

LSB INDUSTRIES INC
Form DEF 14A
June 08, 2006

OMB APPROVALOMB Number: 3235-0059 Expires: January 31, 2008 Estimated average burden hours per
SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549 SCHEDULE 14A Proxy Statement Pursuan
x

No fee required.

o

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies: _____
and state how it was determined): _____

LSB INDUSTRIES, INC.
16 South Pennsylvania Avenue
Post Office Box 754
Oklahoma City, OK 73101
FAX: (405) 235-5067

Notice of Annual Meeting of Stockholders
To Be Held July 6, 2006

To the Stockholders of
LSB Industries, Inc.

The Annual Meeting of the Stockholders of LSB Industries, Inc. (the "Company") will take place at the Company's offices located at 16 S. Pennsylvania Avenue, Oklahoma City, Oklahoma, on Thursday, July 6, 2006, at 11:30 a.m. (CDT), for the purpose of considering and acting upon the following matters:

- (1) The election of 4 nominees to the Board of Directors;
- (2) The ratification of the appointment of the independent registered public accounting firm; and
- (3) Any other business which properly may come before the meeting or any adjournment of the meeting.

The Board of Directors has fixed the close of business on May 15, 2006, as the record date for the determination of holders of the common stock and voting preferred stock of the Company entitled to receive notice of, and to vote at, the Annual Meeting.

To ensure the presence of a quorum at the Annual Meeting, please sign and promptly return the enclosed Proxy Card in the accompanying self-addressed envelope, which requires no postage if mailed in the United States.

The Company is distributing its 2005 Annual Report to Stockholders with the enclosed proxy soliciting material.

By order of the Board of Directors

David M. Shear
Secretary

Oklahoma City, Oklahoma
June 7, 2006

LSB INDUSTRIES, INC.
16 South Pennsylvania Avenue
Post Office Box 754
Oklahoma City, OK 73101

**PROXY STATEMENT FOR
ANNUAL MEETING OF STOCKHOLDERS**

To Be Held July 6, 2006

SOLICITATION OF PROXIES

Solicitation This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of LSB Industries, Inc. (the "Company") of proxies to be voted at the Annual Meeting of Stockholders (the "Annual Meeting") to take place on Thursday, July 6, 2006, at 11:30 a.m. at the Company's offices located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma and at any adjournment thereof. This Proxy Statement and the Proxy Card are being first sent to the stockholders of the Company on or about June 7, 2006.

The Company may use the services of its directors, officers, and employees to solicit proxies personally, by mail, the internet, or telephone, without additional compensation therefore. The Company will bear all of the costs of preparing, printing, assembling, and mailing this Proxy Statement and the Proxy Card and all of the costs of the solicitation of the proxies. The Company will also reimburse any bank, broker-dealer, or other custodian, nominee, or fiduciary for its reasonable expenses incurred in completing the mailing of proxy materials to the beneficial owners of the Company's Common Stock and voting Preferred Stock.

Revocation of Proxy Any stockholder giving his or her proxy may revoke it at any time before its exercise by (a) notifying the Secretary of the Company, by facsimile or in writing, (b) returning a later-dated proxy card, or (c) attending the Annual Meeting and voting in person.

Stockholder Proposals In order to be considered for inclusion in the proxy materials for the Company's 2007 Annual Meeting of Stockholders, any proposal of a stockholder intended to be presented at such meeting must be delivered in writing to the Secretary of the Company no later than February 7, 2007.

STOCKHOLDERS ENTITLED TO VOTE

Record Date and Voting Securities Only the record holders of shares of the Common Stock and voting Preferred Stock of the Company, as of the close of business on May 15, 2006 (the "Record Date"), will have the right to receive notice of, and to vote at, the Annual Meeting. As of the close of business on the Record Date, the Company had the following shares of Common Stock and voting Preferred Stock issued and outstanding: (a) 13,780,856 shares of Common Stock (excluding 3,324,889 shares held in treasury); (b) 809 shares of Convertible Noncumulative Preferred Stock; (c) 20,000 shares of Series B 12% Cumulative Convertible Preferred Stock ("Series B Preferred"); and (d) 1,000,000 shares of Series D 6% Cumulative Convertible Preferred Stock ("Series D Preferred"). Each stockholder of record, as of the Record Date, will have one vote for each share of Common Stock and voting Preferred Stock of the Company (except each share of Series D Preferred will have .875 of one vote) that the stockholder owned as of the Record Date.

All shares of Common Stock and voting Preferred Stock will vote together as a single class on all matters coming before the Annual Meeting, and a majority of all of the outstanding shares of Common Stock and voting Preferred Stock of the Company, represented as a single class, entitled to notice of, and to vote at, the Annual Meeting,

represented in person or by proxy, will constitute a quorum for the meeting.

1

Votes will be tabulated by an inspector of election appointed by the Company's Board of Directors. Pursuant to the General Corporation Law of the State of Delaware, only votes cast "For" a matter constitute affirmative votes, except proxies in which the stockholder fails to make a specification as to whether he votes "For", "Against", "Abstains" or "Withholds" as to a particular matter shall be considered as a vote "For" that matter. Votes in which the stockholder specifies that he is "Withholding" or "Abstaining" from voting are counted for quorum purposes, but will not be counted as votes cast on such matter. Broker non-votes are counted for quorum purposes, but are not considered as votes "For" a particular matter.

There were no stockholder proposals submitted for the Annual Meeting. The Board of Directors does not intend to bring any matter before the Annual Meeting other than matters specifically referred to in the notice of the Annual Meeting, nor does the Board of Directors know of any other matter that anyone else proposes to present for action at the Annual Meeting. However, if any other matter is properly brought before the Annual Meeting, the persons named in the accompanying proxy or their duly constituted substitutes acting at the Annual Meeting will be deemed authorized to vote or otherwise act thereon in accordance with their judgment on such matter.

PROPOSAL 1

ELECTION OF DIRECTORS

General The Board of Directors has nominated Robert C. Brown, M.D., Barry H. Golsen, David R. Goss, and John A. Shelley to serve a three-year term expiring in 2009. Each of the nominees is presently serving as a director of the Company.

If any of the nominees become unable or unwilling to serve for good cause (an event which the Board of Directors does not anticipate), the person or persons named in the Proxy Card as the proxies will vote for the election of the person or persons recommended by a majority of the independent directors then serving on the Board of Directors. The proxies cannot be voted for a greater number of persons than the number of nominees.

The Certificate of Incorporation and By-laws of the Company provide for the division of the Board of Directors into three classes, each class consisting as nearly as possible of one-third of the whole. The term of office of one class of directors expires each year, with each class of directors elected for a term of three years and until their successors are duly elected and qualified. Messrs. Brown, Golsen, Goss and Shelley are in the class whose term is expiring as of the Annual Meeting.

The Company's By-laws provide that the Board of Directors, by resolution from time to time, may fix the number of directors that shall constitute the whole Board of Directors. The By-laws presently provide that the number of directors may consist of not less than three nor more than thirteen. The Board of Directors currently consists of thirteen members.

The terms of the Company's \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred") provide that whenever dividends on the Series 2 Preferred are in arrears and unpaid in an amount equal to at least six quarterly dividends: (a) the number of members of the Board of Directors of the Company shall be increased by two effective as of the time of election of such directors; (b) the Company shall, upon the written request of the record holders of at least 10% of the shares of Series 2 Preferred, call a special meeting of the Series 2 Preferred holders for the purpose of electing such two additional directors; (c) the Series 2 Preferred holders have the exclusive right to vote for and elect such two additional directors; and (d) the term of office of such directors will terminate immediately upon the termination of the right of the Series 2 Preferred holders to vote for such two additional directors, subject to the requirements of Delaware law. In 2002, the holders of the Series 2 Preferred

elected Grant J. Donovan and Dr. N. Allen Ford to serve as directors pursuant to the terms of the Series 2 Preferred. The Series 2 Preferred holders have the right to remove without cause at any time and replace either of the two directors that the Series 2 Preferred holders have elected.

Approval of each nominee for election to the Board of Directors will require the affirmative vote of a plurality of the votes cast by the holders of the voting securities of the Company, voting together as one class.

The following sets forth certain information regarding the nominees and all other directors whose term will continue after the Annual Meeting.

Nominees:

Robert C. Brown, M.D., age 75. Dr. Brown first became a director in 1969. His term will expire as of this annual meeting. Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. and President and Chief Executive Officer of ClaimLogic L.L.C. Dr. Brown is a graduate of Tufts University and received his medical degree from Tufts University after which he spent two years in the United States Navy as a doctor and over three years at the Mayo Clinic.

Barry H. Golsen, J.D., age 55. Mr. Golsen first became a director in 1981. His term will expire as of this annual meeting. Mr. Golsen was elected President of the Company in 2004. Mr. Golsen has served as our Vice Chairman of the Board of Directors since August 1994, and has been the President of our Climate Control Business for more than five years. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

David R. Goss, age 65. Mr. Goss first became a director in 1971. His term will expire as of this annual meeting. Mr. Goss, a certified public accountant, is our Executive Vice President of Operations and has served in substantially the same capacity for more than five years. Mr. Goss is a graduate of Rutgers University.

John A. Shelley, age 55. Mr. Shelley first became a director in 2005. His term will expire as of this annual meeting. Mr. Shelley is the President and Chief Executive Officer of The Bank of Union ("Bank of Union") located in Oklahoma. He has held this position since 1997. Prior to 1997, Mr. Shelley held various senior level positions in financial institutions in Oklahoma including the position of President of Equity Bank for Savings, N.A., a savings and loan that was previously owned by the Company. Mr. Shelley is a graduate of the University of Oklahoma.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION
OF THE FOUR NOMINEES AS DIRECTORS OF THE COMPANY**

Continuing Directors:

Raymond B. Ackerman, age 83. Mr. Ackerman first became a director in 1993. His term will expire in 2008. From 1972 until his retirement in 1992, Mr. Ackerman served as Chairman of the Board and President of Ackerman McQueen, Inc., the largest advertising and public relations firm headquartered in Oklahoma. He currently serves as Chairman Emeritus of the firm. He retired as a Rear Admiral in the United States Naval Reserve. He is a graduate of Oklahoma City University, and in 1996, was awarded an honorary doctorate from the school. He was elected to the Oklahoma Commerce and Industry Hall of Honor in 1993.

Charles A. Burtch, age 70. Mr. Burtch first became a director in 1999. His term will expire in 2007. Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica's asset-based lending division for the western third of the United States. He retired in 1998 and has since been engaged as a private investor. Mr. Burtch is a graduate of Arizona State University.

Jack E. Golsen, age 77. Mr. Golsen first became a director in 1969. His term will expire in 2007. Mr. Golsen, founder of the Company, is our Chairman of the Board of Directors and Chief Executive Officer and has served in that capacity since our inception in 1969. Mr. Golsen served as our President from 1969 until 2004. During 1996, he was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a Bachelor of Science degree from the University of New Mexico in biochemistry.

Bernard G. Ille, age 79. Mr. Ille first became a director in 1971. His term will expire in 2008. Mr. Ille served as President and Chief Executive Officer of United Founders Life from 1966 to 1988. He served as President and Chief Executive Officer of First Life Assurance Company from 1988, until it was acquired by another company in 1994. During his tenure as President of these two companies, he served as Chairman of the Oklahoma Guaranty Association for ten years and was President of the Oklahoma Association of Life Insurance Companies for two terms. He is a director of Landmark Land Company, Inc., which was the parent company of First Life. He is also a director for Quail Creek Bank, N.A. Mr. Ille is currently President of BML Consultants and a private investor. He is a graduate of the University of Oklahoma.

Horace G. Rhodes, age 78. Mr. Rhodes first became a director in 1996. His term will expire in 2007. Mr. Rhodes is the Chairman of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such capacity and has practiced law for many years. From 1972 until 2001, he served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association. Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma.

Tony M. Shelby, age 64. Mr. Shelby first became a director in 1971. His term will expire in 2008. Mr. Shelby, a certified public accountant, is our Executive Vice President of Finance and Chief Financial Officer, a position he has held for more than five years. Prior to becoming our Executive Vice President of Finance and Chief Financial Officer, he served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young LLP. Mr. Shelby is a graduate of Oklahoma City University.

Donald W. Munson, age 73. Mr. Munson first became a director in 1997. His term will expire in 2008. From 1988, until his retirement in 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to 1998, he served as Executive Vice President of Lennox Industries' Division Operations, President of Lennox Canada and Managing Director of Lennox Industries' European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company

located in Scotland, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. He is currently a consultant. Mr. Munson is a resident of England. He has degrees in mechanical engineering and business administration from the University of Minnesota.

Continuing Directors elected by the holders of Series 2 Preferred:

Grant J. Donovan, age 49. Mr. Donovan first became a director in 2002. Mr. Donovan is President and founder of Galehead, Inc., a company specializing in the collections of accounts receivable in the international maritime trade business. Prior to forming Galehead, Inc., Mr. Donovan was a partner in a real estate development firm specializing in revitalizing functionally obsolete industrial buildings. Mr. Donovan received his MBA from Stanford University and his undergraduate degree in Civil Engineering from the University of Vermont. He currently is on the board of directors of EngenderHealth, a 50 year-old international aid organization focused on improving women's healthcare.

4

Dr. N. Allen Ford, age 63. Dr. Ford first became a director in 2002. Dr. Ford joined the University of Kansas in 1976 where his teaching and research duties focus mainly on taxation. At the University of Kansas, Professor Ford has won several teaching awards and is the Larry D. Horner/KPMG Peat Marwick Distinguished Professor of Accounting. Dr. Ford teaches the following courses in taxation: individual, corporate, partnership, S corporation, gift and estate tax. He is active in professional organizations such as the American Taxation Association and the American Accounting Association. He received his Ph.D. in Accounting from the University of Arkansas.

Board Independence The Board of Directors has determined that each of Messrs. Ackerman, Burtch, Donovan, Ford, Ille, Munson and Rhodes is an "independent director" in accordance with the current listing standards of the American Stock Exchange (the "AMEX"). In connection with the Board's determination as to whether John A. Shelley is independent, the Board considered, in addition to any transactions between the Company and Mr. Shelley discussed under "Certain Relationships and Related Transactions", that the Bank of Union, of which Mr. Shelley is President and Chief Executive Officer, has substantial outstanding loans to Jack E. Golsen, members of his immediate family, and/or entities in which Mr. Golsen and his immediate family own or control (the "Golsen Group") and the Golsen Group's pledge of shares of LSB common stock, among other things, to secure these loans.

Certain Committees and Meetings of the Board of Directors The Board of Directors of the Company held ten meetings in 2005. During 2005, no director attended fewer than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all committees of the Board of Directors on which he served, except for Messrs. Donovan, Ford and Munson who attended 64%, 73% and 73%, respectively, of such meetings.

The Company has an Executive Compensation and Option Committee and an Audit Committee. The Company does not have a nominating committee.

The Company's Executive Compensation and Option Committee sets the compensation of all officers of the Company. The members of the Executive Compensation and Option Committee are the following non-employee directors: Mr. Ille and Mr. Rhodes. During 2005, the Executive Compensation and Option Committee had two meetings.

The Company's Audit Committee assists the Board of Directors in monitoring the integrity of the financial statements of the Company, the independent registered public accounting firm's qualifications and independence, the performance of the Company's internal audit function and independent registered public accounting firm, and the Company's compliance with legal and regulatory requirements. In carrying out these purposes, the Audit Committee, among other things:

- appoints, evaluates, and approves the compensation of, the Company's independent registered public accounting firm;
- pre-approves all auditing services and permitted non-audit services; annually considers the qualifications and independence of the independent registered public accounting firm;
- reviews recommendations of independent registered public accounting firm concerning the Company's accounting principles, internal controls and accounting procedures and practices;
 - reviews and approves the scope of the annual audit;
- reviews and discusses with the independent registered public accounting firm the audited financial statements;
 - performs such other duties as set forth in the Audit Committee Charter
- reviews and discusses with the independent registered public accounting firm the unaudited quarterly financial statements.

The members of the Audit Committee are Messrs. Ille, Burtch, Rhodes, and Ackerman. The Board has determined that each member of the Audit Committee is independent, as defined in the current listing standards of the AMEX and Section 10A-3 of the Securities Act of 1933, as amended. During 2005, the Audit Committee had seven meetings. The Audit Committee operates under a written charter.

Nominations of Directors The Board of Directors does not have a standing nominating committee. The Board believes that the Company is best served by having all of its independent directors serve in the capacity of a nominating committee. Accordingly, each director nominee must be selected or recommended for the Board's nomination by a majority of the independent directors of the Board. Upon recommendation by a majority of the independent directors, all of the Company's directors participate in the consideration of director nominees. In considering candidates for directorship, the independent directors consider the entirety of each candidate's credentials, but do not have any specific minimum qualifications that must be met by a candidate in order to be recommended as a nominee.

In March 2002, the holders of the Company's Series 2 Preferred elected Dr. N. Allen Ford and Mr. Grant Donovan to serve as members of the Company's Board of Directors pursuant to the terms of the Series 2 Preferred.

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

Communication with the Board of Directors and Directors Attendance at Annual Meetings The Company's Board of Directors believes that it is important for the Company to have a process whereby its stockholders may send communications to the Board. Accordingly, stockholders who wish to communicate with the Board of Directors or a particular director may do so by sending a letter to David Shear, Senior Vice President, General Counsel and Secretary at 16 S. Pennsylvania Avenue, Oklahoma City, OK 73107. The mailing envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication" or "Stockholder-Director Communication." All such letters must identify the author as a stockholder and clearly state whether the intended recipients are all members of the Board of Directors or only certain specified individual directors. Mr. Shear will make copies of all such letters and circulate them to the appropriate director or directors. Although the Company does not currently have a policy with respect to the attendance of its directors at the Annual Meeting, the Company encourages each of its directors to attend whenever possible. A majority of the directors attended the Company's 2005 Annual Meeting of Stockholders.

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

We and all our subsidiary companies have adopted a Statement of Policy Concerning Business Conduct applicable to our employees. This policy was amended in May 2005. Our Amended Statement of Policy Concerning Business Conduct and the Code of Ethics is available on our website at <http://www.lsb-okc.com>. We will post any amendments to these documents, as well as any waivers that are required to be disclosed pursuant to the rules of either the Securities and Exchange Commission or the AMEX, on our website.

Compensation of Directors In 2005, we compensated our non-employee directors for their services as directors on our Board. Certain non-employee directors also served on the Board of Directors of our subsidiary, ThermaClime, without additional compensation. Our non-employee directors also received compensation for each meeting of the Board of Directors attended during 2005. The aggregate compensation paid in 2005 to our Directors for Board-related services was \$218,660.

Mr. Ackerman received additional compensation for his services on the Audit and Public Relations and Marketing Committees. Dr. Brown received additional compensation for his services on the Benefits and Programs Committee and as a medical director for the Company's employee medical plan. Mr. Burtch received additional compensation for his services on the Audit Committee. Mr. Ille received additional compensation for his services on the Audit, Public Relations and Marketing, and Executive Compensation and Option Committees. Mr. Munson received additional compensation for consulting services in connection with developing our European business. Mr. Rhodes received additional compensation for his services on the Audit and Executive Compensation and Option Committees.

In 2005, the non-employee directors of the Company were eligible to receive options to purchase the Company's Common Stock under the Outside Directors Stock Purchase Plan. The Company did not grant options under this plan during 2005.

The following table shows the compensation of our non-employee directors during 2005:

| | Committee and Consulting Services | Director Services |
|--------------|--|----------------------|
| Mr. Ackerman | \$ 20,000 | \$ 12,500 |
| Dr. Brown | \$ 20,000 | \$ 12,500 |
| Mr. Burtch | \$ 20,000 | \$ 12,000 |
| Mr. Donovan | \$ - | \$ 12,500 |
| Dr. Ford | \$ - | \$ 12,000 |
| Mr. Ille | \$ 20,000 | \$ 12,000 |
| Mr. Munson | \$ 15,160 | \$ 11,500 |
| Mr. Rhodes | \$ 20,000 | \$ 12,500 |
| Mr. Shelley | \$ - | \$ 6,000 |

Audit Committee Report Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control; the Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report with management, including a discussion of the quality, not just the acceptability, of the accounting principles; the reasonableness of significant judgments; and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent registered public accounting firm, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's

accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards (including Statement on Auditing Standards No. 61). In addition, the Committee has discussed with the independent registered public accounting firm the auditors' independence from management and the Company, and has received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board (including Independence Standards Board Standard No. 1), and considered the compatibility of nonaudit services with the auditors' independence.

The Committee discussed with the Company's internal auditors and independent registered public accounting firm the overall scope and plans for their respective audits. The Committee meets with the internal auditors and independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal control, and the overall quality of the Company's financial reporting. The Committee held seven meetings during 2005.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission. The Committee appointed Ernst & Young LLP as the Company's independent registered public accounting firm for 2006.

Members of the Committee:

Bernard G. Ille (Chairman)
Horace G. Rhodes
Charles A. Burtch
Raymond B. Ackerman

Notwithstanding anything to the contrary set forth in the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate by reference previous or future filings, including this Proxy Statement, in whole or in part, the foregoing report of the Audit Committee and any statements regarding the independence of the Audit Committee members shall not be incorporated by reference into any such filings.

Fees Paid to Independent Registered Public Accounting Firm

Audit Fees

The aggregate fees billed by Ernst & Young LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2005 and 2004, for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for those fiscal years, and for review of documents filed with the Securities and Exchange Commission for those fiscal years were approximately \$734,500 and \$613,500, respectively.

Audit-Related Fees

Ernst & Young LLP billed the Company \$231,300 and \$139,800 during 2005 and 2004, respectively, for audit-related services, which included benefit plan audit and accounting consultations which included assistance with the Securities Exchange Commission ("SEC") comment letters and related restatements during 2005.

Tax Fees

Ernst & Young LLP billed \$112,943 and \$101,209 during 2005 and 2004, respectively, for tax services to the Company, and included tax return review and preparation and tax consultations and planning.

All Other Fees

The Company did not engage its accountants to provide any other services for the

8

fiscal years ended December 31, 2005 and 2004.

Engagement of the Independent Registered Public Accounting Firm

The Audit Committee is responsible for approving all engagements with Ernst & Young LLP to perform audit or non-audit services for us prior to us engaging Ernst & Young LLP to provide those services. All of the services under the headings Audit Related, Tax Services, and All Other Fees were approved by the Audit Committee in accordance with paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X of the Exchange Act. The Audit Committee of the Company's Board of Directors has considered whether Ernst & Young LLP's provision of the services described above for the fiscal years ended December 31, 2005 and 2004 is compatible with maintaining its independence.

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

Security Ownership of Certain Beneficial Owners The following table sets forth certain information as of the Record Date, regarding the ownership of our voting Common Stock and voting Preferred Stock by (a) each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that we know to be beneficial owner of more than 5% of our voting Common Stock and voting Preferred Stock. A person is deemed to be the beneficial owner of shares of the Company which he or she could acquire within 60 days of the Record Date.

| Name and Address of Beneficial Owner | Title of Class | Amounts of Shares Beneficially owned (1) | Percent of Class+ |
|---|----------------------------|---|-------------------------|
| Jack E. Golsen and members of his family (2) | Common Voting Preferred | 4,845,288 (3) (5) (6) 1,020,000 (4) (6) | 31.8% 99.9% |
| Kent C. McCarthy & affiliates (7) | Common | 2,798,086 (7) | 18.1% |
| Paul J. Denby (8) | Common | 1,147,818 (8) | 8.2% |
| James W. Sight (9) | Common | 875,521 (9) | 6.3% |

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

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

records.

9

(2) Includes Jack E. Golsen and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen (a Director, Vice Chairman of the Board of Directors, President of the Company and its Climate Control Business); son, Steven J. Golsen (Executive officer of several subsidiaries of the Company); daughter, Linda F. Rappaport; and SBL Corporation ("SBL") and its wholly owned subsidiary, Golsen Petroleum Corporation ("GPC"). All of the outstanding shares of SBL are beneficially owned by the members of the Golsen family. The address of Jack E. Golsen, Sylvia H. Golsen, Barry H. Golsen, Linda F. Rappaport; and SBL is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th Street, Oklahoma City, Oklahoma 73179. See "Certain Relationships and Related Transactions."

(3) Includes (a) the following shares over which Jack E. Golsen ("J. Golsen") has the sole voting and dispositive power: (i) 25,000 shares that he owns of record, (ii) 4,000 shares that he has the right to acquire upon conversion of a promissory note, (iii) 133,333 shares that he has the right to acquire upon the conversion of 4,000 shares of the Company's Series B Preferred owned of record by a trust, of which he is the sole trustee, (iv) 119,929 shares owned of record by a trust, of which he is the sole trustee, and (v) 176,500 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (b) 838,747 shares owned of record by a trust, of which Sylvia H. Golsen is the sole trustee, over which she and her husband, J. Golsen, share voting and dispositive power; (c) 302,889 shares over which Barry H. ("B. Golsen") has the sole voting and dispositive power, 533 shares owned of record by B. Golsen's wife, over which he shares the voting and dispositive power, and 75,000 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (d) 240,165 shares over which Steven J. Golsen ("S. Golsen") has the sole voting and dispositive power and 55,000 shares that he has the right to acquire within the next 60 days under the Company's stock option plans; (e) 178,606 shares held in trust for the grandchildren and great grandchild of J. Golsen and Sylvia H. Golsen of which B. Golsen, S. Golsen and Linda F. Rappaport ("L. Rappaport") jointly share voting and dispositive power; (f) 82,552 shares owned of record by L. Rappaport over which she has sole voting and dispositive power; (g) 1,527,099 shares owned of record by SBL, 39,177 shares that SBL has the right to acquire upon conversion of 9,050 shares of the Company's non-voting \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 (the "Series 2 Preferred"), 400,000 shares that SBL has the right to acquire upon conversion of 12,000 shares of Series B Preferred owned of record by SBL, and 250,000 shares that SBL has to right to acquire upon conversion of 1,000,000 shares of the Company's Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") owned of record by SBL and (h) 88,100 shares owned of record by GPC, 133,333 shares that GPC has the right to acquire upon conversion of 4,000 shares of Series B Preferred owned of record by GPC and 175,325 shares that GPC has the right to acquire upon conversion of 40,500 shares of Series 2 Preferred owned of record by GPC.

(4) Includes: (a) 4,000 shares of Series B Preferred owned of record by a trust, of which J. Golsen is the sole trustee, over which he has the sole voting and dispositive power; (b) 12,000 shares of Series B Preferred owned of record by SBL; (c) 4,000 shares Series B Preferred owned of record by SBL's wholly-owned subsidiary, GPC, over which SBL, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen, and L. Rappaport share the voting and dispositive power and (d) 1,000,000 shares of Series D Preferred owned of record by SBL.

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

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

(7) Jayhawk Institutional Partners, L.P. (“Jayhawk Institutional”), Kent C. McCarthy, Jayhawk Capital Management Company, LLC (“Jayhawk Capital”), and Jayhawk Investments, L.P. (“Jayhawk Investments”) (collectively, the “Jayhawk Parties”) as a group beneficially own 2,798,086 shares of our common stock, which includes 1,124,700 shares of common stock, 1,435,886 shares of common stock receivable upon conversion of 331,690 shares of Series 2 Preferred, 112,500 shares of common stock that may be acquired upon exercise of warrants, and 125,000 shares of common stock that may be acquired upon conversion of \$1 million principal amount of the 7% Convertible Senior Subordinated Debentures due 2011 (the “2006 Debentures”). The common stock beneficially owned by the Jayhawk Parties includes (a) 1,933,147 shares of common stock that Jayhawk Institutional owns or has the right to acquire, including (i) 953,700 shares of common stock, (ii) 741,947 shares of common stock receivable upon the conversion of 171,390 shares of Series 2 Preferred, (iii) 112,500 shares of common stock receivable upon the exercise of warrants, and (iv) 125,000 shares of common stock receivable upon the conversion of \$1 million principal amount of the 2006 Debentures, (b) 590,909 shares of common stock receivable by Jayhawk Investments upon conversion of 136,500 shares of Series 2 Preferred, and (c) 274,030 shares Mr. McCarthy personally owns or has the right to acquire, including 171,000 shares of common stock owned directly and 103,030 shares of common stock receivable upon the conversion of 23,800 shares of Series 2 Preferred. The foregoing beneficial ownership is based on a conversion rate of 125 shares per \$1,000 principal amount of the 2006 Debentures. Such beneficial ownership is subject to change based upon the terms of the 2006 Debentures, which provide that (a) at any time prior to September 1, 2006 and on or after March 1, 2009, the conversion rate is 125 shares per \$1,000 principal amount of the 2006 Debentures, and (b) during the period from September 1, 2006 to February 28, 2009, the conversion rate declines every six months, starting at 141.25 shares and ending at 129.23 shares per \$1,000 principal amount of the 2006 Debentures. Jayhawk Capital, as the investment advisor and manager of Jayhawk Institutional and the investment advisor and general partner of Jayhawk Investments, is deemed to beneficially own the securities held by Jayhawk Institutional and Jayhawk Investments. Mr. McCarthy, as the manager and sole member of Jayhawk Capital, has sole voting and dispositive power over our securities held by Jayhawk Capital, Jayhawk Institutional and Jayhawk Investments. Mr. McCarthy disclaims beneficial ownership of all such shares and the 2006 Debentures other than his personal holdings. Mr. McCarthy’s address is 8201 Mission Road, Suite 110, Prairie Village, Kansas 66208. See “Certain Relationships and Related Transactions.”

(8) Paul J. Denby advised the Company that he has voting and dispositive power over 1,147,818 shares of Common Stock (which includes 181,818 shares of Common Stock receivable upon conversion of 42,000 shares of Series 2 Preferred). This number of shares includes 49,329 shares beneficially owned by Mr. Denby's spouse over which Mr. Denby shares voting and dispositive power. Mr. Denby's address is 4613 Redwood Court, Irving, Texas 75038.

(9) James W. Sight has sole voting and dispositive power over 875,521 shares of Common Stock (which includes 153,368 shares of Common Stock receivable upon conversion of 35,428 shares of Series 2 Preferred). Mr. Sight's address is 8500 College Boulevard, Overland Park, Kansas 66210.

Security Ownership of Management The following table sets forth certain information obtained from the directors of the Company and the directors and executive officers of the Company as a group as to their beneficial ownership of our voting Common Stock and voting Preferred Stock as of the Record Date.

| Name of Beneficial Owner | Title of Class | Amount of Shares Beneficially Owned (1) | Percent of Class+ |
|--|------------------|---|-------------------|
| Raymond B. Ackerman | Common | 21,000 (2) | * |
| Robert C. Brown, M.D. | Common | 208,329 (3) | 1.5% |
| Charles A. Burtch | Common | 15,000 (4) | * |
| Grant J. Donovan | Common | 42,951 (5) | * |
| Dr. N. Allen Ford | Common | 1,432 (6) | * |
| Barry H. Golsen | Common | 3,170,062 (7) | 21.3% |
| | Voting Preferred | 1,016,000 (7) | 99.5% |
| Jack E. Golsen | Common | 3,910,543 (8) | 25.9% |
| | Voting Preferred | 1,020,000 (8) | 99.9% |
| David R. Goss | Common | 312,272 (9) | 2.2% |
| Bernard G. Ille | Common | 45,000 (10) | |
| Donald W. Munson | Common | 16,432 (11) | * |
| Horace G. Rhodes | Common | 20,000 (12) | * |
| David M. Shear | Common | 170,812 (13) | 1.2% |
| Tony M. Shelby | Common | 356,029 (14) | 2.5% |
| Directors and Executive Officers as a group (14 persons) | Common | 5,902,765 | 36.8% |
| | Voting Preferred | 1,020,000 (15) | 99.9% |

* Less than 1%.

+ See footnote + to the table under "Security Ownership of Certain Beneficial Owners."

(1) The Company based the information, with respect to beneficial ownership, on information furnished by each director or officer, contained in filings made with the Securities and Exchange Commission, or contained in the Company's records. As of the Record Date, John A. Shelley did not beneficially own any of our voting Common Stock or voting Preferred Stock.

(2) This amount includes the following shares over which Mr. Ackerman shares voting and dispositive power: (a) 2,000 shares held by Mr. Ackerman's trust, and (b) 4,000 shares held by the trust of Mr. Ackerman's wife. The

remaining 15,000 shares of Common Stock included herein are shares that Mr. Ackerman may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(3) The amount shown includes 15,000 shares of Common Stock that Dr. Brown may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company. The shares, with respect to which Dr. Brown shares the voting and dispositive power, consists of 122,516 shares owned by Dr. Brown's wife, 50,727 shares owned by Robert C. Brown, M.D., Inc., a corporation wholly-owned by Dr. Brown, and 20,086 shares held by the Robert C. Brown M.D., Inc. Employee Profit Sharing Plan, of which Dr. Brown serves as the trustee. The amount shown does not include shares owned directly, or through trusts, by the children of Dr. Brown and the son-in-law of Dr. Brown, David M. Shear, all of which Dr. Brown disclaims beneficial ownership.

(4) Mr. Burtch has sole voting and dispositive power over these shares, which may be acquired by Mr. Burtch pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(5) The amount includes (a) 42,451 shares of common stock, including 30,251 shares that Mr. Donovan has the right to acquire upon conversion of 6,988 shares of Series 2 Preferred, over which Mr. Donovan has the sole voting and dispositive power, and (b) 500 shares owned of record by Mr. Donovan's wife, voting and dispositive power of which are shared by Mr. Donovan and his wife.

(6) The amount includes (a) 1,000 shares of common stock which Dr. Ford has sole voting and dispositive power, and (b) 432 shares that Dr. Ford's wife has the right to acquire upon conversion of 100 shares of Series 2 Preferred over which voting and dispositive power are shared by Dr. Ford and his wife.

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

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

(9) Mr. Goss has the sole voting and dispositive power over these shares, which include 200,000 shares that Mr. Goss has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans.

(10) The amount includes (a) 15,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille has the sole voting and dispositive power, and (b) 30,000 shares owned of record by Mr. Ille's wife, voting and dispositive power of which are shared by Mr. Ille and his wife.

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

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

(13) Mr. Shear has the sole voting and dispositive power over these shares, which include 160,544 shares that Mr. Shear has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans. This amount does not include, and Mr. Shear disclaims beneficial ownership of, the shares beneficially owned by Mr. Shear's wife, who is the Vice President and Managing Counsel of the Company, which consist of 13,146 shares over which she has the sole voting and dispositive power, 22,760 shares that she has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans, and 281,708 shares, the beneficial ownership of which is disclaimed by her, that are held by trusts of which she is the trustee.

(14) Mr. Shelby has the sole voting and dispositive power over these shares, which include 200,000 shares that Mr. Shelby has the right to acquire within 60 days pursuant to options granted under the Company's stock option plans and 15,151 shares that Mr. Shelby has the right to acquire upon conversion of 3,500 shares of Series 2 Preferred.

(15) The amount shown includes 1,081,044 shares of Common Stock that executive officers, directors, or entities controlled by executive officers and directors of the Company have the right to acquire within 60 days.

Section 16(a) Beneficial Ownership Reporting Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 2005, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 2005 all directors and officers of the Company and beneficial owners of more than 10% of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act filed their required Forms 3, 4, or 5, as required by Section 16(a) of the Exchange Act of 1934, as amended, on a timely basis, except for Kent McCarthy and his affiliates inadvertently filed one late Form 5 to report one transaction; Dr. Ford inadvertently filed one late Form 5 to report one transaction; and Mr. Goss filed an amended Form 4 to report two gifts.

Certain Relationships and Related Transactions

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

Prime and John A. Shelley In August 1996, Prime Financial Corporation, a subsidiary of the Company, made a loan to John A. Shelley (elected a director of the Company during the 2005 Annual Meeting) in the principal sum of \$50,000, bearing an annual rate of interest of 9%, payable on demand. The loan was evidenced by a demand promissory note and was made as part of his severance package as President of Equity Bank when the Company sold Equity Bank. The note was fully reserved by the Company. The Company has never demanded repayment of the principal or any accrued interest under the note. The Company wrote off the note in 2005 prior to the 2005 Annual Meeting.

Jayhawk Parties During March 2006, the Jayhawk Parties beneficially owned approximately 17.4% of our common stock (which includes shares that may be issued upon conversion of outstanding preferred stock and exercise of an outstanding warrant), purchased \$1 million principal amount of our 2006 debentures from us in connection with our private placement of \$18 million of the 2006 Debentures.

During April 2006, \$1.036 million of the net proceeds from the 2006 Debentures were used to purchase from certain of the Jayhawk Parties approximately \$1 million principal amount of our subsidiary's 10-3/4% Senior Unsecured Notes, plus accrued and unpaid interest due thereon.

Effective March 25, 2003, the Company completed a private placement to Jayhawk Institutional of 450,000 shares of its common stock and a five-year warrant to purchase up to 112,500 share of its common stock at an exercise price of \$3.49 per share, subject to anti-dilution adjustments under certain conditions. The total price paid by Jayhawk Institutional to the Company for the shares of common stock and the warrant was \$1,570,500. Jayhawk has certain registration rights.

Designer Rugs One of our manufacturing facilities sustained substantial water damage in its office area resulting from the improper installation by an unrelated third-party vendor. As a result of the water damage, it became necessary to replace all of the carpet in the office area of the facility. During the first quarter of 2006, we purchased replacement carpet from a company ("Designer Rugs") owned by Linda F. Rappaport, the daughter of Jack E. Golsen, our Chairman and Chief Executive Officer, and sister of Barry H. Golsen, our President. We paid approximately \$159,000 to Designer Rugs for the new carpet, removal of the damaged carpeting and installation of the new carpet. We believe that insurance will reimburse us for the cost of the carpet and installation except for a deductible amount of \$25,000.

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

**EXECUTIVE COMPENSATION
AND OTHER INFORMATION**

Executive Compensation The following table shows the aggregate compensation which we and our subsidiaries paid or accrued to our Chief Executive Officer and each of our other four most highly-paid executive officers (which includes our Vice Chairman of the Board of Directors who also serves as President of the Company and its Climate Control Business) (together, the “named executive officers”).

Summary Compensation Table

| Name and Position | Year | Annual Compensation | | |
|---|------|---------------------|-------------------|--|
| | | Salary (\$ (1)) | Bonus (\$ (2)) | All Other Compensation (\$) (3) |
| Jack E. Golsen, Chairman of the Board of Directors and Chief Executive Officer | 2005 | 477,400 | - | 112,365 (3) |
| | 2004 | 495,762 | - | 61,133 (3) |
| | 2003 | 477,400 | - | 23,000 (3) |
| Barry H. Golsen, Vice Chairman of the Board of Directors, President, and President of the Climate Control Business | 2005 | 411,600 | 35,000 | - |
| | 2004 | 339,162 | 85,000 | - |
| | 2003 | 326,600 | 85,000 | - |
| David R. Goss, Executive Vice President of Operations | 2005 | 260,500 | - | - |
| | 2004 | 239,366 | 30,000 | - |
| | 2003 | 209,577 | - | - |
| Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer | 2005 | 240,000 | 35,000 | - |
| | 2004 | 249,231 | 30,000 | - |
| | 2003 | 214,108 | - | - |
| David M. Shear, Senior Vice President and General Counsel | 2005 | 212,558 | 30,000 | - |
| | 2004 | 212,885 | 30,000 | - |
| | 2003 | 184,077 | - | - |

(1) We pay the executive officers on a bi-weekly basis. For 2004, there were 27 bi-weekly payments compared to 26 in 2005 and 2003.

(2) Bonuses are paid for services rendered as determined by the Executive Compensation and Option Committee.

(3) For 2004 and 2003, amounts relate to life insurance premiums paid by the Company under a \$3 million split dollar endorsement life insurance policy purchased in 1996 by the Company on the life of Mr. Golsen (the "Split Dollar Policy"). The Split Dollar Policy was replaced in 2005. Mr. Golsen has no obligation to repay the Company any amounts paid by the Company under the Split Dollar Policy. In 2005, the Company purchased and now owns three whole life insurance policies on Mr. Golsen's life, totaling \$7 million in death benefits. Pursuant to a Death Benefit Agreement between us and Mr. Golsen, \$2.5 million of these death benefits are payable to Mr. Golsen's family or

designated beneficiary. For 2005, the amount relates to Mr. Golsen's prorata share of the life insurance premiums for these new policies based on the amount of proceeds to be paid to Mr. Golsen's family or designated beneficiary in relation to the total amount of proceeds to be received by the Company. See "Other Plans" for a description of the Death Benefit Agreement.

Option Grants in 2005 The Company did not grant stock options to any of the named executive officers during 2005.

15

Aggregated Option Exercises in 2005 and Year-End Option Values

The following table sets forth information concerning the number and year-end value of stock options held by each of the named executive officers during 2005.

| Name | Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options at FY End (1) | Value of Unexercised In-the-Money Options at Fiscal Year End (1) (2) |
|-----------------|--------------------------------------|-------------------|--|---|
| | | | Exercisable/Unexercisable | Exercisable/Unexercisable |
| Jack E. Golsen | - | - | 176,500 / - | \$ 864,850 / \$ - |
| Barry H. Golsen | - | - | 75,000 / - | \$ 335,538 / \$ - |
| David R. Goss | - | - | 200,000 / - | \$ 709,675 / \$ - |
| Tony M. Shelby | - | - | 200,000 / - | \$ 709,675 / \$ - |
| David M. Shear | - | - | 164,544 / - | \$ 597,066 / \$ - |

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

(2) The values are based on the difference between (a) the price of the Company's Common Stock on the AMEX at the close of trading on December 30, 2005 of \$6.15 per share and (b) the exercise price of the option. The actual value realized by a named executive officer on the exercise of these options depends on the market value of the Company's Common Stock on the date of exercise.

Other Plans The Board of Directors has adopted an LSB Industries, Inc., Employee Savings Plan (the "401(k) Plan") for the employees (including executive officers) of the Company and its subsidiaries, excluding employees covered under union agreements and certain other employees. The 401(k) Plan is funded by employee contributions, and the Company and its subsidiaries make no contributions to the 401(k) Plan (with limited matching exceptions at three subsidiary locations). The amount that an employee may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the employee's income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the employee's compensation each pay period, in accordance with the employee's instructions, and pays the amount into the 401(k) Plan for the employee's benefit. The salary and bonus set forth in the Summary Compensation Table above includes any amounts contributed during the 2005, 2004, and 2003 fiscal years pursuant to the 401(k) Plan by the named executive officers of the Company.

On May 12, 2005, the Company entered into a certain death benefit agreement ("2005 Agreement") with Jack E. Golsen. This agreement replaced certain existing benefits that were payable to Mr. Golsen under a split dollar insurance policy purchased by the Company on Mr. Golsen's life in 1996 and a second policy purchased in 2002, each of which were replaced in 2005. The 2005 Agreement provides that, upon Mr. Golsen's death, the Company will pay to Mr. Golsen's family or designated beneficiary \$2.5 million to be funded from the net proceeds received by the Company under certain life insurance policies on Mr. Golsen's life that have been purchased and are owned by the Company. The life insurance policies owned by the Company provide a stated death benefit of \$7 million. The Company is obligated to keep in existence no less than \$2.5 million of the stated death benefit.

During 1981, the Company entered into individual death benefit agreements (the "1981 Agreements") with certain key employees. Under the 1981 Agreements, the designated beneficiary of an employee will receive a monthly benefit for a period

16

of ten years if the employee dies while in the employment of the Company or a wholly-owned subsidiary of the Company. The 1981 Agreements provide that the Company may terminate the agreement as to any employee at anytime prior to the employee's death. The Company has purchased life insurance on the life of each employee covered under the 1981 Agreements to provide a source of funds for the Company's obligations under the 1981 Agreements. The Company is the owner and sole beneficiary of each of the insurance policies and the proceeds are payable to the Company upon the death of the employee. The following table sets forth the amounts of annual benefits payable to the designated beneficiary or beneficiaries of the executive officers named in the Summary Compensation Table under the 1981 Agreements.

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

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

| Name of Individual | Amount of Annual Benefit | Amount of Annual Death Benefit |
|--------------------|--------------------------|--------------------------------|
| Barry H. Golsen | \$ 17,480 | \$ 11,596 |
| David R. Goss (1) | \$ 17,403 | \$ - |
| Tony M. Shelby | \$ 15,605 | \$ 16,486 |
| David M. Shear | \$ 17,822 | \$ 7,957 |

(1) During 2005, Mr. Goss reached the age of 65. As a result, Mr. Goss is receiving a monthly benefit of \$1,450 which began in December 2005.

Employment Contracts and Termination of Employment and Change in Control Arrangements

(a) Termination of Employment and Change in Control Agreements We have entered into severance agreements with each of Jack E. Golsen, Barry H. Golsen, Tony M. Shelby, David R. Goss, David M. Shear, and certain other officers.

Each severance agreement provides (among other things) that if, within 24 months after the occurrence of a change in control (as defined) of the Company, the Company terminates the officer's employment other than for cause (as defined), or the officer terminates his employment for good reason (as defined), the Company

17

must pay the officer an amount equal to 2.9 times the officer's base amount (as defined). The phrase "base amount" means the average annual gross compensation paid by the Company to the officer and includable in the officer's gross income during the most recent five year period immediately preceding the change in control. If the officer has been employed by the Company for less than five years, the base amount is calculated with respect to the most recent number of taxable years ending before the change in control that the officer worked for the Company.

The severance agreements provide that a "change in control" means a change in control of the Company of a nature that would require the filing of a Form 8-K with the Securities and Exchange Commission and, in any event, would mean when: (a) any individual, firm, corporation, entity, or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of 30% or more of the combined voting power of the Company's outstanding voting securities having the right to vote for the election of directors, except acquisitions by (i) any person, firm, corporation, entity, or group which, as of the date of the severance agreement, has that ownership, or (ii) Jack E. Golsen, his wife; his children and the spouses of his children; his estate; executor or administrator of any estate, guardian or custodian for Jack E. Golsen, his wife, his children, or the spouses of his children, any corporation, trust, partnership, or other entity of which Jack E. Golsen, his wife, children, or the spouses of his children own at least 80% of the outstanding beneficial voting or equity interests, directly or indirectly, either by any one or more of the above-described persons, entities, or estates; and certain affiliates and associates of any of the above-described persons, entities, or estates; (b) individuals who, as of the date of the severance agreement, constitute the Board of Directors of the Company (the "Incumbent Board") and who cease for any reason to constitute a majority of the Board of Directors except that any person becoming a director subsequent to the date of the severance agreement, whose election or nomination for election is approved by a majority of the Incumbent Board (with certain limited exceptions), will constitute a member of the Incumbent Board; or (c) the sale by the Company of all or substantially all of its assets.

Except for the severance agreement with Jack E. Golsen, the termination of an officer's employment with the Company "for cause" means termination because of: (a) the mental or physical disability from performing the officer's duties for a period of 120 consecutive days or one hundred eighty days (even though not consecutive) within a 360 day period; (b) the conviction of a felony; (c) the embezzlement by the officer of Company assets resulting in substantial personal enrichment of the officer at the expense of the Company; or (d) the willful failure (when not mentally or physically disabled) to follow a direct written order from the Company's Board of Directors within the reasonable scope of the officer's duties performed during the 60 day period prior to the change in control. The definition of "Cause" contained in the severance agreement with Jack E. Golsen means termination because of: (a) the conviction of Mr. Golsen of a felony involving moral turpitude after all appeals have been completed; or (b) if due to Mr. Golsen's serious, willful, gross misconduct or willful, gross neglect of his duties has resulted in material damages to the Company and its subsidiaries, taken as a whole, provided that (i) no action or failure to act by Mr. Golsen will constitute a reason for termination if he believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and (ii) failure of Mr. Golsen to perform his duties hereunder due to disability shall not be considered willful, gross misconduct or willful, gross negligence of his duties for any purpose.

The termination of an officer's employment with the Company for "good reason" means termination because of (a) the assignment to the officer of duties inconsistent with the officer's position, authority, duties, or responsibilities during the 60 day period immediately preceding the change in control of the Company or any other action which results in the diminishment of those duties, position, authority, or responsibilities; (b) the relocation of the officer; (c) any purported termination by the Company of the officer's employment with the

Company otherwise than as permitted by the severance agreement; or (d) in the event of a change in control of the Company, the failure of the successor or parent company to agree, in form and substance satisfactory to the officer, to assume (as to a successor) or guarantee (as to a parent) the severance agreement as if no change in control had occurred.

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

(b) Employment Agreement We have an employment agreement with Jack E. Golsen, the Chairman of the Board and Chief Executive Officer of the Company, which requires the Company to employ Mr. Golsen as an executive officer of the Company. The current term of the employment agreement will expire March 21, 2008; however, pursuant to an amendment to the employment agreement approved by the Board of Directors, the term will be automatically renewed for up to three additional three-year periods. The employment agreement may be terminated by either party by written notice at least one year prior to the expiration of the then current term. Under the terms of such employment agreement, Mr. Golsen (a) shall be paid an annual base salary at his 1995 base rate, as adjusted from time to time by the Executive Compensation and Option Committee, but such shall never be adjusted to an amount less than Mr. Golsen's 1995 base salary, (b) shall be paid an annual bonus in an amount as determined by the Executive Compensation and Option Committee, and (c) shall receive from the Company certain other fringe benefits. The employment agreement was amended in 2005 to reflect the termination of a split dollar life insurance policy on Mr. Golsen's life and the new Death Benefit Agreement, as discussed above under "Other Plans."

The employment agreement provides that Mr. Golsen's employment may not be terminated, except (a) upon conviction of a felony involving moral turpitude after all appeals have been exhausted, (b) Mr. Golsen's serious, willful, gross misconduct or willful, gross negligence of duties resulting in material damage to the Company and its subsidiaries, taken as a whole, unless Mr. Golsen believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and (c) Mr. Golsen's death. However, no such termination under (a) or (b) above may occur unless and until the Company has delivered to Mr. Golsen a resolution duly adopted by an affirmative vote of three-fourths of the entire membership of the Board of Directors at a meeting called for such purpose after reasonable notice given to Mr. Golsen finding, in good faith, that Mr. Golsen violated (a) or (b) above.

If Mr. Golsen's employment is terminated in breach of the employment agreement, then he shall, in addition to his other rights and remedies, receive and the Company shall pay to Mr. Golsen (a) in a lump sum cash payment, on the date of termination, a sum equal to the amount of Mr. Golsen's annual base salary at the time of such termination and the amount of the last bonus paid to Mr. Golsen prior to such termination times the number of years remaining under the then current term of the employment agreement and (b) provide to Mr. Golsen all of the fringe benefits that the Company was obligated to provide during his employment under the employment agreement for the remainder of the term of the employment agreement.

If there is a change in control (as defined in the severance agreement between Mr. Golsen and the Company) and within 24 months after such change in control Mr.

Golsen is terminated, other than for Cause (as defined in the severance agreement), then in such event, the severance agreement between Mr. Golsen and the Company shall be controlling.

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

Compensation Committee Interlocks and Insider Participation Our Executive Compensation and Option Committee has the authority to set the compensation of all our officers. This Committee generally considers and approves the recommendations of the Chief Executive Officer. The Chief Executive Officer does not make a recommendation regarding his own salary. The members of the Executive Compensation and Option Committee are the following non-employee directors: Bernard G. Ille and Horace G. Rhodes. Neither Mr. Ille nor Mr. Rhodes is, or ever has been, an officer or employee of the Company or any of its subsidiaries. During 2005, the Executive Compensation and Option Committee had two meetings.

See "Compensation of Directors" for information concerning compensation paid to each non-employee director of the Company during 2005 for services as a director to the Company.

Report of Executive Compensation and Option Committee

General The Executive Compensation and Option Committee ("Committee") is presently comprised of Bernard G. Ille and Horace G. Rhodes, neither of whom is a current or former employee of the Company. The Committee is responsible for reviewing and approving the compensation paid to executive officers of the Company.

Compensation Policy for Executive Officers Although the Committee has not established specific quantitative compensation policies for executive officers of the Company, including the Chief Executive Officer, the Committee reviews each executive officer's performance on behalf of the Company. The guiding principle of the Committee is based on the following objectives: (a) to attract and retain qualified executives in a highly competitive environment who will play significant roles in achieving the Company's goals; (b) to reward executives for strategic management and the long-term enhancement of stockholder value; (c) to create a performance-oriented environment that rewards performance with respect to financial and operational goals of the Company; and, (d) to motivate executives to protect the interests of the Company in all situations. The key elements of the Company's executive compensation program have consisted of a base salary, bonus and stock options.

As to the compensation (base salary and bonus) paid or payable to executive officers, other than the Chief Executive Officer, the Chief Executive Officer makes a recommendation to the Committee. The Committee considers such recommendations. The Chief Executive Officer's recommendation with respect to base salary and bonus and the Committee's approval or disapproval of such recommendation is primarily based on the objectives set forth above.

The Committee considers the payment of bonuses to be consistent with the objectives set forth above. As a result, bonuses were paid in 2005, 2004 and 2003. See "Executive Compensation."

Jack E. Golsen has been Chief Executive Officer of the Company since its formation in 1969. In March 1996, the Company entered into an employment agreement with Mr. Golsen, which sets Mr. Golsen's salary at his 1995 base rate, as adjusted from time to time by the Committee. In determining any adjustments to Mr. Golsen's compensation, the Committee takes into account the fact that Mr. Golsen continues the strategy of developing the Company through internal growth, acquisitions, redeployment of assets and personnel, the complexity of issues

required to be dealt with, and development of international markets. There were no increases in Mr. Golsen's annual salary for 2003, 2004 or 2005.

Since 1996, the Company has owned a \$3 million split dollar endorsement life insurance policy on the life of Jack E. Golsen in order to provide a death benefit for Mr. Golsen's family. In 2002, the Company purchased an additional \$2 million life insurance policy. The proceeds of those policies were to fund a \$2.5 million death benefit to Mr. Golsen's family. In March 2005, the Committee determined that due, in part, to certain ambiguities with, and the implementation of, Sarbanes Oxley Act of 2002, the Company should replace the split dollar policy and the additional policy on Mr. Golsen's life. As a result, the Committee recommended and the Board of Directors approved the termination of the existing policies and the purchase of three new whole life insurance policies on Mr. Golsen's life, having an aggregate stated death benefit of \$7 million. In connection with the purchase of the new policies, the Committee recommended and the Board of Directors approved a Death Benefit Agreement between the Company and Mr. Golsen. The agreement provides for the payment of \$2.5 million to Mr. Golsen's family or designated beneficiary upon the Company's receipt of \$2.5 million of insurance proceeds under the new policies. The amount payable under the Death Benefit Agreement to Mr. Golsen's family or designated beneficiary is the same amount that would have been payable under the prior two policies.

The Company utilizes the granting of stock options to compensate executive officers of the Company. This practice is founded on the belief that stock options offer executive officers a valuable incentive to achieve increased profitability of the Company in order to enhance stockholder value. There are no specific factors used to determine the number of options granted or to the timing of such grants; however, certain criteria are considered such as length of service, level of responsibility, and the achievement of the Company's earnings objectives. No stock options were granted to the Chief Executive Officer and other named executive officers of the Company during 2005.

Members of the Committee:

- * Horace G. Rhodes, Chairman
- * Bernard G. Ille

The foregoing report of the Executive Compensation and Option Committee shall not be considered incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (collectively, the "Acts"), except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed to be soliciting material or to be filed under such Acts.

Performance Graph The following table compares the yearly percentage change in the cumulative total stockholder return of (a) the Company, (b) a composite index ("Peer Group") comprised of a peer group of entities from two distinct industries which represent the Company's two primary lines of business (Climate Control and Chemical), and (c) the American Stock Exchange Market Value Index ("AMEX MVI"). The table set forth below covers the period from year-end 2000 through year-end 2005.

FISCAL YEAR ENDING**12/29/2000 12/31/2001 12/31/2002 12/31/2003 12/31/2004 12/30/2005**

| | | | | | | |
|----------------------|--------|--------|--------|--------|--------|--------|
| LSB Industries, Inc. | 100.00 | 106.67 | 114.87 | 261.74 | 326.15 | 252.31 |
| PEER GROUP | 100.00 | 113.50 | 107.43 | 162.70 | 246.79 | 239.69 |
| AMEX MVI | 100.00 | 95.39 | 91.58 | 124.66 | 142.75 | 157.43 |

Assumes \$100 invested at year-end 2000 in the Company, the Peer Group, and the AMEX MVI, and the investment of dividends, if any.

The Peer Group was developed for the Company by Hemscott Group (formerly CoreData) and is comprised of all companies that have specified Hemscott Group General Index Groups codes, which the Company believes correspond to the Company's primary lines of business. The Peer Group is comprised of (a) climate control companies having a Hemscott Group code 634 (general building materials) and (b) chemical companies having a Hemscott Group codes 112 (agricultural chemicals) and 113 (specialty chemicals), and is provided for comparison to the Company's two primary lines of business, Climate Control and Chemical. The companies which comprise the Peer Group are listed on Exhibit "A" to this Proxy Statement. The Company has been advised that the cumulative total return of each component company in the Peer Group has been weighted according to the respective company's stock market capitalization. The AMEX MVI line is provided because the Company believes that those companies listed in the AMEX MVI most closely resemble the size and composition of the Company. In light of the Company's unique industry diversification and current market capitalization, the Company believes that the Peer Group and AMEX MVI are appropriate for comparison to the Company. The above Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (collectively, the "Acts"), except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed to be soliciting material or to be filed under such Acts.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed the firm of Ernst & Young LLP, Independent Registered Public Accounting Firm ("Ernst & Young"), as the Company's auditors for 2006. Ernst & Young has served as the Company's auditors for more than five years, including the fiscal year most recently completed. If the stockholders do not ratify the appointment of Ernst & Young, the Audit Committee will reconsider the appointment.

In line with past practices, it is expected that one or more representatives of Ernst & Young will attend the Annual Meeting and will be available to respond to appropriate questions or make a statement should they desire to do so.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors knows of no other matters which may come before the Annual Meeting. If any other business properly comes before the meeting, the persons named in the Proxy Card will vote with respect to that matter in accordance with their best judgment.

Pursuant to the By-laws of the Company, only such business shall be conducted at the Annual Meeting as shall have been brought before the meeting (a) by or at the direction of the Board of Directors of the Company, or (b) by any stockholder of the Company who is entitled to vote at the Annual Meeting and who complies with the following notice requirements. No business may be properly brought before the Annual Meeting by a stockholder unless the stockholder gives written notice to the Secretary of the Company of the business to be presented at the Annual Meeting not less than 50 days prior to the date of the Annual Meeting (or in the event that less than 60 days notice, or public disclosure of the date of the Annual Meeting, is given or made to stockholders, written notice by the stockholder must be received by the Secretary of the Company not later than the close of business on the 10th day following the day on which notice of the date of the meeting was mailed or public disclosure was made). The written notice must set forth: (a) a brief description of the business desired to be presented before the Annual Meeting and reasons for conducting such business at the meeting; (b) the name and address, as they appear on the Company's books, of the stockholder proposing such business; (c) the class and number of shares of the Company's voting stock beneficially owned by such stockholder; and (d) any material interest of such stockholder in such business.

A copy of the Company's 2005 Annual Report accompanies this Proxy Statement, which Annual Report includes the Company's 2005 Form 10-K. Copies of exhibits to the Form 10-K are available, but a reasonable fee per page will be charged to the requesting stockholder. Stockholders may make requests in writing to Director - Communications Department, c/o LSB Industries, Inc., 16 South Pennsylvania Avenue, Post Office Box 754, Oklahoma City, OK 73101. Documents filed by the Company pursuant to the Exchange Act may be reviewed and obtained through the SEC's EDGAR system, which is publicly available through the SEC's website, <http://www.sec.gov>.

LSB INDUSTRIES, INC.
BY ORDER OF
THE BOARD OF DIRECTORS

David M. Shear
Secretary
June 7, 2006

Oklahoma City, Oklahoma

23

Exhibit "A"

| | | |
|------------------------------|---|-----------------------------|
| AAON INC | FLEXIBLE SOLUTIONS | OM GROUP INC |
| ACETO CORP | INTL | OMNOVA SOLUTIONS INC |
| ADA-ES INC | GRIFFON CORP | PENFORD CORP |
| AGRIUM INC | H.B. FULLER CO | QUAKER CHEMICAL CORP |
| AMCOL INTERNATIONAL CORP | IMPERIAL INDUSTRIES INC | RONSON CORP |
| AMERICAN STANDARD COS | INNOSPEC INC | RPM INTERNATIONAL INC DE |
| AMERICAN VANGUARD CORP | INTERNAT ALUMINUM CORP | SCOTTS MIRACLE GROW CO |
| AMERON INTERNAT CORP | INTERNAT FLAVORS & FRAG | SENSIENT TECHNOLOGIES CP |
| BALCHEM CORP | ISONICS CORPORATION | SHERWIN-WILLIAMS CO |
| BRADY CORPORATION CL A | KFX INC | SIGMA-ALDRICH CORP |
| BRASKEM PFD CL A ADR | KRONOS WORLDWIDE INC | SOCIEDAD QUIMICA Y MINER |
| BUNGE LTD | LAPOLLA INDUSTRIES | SURMODICS INC |
| CABOT CORP | LESCO INC | SYNGENTA AD FOR NVS |
| CABOT | LUBRIZOL CORP | SYNTROLEUM CORPORATION |
| MICROELECTRONICS | LYONDELL CHEMICAL CO | TAT TECHNOL LTD |
| CARBO CERAMICS INC | MACDERMID INC | TECUMSEH PRODUCTS CL A |
| CENTRAL GARDEN&PET CL CM | MACE SECURITY | TECUMSEH PRODUCTS CL B |
| CFC INTERNAT INC CL CM | INTERNAT | TERRA NITROGEN CO L.P. |
| CHEMTURA CORPORATION | MARTIN MARIETTA MATERIAL | TREX CO INC |
| CIBA SPECIALTY CHEM HLDG | MESTEK INC | U.S. LIME & MINERALS INC |
| COMPASS MINERALS INTL | METHANEX CORPORATION | UAP HOLDING CORP |
| CONTINENTAL MATERIALS CP | MONSANTO CO | USG CORP |
| CYANOTECH CORPORATION | MOSAIC CO | VALSPAR CORPORATION,THE |
| DREW INDUSTRIES INC | NCI BUILDING SYSTEMS INC | VULCAN MATERIALS CO |
| DYNAMOTIVE ENERGY SYSTEMS | NEVADA CHEMICALS INC | W.R. GRACE & CO |
| EDEN BIOSCIENCE CORP | NEWMARKET CORP | WD-40 CO |
| ELKCORP | NORTHERN TECHNOLOGY OIL-DRI CORP OF AMERICA | WESTLAKE CHEMICAL CORP |
| FERRO CORP | | |

