

LSB INDUSTRIES INC
Form 10-Q/A
August 14, 2009
LSB Industries, Inc.

Form 10-Q/A (6-30-2009)

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from
_____ to _____

Commission file number 1-7677

LSB Industries, Inc.

Exact name of Registrant as specified in its charter

Delaware 73-1015226
State or other jurisdiction of I.R.S. Employer Identification No.
incorporation or organization

16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107
Address of principal executive offices Zip Code

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant

was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
 No

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

1

(Facing Sheet Continued)

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the Registrant's voting common stock, as of July 31, 2009 was 21,484,308 shares, excluding 3,867,462 shares held as treasury stock.

Explanatory Note

The Form 10-Q for LSB Industries, Inc. for the quarterly period ended June 30, 2009 ("Form 10-Q"), as filed with the Securities and Exchange Commission ("SEC") on August 6, 2009, is being amended by this Amendment No. 1 solely to correct two typographical errors on the June 30, 2009 condensed consolidated balance sheet on page 5 of such Form 10-Q. The correct amount for total current liabilities is \$60,103 instead of \$60,1039 and the correct amount for retained earnings is \$39,971 instead of \$39,671. These amounts were correctly stated in our press release as to second quarter 2009 results and Exhibit 99.1 of our Form 8-K, as filed with the SEC on August 7, 2009. In addition, none of the other numbers contained in the condensed consolidated financial statements and notes thereto of the Form 10-Q reflect or were affected by the typographical errors.

In connection with filing of this Amendment No. 1 and pursuant to Rule 12b-15, certain certifications are attached as exhibits hereto. The remainder of the Form 10-Q is unchanged and is not reproduced in this Amendment No. 1. Except for the foregoing amended information, the Form 10-Q continues to describe conditions as of the date of the original filing of such Form 10-Q.

3

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at June 30, 2009 is unaudited)

	June 30, 2009	December 31, 2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 63,008	\$ 46,204
Restricted cash	375	893
Accounts receivable, net	64,122	78,846
Inventories:		
Finished goods	27,716	30,679
Work in process	2,589	2,954
Raw materials	21,376	27,177
Total inventories	51,681	60,810
Supplies, prepaid items and other:		
Prepaid insurance	1,467	3,373
Precious metals	14,575	14,691
Supplies	4,800	4,301
Other	1,841	1,378
Total supplies, prepaid items and other	22,683	23,743
Deferred income taxes	7,777	11,417
Total current assets	209,646	221,913
Property, plant and equipment, net	108,780	104,292
Other assets:		
Debt issuance costs, net	1,988	2,607
Investment in affiliate	3,766	3,628
Goodwill	1,724	1,724
Other, net	1,812	1,603
Total other assets	9,290	9,562
	\$ 327,716	\$ 335,767

(Continued on following page)

	June 30, 2009	December 31, 2008
	(In Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 31,222	\$ 43,014
Short-term financing	452	2,228
Accrued and other liabilities	26,393	39,236
Current portion of long-term debt	2,036	1,560
Total current liabilities	60,103	86,038
Long-term debt	97,305	103,600
Noncurrent accrued and other liabilities	9,950	9,631
Deferred income taxes	8,528	6,454
Contingencies (Note 10)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 25,348,770 shares issued (24,958,330 at December 31, 2008)	2,535	2,496
Capital in excess of par value	129,076	127,337
Accumulated other comprehensive loss	-	(120)
Retained earnings	39,971	19,804
	174,582	152,517
Less treasury stock at cost:		
Common stock, 3,867,462 shares (3,848,518 at December 31, 2008)	22,752	22,473
Total stockholders' equity	151,830	130,044
	\$ 327,716	\$ 335,767

See accompanying notes.

Edgar Filing: LSB INDUSTRIES INC - Form 10-Q/A

	Six Months		Three Months	
	2009	2008	2009	2008
	(In Thousands, Except Per Share Amounts)			
Net sales	\$ 288,760	\$ 358,507	\$ 138,563	\$ 198,052
Cost of sales	210,205	277,009	100,736	154,311
Gross profit	78,555	81,498	37,827	43,741
Selling, general and administrative expense	44,421	40,222	23,046	21,458
Provisions for losses on accounts receivable	28	292	(24)	202
Other expense	334	657	291	476
Other income	(190)	(8,329)	(28)	(7,719)
Operating income	33,962	48,656	14,542	29,324
Interest expense	2,939	3,720	1,028	1,266
Gains on extinguishment of debt	(1,743)	-	(421)	-
Non-operating other income, net	(34)	(862)	(11)	(345)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	32,800	45,798	13,946	28,403
Provisions for income taxes	12,800	17,429	5,451	10,709
Equity in earnings of affiliate	(488)	(462)	(248)	(230)
Income from continuing operations	20,488	28,831	8,743	17,924
Net loss from discontinued operations	15	17	13	17
Net income	20,473	28,814	8,730	17,907
Dividends, dividend requirements and stock dividend on preferred stocks	306	306	-	-
Net income applicable to common stock	\$ 20,167	\$ 28,508	\$ 8,730	\$ 17,907
Weighted-average common shares:				
Basic	21,174	21,115	21,238	21,172
Diluted	23,587	24,908	23,674	24,827
Income per common share:				
Basic	\$.95	\$ 1.35	\$.41	\$.85
Diluted	\$.89	\$ 1.21	\$.38	\$.75

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
Six Months Ended June 30, 2009

	Common Stock Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock- Common	Total
(In Thousands)								
Balance at December 31, 2008	24,958	\$3,000	\$2,496	\$127,337	\$ (120)	\$19,804	\$(22,473)	\$130,044
Net income						20,473		20,473
Amortization of cash flow hedge					120			120
Total comprehensive income								20,593
Dividends paid on preferred stock						(306)		(306)
Stock-based compensation				514				514
Exercise of stock options	389		39	740			(279)	500
Excess income tax benefit associated with stock-based compensation				481				481
Conversion of shares of redeemable preferred stock to common stock	2			4				4
Balance at June 30, 2009	25,349	\$3,000	\$2,535	\$129,076	\$ -	\$39,971	\$(22,752)	\$151,830

Note: For the six and three months ended June 30, 2009, total comprehensive income was \$20,593,000 and \$8,778,000, respectively. For the six and three months ended June 30, 2008, total comprehensive income was \$28,903,000 and \$17,951,000, respectively.

See accompanying notes.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Six Months Ended June 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash flows from continuing operating activities:		
Net income	\$ 20,473	\$ 28,814
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Net loss from discontinued operations	15	17
Deferred income taxes	5,538	4,185
Gain on extinguishment of debt	(1,743)	-
Gain on litigation judgment associated with property, plant and equipment	-	(3,943)
Losses on sales and disposals of property and equipment	220	82
Depreciation of property, plant and equipment	7,684	6,269
Amortization	451	554
Stock-based compensation	514	384
Provisions for losses on accounts receivable	28	292
Provision for (realization of) losses on inventory	(3,024)	184
Provision for losses on firm sales commitments	514	-
Provision for impairment of long-lived assets	-	192
Equity in earnings of affiliate	(488)	(462)
Distributions received from affiliate	350	280
Changes in fair value of commodities contracts	969	(861)
Changes in fair value of interest rate contracts	(649)	(709)
Cash provided (used) by changes in assets and liabilities:		
Accounts receivable	15,790	(25,338)
Inventories	12,153	(12,085)
Other supplies and prepaid items	1,315	(1,764)
Accounts payable	(11,703)	11,129
Customer deposits	(2,121)	(1,395)
Deferred rent expense	(1,424)	(4,733)
Other current and noncurrent liabilities	(9,730)	1,932
Net cash provided by continuing operating activities	35,132	3,024
Cash flows from continuing investing activities:		
Capital expenditures	(12,406)	(14,751)
Proceeds from litigation judgment associated with property, plant and equipment	-	5,948
Payment of legal costs relating to litigation judgment associated with property, plant and equipment	-	(1,884)
Proceeds from sales of property and equipment	3	58
Proceeds from restricted cash	518	172
Other assets	(209)	(352)
Net cash used by continuing investing activities	(12,094)	(10,809)

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)
Six Months Ended June 30, 2009 and 2008

	2009	2008
	(In Thousands)	
Cash flows from continuing financing activities:		
Proceeds from revolving debt facilities	\$ 281,103	\$ 288,793
Payments on revolving debt facilities	(281,103)	(288,793)
Proceeds from other long-term debt, net of fees	2,565	-
Acquisition of 5.5% convertible debentures	(7,134)	-
Payments on other long-term debt	(687)	(519)
Payments on short-term financing	(1,776)	(788)
Proceeds from exercise of stock options	500	673
Purchase of treasury stock	-	(3,421)
Excess income tax benefit associated with stock-based compensation	657	2,552
Dividends paid on preferred stock	(306)	(306)
Net cash used by continuing financing activities	(6,181)	(1,809)
Cash flows of discontinued operations:		
Operating cash flows	(53)	(106)
Net increase (decrease) in cash and cash equivalents	16,804	(9,700)
Cash and cash equivalents at beginning of period	46,204	58,224
Cash and cash equivalents at end of period	\$ 63,008	\$ 48,524
Supplemental cash flow information:		
Cash payments for income taxes, net of refunds	\$ 6,459	\$ 9,582
Noncash investing and financing activities:		
Receivable associated with a property insurance claim	\$ 1,135	\$ -
Current other assets, accounts payable and long-term debt associated with property, plant and equipment	\$ 4,164	\$ 2,618
Debt issuance costs associated with the acquisition of the 5.5% convertible debentures	\$ 323	\$ -

See accompanying notes.

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

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

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of June 30, 2009 and for the six and three-month periods ended June 30, 2009 and 2008 include all adjustments and accruals, consisting only of normal, recurring accrual adjustments which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K").

Certain reclassifications have been made in our condensed consolidated financial statements for the six months ended June 30, 2008 to conform to our condensed consolidated financial statement presentation for the six months ended June 30, 2009, including the change in our classification of principal payments under capital lease obligations from "capital expenditures" that are included in net cash used by continuing investing activities to "payments on other long-term debt" that are included in net cash used by continuing financing activities. This change in classification is consistent with the underlying principles of Statement of Financial Accounting Standards ("SFAS") No. 95 – Statement of Cash Flows. This change resulted in a decrease in net cash used by continuing investing activities and an increase in net cash used by financing activities of \$235,000 for the six months ended June 30, 2008.

In connection with the preparation of our condensed consolidated financial statements and in accordance with the recently issued SFAS No. 165 - Subsequent Events ("SFAS 165"), we evaluated subsequent events after the balance sheet date of June 30, 2009 through August 6, 2009, which is the date our condensed consolidated financial statements were issued.

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

Note 2: Recently Issued Accounting Pronouncements In March 2008, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 161 - Disclosures about Derivative Instruments and Hedging Activities; an Amendment of SFAS 133 (“SFAS 161”). SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities for the purpose of improving the transparency of financial reporting. The new disclosure requirements of SFAS 161 became effective for the Company on January 1, 2009. The provisions of SFAS 161 were applied prospectively. See Note 11 - Derivatives, Hedges and Financial Instruments.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1 (“FSP”) that amends SFAS No. 107 - Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28 - Interim Financial Reporting. This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies. The new disclosure requirements of this FSP became effective for the Company on April 1, 2009. The provisions of this FSP were applied prospectively. See Note 11 – Derivatives, Hedges and Financial Instruments.

In May 2009, the FASB issued SFAS 165 that establishes principles and requirements for reporting subsequent events. The requirements of SFAS 165 became effective for the Company for the three months ended June 30, 2009. The provisions of SFAS 165 were applied prospectively. See Note 1 – Basis of Presentation and Note 18 – Subsequent Events.

Note 3: Accounts Receivable

	June 30, 2009	December 31, 2008
(In Thousands)		
Trade receivables	\$ 62,606	\$ 78,092
Insurance claims	1,271	252
Other	910	1,231
	64,787	79,575
Allowance for doubtful accounts	(665)	(729)
	\$ 64,122	\$ 78,846

Note 4: Inventories Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out (“FIFO”) basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At June 30, 2009 and December 31, 2008, inventory reserves for certain slow-moving inventory items (primarily Climate Control products) were \$641,000 and \$514,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were \$423,000 and \$3,627,000, at June 30, 2009 and December 31, 2008, respectively, because cost exceeded the net realizable value.

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

Note 4: Inventories (continued)

Changes in our inventory reserves are as follows:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Balance at beginning of period	\$ 4,141	\$ 473	\$ 1,109	\$ 610
Provisions for (realization of) losses	(3,024)	184	8	15
Write-offs/disposals	(53)	(74)	(53)	(42)
Balance at end of period	\$ 1,064	\$ 583	\$ 1,064	\$ 583

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

Note 5: Precious Metals Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed.

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

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

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Precious metals expense	\$ 3,279	\$ 4,354	\$ 1,552	\$ 1,894
Recoveries of precious metals	(2,222)	(792)	(9)	(792)
Precious metals expense, net	\$ 1,057	\$ 3,562	\$ 1,543	\$ 1,102

Precious metals expense is included in cost of sales (recoveries of precious metals are reductions to cost of sales) in the accompanying condensed consolidated statements of income.

Note 6: Investment in Affiliate Cepolk Holding, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership") which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). As of June 30, 2009, the Partnership and general partner to the Partnership is indebted to a term lender ("Term Lender") of the Project for approximately \$2,849,000 with a term extending to December 2010. CHI has pledged its

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

Note 6: Investment in Affiliate (continued)

limited partnership interest in the Partnership to the Term Lender as part of the Term Lender's collateral securing all obligations under the loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. No liability has been established for this pledge since it was entered into prior to adoption of FASB Interpretation ("FIN") 45. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Term Lender be required to perform under this pledge.

Note 7: Product Warranty Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use that extends over several years. As such, we provide warranties after equipment shipment/start-up covering defects in materials and workmanship.

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

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

Changes in our product warranty obligation are as follows:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Balance at beginning of period	\$ 2,820	\$ 1,944	\$ 2,864	\$ 2,056
Add: Charged to costs and expenses	3,146	2,287	1,288	1,556
Deduct: Costs and expenses incurred	(2,928)	(1,953)	(1,114)	(1,334)
Balance at end of period	\$ 3,038	\$ 2,278	\$ 3,038	\$ 2,278

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

Note 8: Current and Noncurrent Accrued and Other Liabilities

	June 30, 2009	December 31, 2008
	(In Thousands)	
Fair value of derivatives	\$ 4,555	\$ 8,347
Deferred revenue on extended warranty contracts	4,518	4,028
Accrued payroll and benefits	4,439	6,422
Accrued warranty costs	3,038	2,820
Accrued death benefits	3,017	2,687
Accrued insurance	2,707	2,971
Accrued income taxes	1,850	1,704
Accrued contractual manufacturing obligations	1,477	2,230
Accrued property and franchise taxes	1,343	693
Accrued commissions	1,291	2,433
Customer deposits	1,121	3,242
Billings in excess of costs and estimated earnings on uncompleted contracts	1,075	1,882
Accrued executive benefits	1,065	1,111
Accrued interest	822	2,003
Accrued precious metals costs	284	1,298
Deferred rent expense	-	1,424
Other	3,741	3,572
	36,343	48,867
Less noncurrent portion	9,950	9,631
Current portion of accrued and other liabilities	\$ 26,393	\$ 39,236

Note 9: Long-Term Debt

	June 30, 2009	December 31, 2008
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	\$ -	\$ -
5.5% Convertible Senior Subordinated Notes due 2012 (B)	31,300	40,500
Secured Term Loan due 2012 (C)	50,000	50,000
Other, with a current weighted-average interest rate of 6.56%, most of which is secured by machinery, equipment and real estate	18,041	14,660
	99,341	105,160
Less current portion of long-term debt	2,036	1,560
Long-term debt due after one year	\$ 97,305	\$ 103,600

(A) ThermaClime and its subsidiaries (the "Borrowers") are parties to a \$50 million revolving credit facility (the "Working Capital Revolver Loan") that provides for advances based on specified percentages of eligible accounts receivable and inventories for ThermaClime, and its subsidiaries. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .50% or LIBOR plus 1.75% and matures on April 13, 2012. The interest rate at June 30, 2009 was 3.75%. Interest is paid monthly, if applicable.

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

Note 9: Long-Term Debt (continued)

The facility provides for up to \$8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. At June 30, 2009, amounts available for additional borrowing under the Working Capital Revolver Loan were \$49.5 million. Under the Working Capital Revolver Loan, as amended, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .375% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding due and payable in full, if any. The Working Capital Revolver Loan is secured by the assets of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries ("EDNC") but excluding the assets securing the \$50 million secured term loan discussed in (C) below and certain distribution-related assets of El Dorado Chemical Company ("EDC"). EDNC is neither a borrower nor guarantor of the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately \$214 million at June 30, 2009.

The Working Capital Revolver Loan, as amended, requires ThermaClime to meet certain financial covenants, including an EBITDA requirement of greater than \$25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1, which requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended June 30, 2009. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers' (which does not include the Company) ability, without consent of the lender and with certain exceptions, to:

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

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

(B) In June 2007, we entered into a purchase agreement with each of twenty two qualified institutional buyers ("QIBs"), pursuant to which we sold \$60 million aggregate principal amount of the 5.5% Convertible Senior Subordinated Notes (the "2007 Debentures") in a private placement to the QIBs pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Act"), afforded by Section 4(2) of the Act and Regulation D promulgated under the Act. The 2007 Debentures are eligible for resale by the investors under Rule 144A under the Act. We received net proceeds of approximately \$57 million, after discounts and commissions. In connection with the closing, we entered into an indenture (the "Indenture") with UMB Bank, as trustee (the "Trustee"), governing the 2007 Debentures. The Trustee receives customary compensation from us for such services.

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

Note 9: Long-Term Debt (continued)

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

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

During the six and three months ended June 30, 2009, we acquired \$9.2 million and \$3.5 million, respectively, aggregate principal amount of the 2007 Debentures for approximately \$7.1 million and \$2.9 million, respectively, with each purchase being negotiated. As a result, we recognized a gain on extinguishment of debt of \$1.7 million and \$0.4 million, respectively, after writing off approximately \$0.4 million and \$0.2 million, respectively, of the unamortized debt issuance costs associated with the 2007 Debentures acquired.

As the result of the acquisitions made during the fourth quarter of 2008 and the first two quarters of 2009, only \$31.3 million of the 2007 Debentures remain outstanding at June 30, 2009. In addition, see discussion concerning \$5.0 million of the 2007 Debentures being held by Jack E. Golsen, our Chairman of the Board and Chief Executive Officer, 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") in Note 17-Related Party Transactions.

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

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

If a designated event (as defined in the Indenture) occurs prior to maturity, holders of the 2007 Debentures may require us to repurchase all or a portion of their 2007 Debentures for cash at a repurchase price equal to 101% of the principal amount of the 2007 Debentures plus any accrued and unpaid interest, as set forth in the Indenture. If a fundamental change (as defined in the Indenture) occurs on or prior to June 30, 2010, under certain circumstances, we will pay, in addition to the repurchase price, a make-whole premium on the 2007 Debentures converted in connection with, or tendered for repurchase upon, the fundamental change. The make-whole

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

Note 9: Long-Term Debt (continued)

premium will be payable in our common stock or the same form of consideration into which our common stock has been exchanged or converted in the fundamental change. The amount of the make-whole premium, if any, will be based on our stock price on the effective date of the fundamental change. No make-whole premium will be paid if our stock price in connection with the fundamental change is less than or equal to \$23.00 per share.

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

(C) ThermaClime and certain of its subsidiaries are parties to a \$50 million loan agreement (the "Secured Term Loan") with a certain lender. The Secured Term Loan matures on November 2, 2012. The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at June 30, 2009 was approximately 4.02%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity.

The Secured Term Loan is secured by the real property and equipment located at our El Dorado, Arkansas chemical production facility ("El Dorado Facility") and at our Cherokee, Alabama chemical production facility ("Cherokee Facility"). The carrying value of the pledged assets is approximately \$59 million at June 30, 2009.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At June 30, 2009, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately \$70 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 measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the twelve-month period ended June 30, 2009.

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

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