officers for 2010. A substantial majority (more than 98%) of the total votes cast on our say-on-pay proposal at that meeting approved the compensation of our named officers for 2010 on a non-binding, advisory basis. The Compensation Committee and the Board believes that this affirms our stockholders support of our approach to executive compensation, and, accordingly, the Compensation Committee did not materially change its approach to executive compensation in 2011 in connection with the say-on-pay proposal. The Compensation Committee expects to consider the results of future stockholder say-on-pay advisory votes when making future compensation decisions for our named executive officers. We will hold an advisory vote on the compensation of named executive officers at our 2012 annual meeting of stockholders.

Role of Executive Officers in Compensation Decisions

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

2011 Executive Compensation Components

For the fiscal year ended December 31, 2011, the principal components of compensation for the named executive officers were:

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

The Compensation Committee did not award equity-based compensation, such as stock options, to the named executive officers in 2011. As discussed below, the Compensation Committee awarded salary increases and bonuses to the named executive officers for 2011. Those awards were considered sufficient to provide competitively based incentives to our executives to advance company performance, without granting equity based compensation as well. The Committee s assessment was that the named executive officers in 2011 continued to maintain a sufficient ownership interest in the Company to provide alignment with the Company s long-term interests. We do not benchmark the amount of total compensation or any material element of compensation.

Base Salary

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

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

Committee does not use specific performance targets to set base salaries or bonuses, the Compensation Committee awarded salary increases in 2011 based on the above criteria and with consideration of the overall improved financial performance of the Company during challenging economic conditions.

Cash Bonuses

The Compensation Committee may award cash bonuses to the named executive officers to reward outstanding performance. No bonus is guaranteed, and there is no defined range of bonus amounts that the Compensation Committee may award. Bonus awards are made at the Compensation Committee s discretion based upon an assessment of an individual s overall contribution to the Company. Based on the assessments and recommendations described below, the Compensation Committee awarded bonuses to the managers and executive officers in 2011.

Bonus awards are based upon assessment of an individual s overall contribution to the Company. This assessment includes a subjective analysis of the achievement of an individual s goals for their areas of responsibility, the individual s contribution to the achievement of our priorities and strategic plans, and the individual s material accomplishments achieved during the year. In considering an individual s overall contribution to the Company, the Compensation Committee will account for the individual s level of experience relevant to the Company s businesses, the individual s tenure with the Company, and the individual s level of responsibility. The assessment is a subjective evaluation of accomplishment and contribution to the Company and is not based on the achievement of specific performance metrics. Our CEO, Jack E. Golsen, provides the Compensation Committee with his assessment of the contributions to the Company during the applicable year by our named executive officers other than for himself, Barry H. Golsen, our President, and Steven J. Golsen for purposes of determining bonus compensation for such year. The Compensation Committee discusses our CEOs recommendations with the CEO, and in the past has generally accepted the CEOs recommendations as to bonuses for our named executive officers. With respect to bonus awards for Jack E. Golsen, Barry H. Golsen and Steven J. Golsen, the Compensation Committee assesses the overall contribution of each of them based on the interaction with each of them, review of the matters that are presented to the Board of Directors for consideration or discussion, and interviews with other senior executive officers.

In assessing the overall contribution of Jack E. Golsen to the Company for purposes of bonus compensation, the Compensation Committee considered Mr. Golsen s management of the Company through challenging global economic conditions, the profitability of the Company, the retention and development of our executive team, his development of key business relationships for the Company, and his efforts in developing strategies for the Company s future revenue and market growth. Mr. Golsen s level of responsibility and the effectiveness of his leadership were also considered in the assessment of his overall contribution to the Company during 2011. In addition, the Compensation Committee considered and complied with the terms of Mr. Golsen s Employment Agreement with the Company.

The assessment of Tony M. Shelby s overall contribution to the Company for purposes of bonus compensation included an evaluation of the complexity of Mr. Shelby s responsibilities as our chief financial officer, his leadership in the management of the Company s financial resources, his efforts in developing strategies for the Company s future revenue growth, his accomplishments in negotiating important commercial contracts, his development of key business relationships for the Company, and his continued commitment to enhancing our internal audit function and improving its finance processes.

The assessment of Barry H. Golsen s overall contribution to the Company for purposes of determining his bonus compensation included his leadership of the Company and our climate control and chemical businesses through challenging global economic conditions, profitability of the Company for 2011, his retention and development of our management, his accomplishments in developing improved investor and shareholder communication, and his efforts in developing the Company s future market growth.

The assessment of Steven J. Golsen s overall contribution to the Company for purposes of determining his bonus compensation included his leadership of our climate control business and machine tool and specialized engineering business through challenging global economic conditions, profitability of the Company for 2011, his recruitment, retention and development of our management, and his involvement in developing plans for the Company s future growth.

The assessment of David R. Goss overall contribution to the Company for purposes of bonus compensation included an evaluation of the complexity of Mr. Goss responsibilities as our executive vice president of operations, especially during challenging global economic conditions, his management and development of our chemical facility located in Pryor, Oklahoma, and his management of our resources with a view to their most productive and efficient uses.

The assessment of David M. Shear s overall contribution to the Company for purposes of bonus compensation included an evaluation of the complexity of Mr. Shear s responsibilities as our general counsel, the effectiveness of his oversight of our legal department, his management of litigation and corporate matters, his accomplishments in negotiating important commercial contracts, the utility of his communications with our Board of Directors and executive officers, his contributions to the oversight of the our corporate governance and compliance functions, and his leadership in the design and implementation of the Company s recent subsidiary realignment.

Death Benefit and Salary Continuation Plans

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

Attributed costs of the personal benefits described above for the named executive officers for the fiscal year ended December 31, 2011, are discussed in footnote (1) and included in column (i) of the Summary Compensation Table.

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

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

Severance Agreements

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

Perquisites and Other Personal Benefits

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

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

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The Compensation Committee periodically reviews the levels of perquisites provided to the named executive officers to determine whether such perquisites are consistent with our compensation policies.

Employment Agreement

We have no employment agreements with our named executive officers, except with Jack E. Golsen, our Chief Executive Officer. The terms of Mr. Golsen s employment agreement are described below under Employment Agreement. We believe that Mr. Golsen s employment agreement promotes stability in our senior management and encourages Mr. Golsen to provide superior service to us. The current term of the Employment Agreement expires March 21, 2014, but will automatically renew for up to two additional three-year periods, unless earlier terminated by either party with one years notice.

Ownership Guidelines

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

Tax and Accounting Implications

Deductibility of Executive Compensation Section 162(m) of the Internal Revenue Code, provides that we may not deduct compensation of more than $1,000,000 of employee remuneration for named executive officers. However, the statute exempts qualifying performance-based compensation from the deduction limit when specified requirements are met. In the past, we have granted non-qualifying stock options to the named executive officers that do not meet the performance-based compensation criteria and are subject to the Section 162(m) limitation. Our compensation deduction was not limited by Section 162(m) in 2011, 2010 and 2009.

Accounting for Stock-Based Compensation We account for stock-based payments, including our incentive and nonqualified stock options, in accordance with United States generally accepted accounting principles.

Compensation and Stock Option Committee Report

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

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

Horace G. Rhodes, Chairman

Charles A. Burtch

Bernard G. Ille

The following table summarizes the total compensation paid or earned by each of the named executive officers for each of the three fiscal years in the period ended December 31, 2011.

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Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (1)	Total ($)
Jack E. Golsen,									
Chairman of the Board of	2011	703,500	200,000					213,869	1,117,369
Directors and	2010	659,400	150,000					746,993	1,556,393
Chief Executive Officer	2009	636,323	200,000					713,556	1,549,879
Tony M. Shelby,									
Executive Vice President	2011	287,115	100,000					16,932	404,047
of Finance and Chief	2010	275,000	100,000					15,385	390,385
Financial Officer	2009	275,000	125,000					16,824	416,824
Barry H. Golsen,									
Vice Chairman of the Board									
of Directors, President, and	2011	574,831	200,000					34,311	809,142
President of the Climate	2010	550,600	150,000					32,803	733,403
Control Business	2009	527,523	200,000					16,887	744,410
Steven J. Golsen,									
Chief Operating Officer of	2011	369,385	150,000					30,211	549,596
the Climate	2010	350,000	150,000					29,028	529,028
Control Business	2009	326,923	150,000					16,578	493,501
David R. Goss,									
	2011	285,039	100,000					8,569	393,608
Executive Vice President of	2010	270,500	85,000					9,308	364,808
Operations	2009	270,500	100,000					4,195	374,695