

LSB INDUSTRIES INC  
Form 424B3  
May 31, 2006

Pursuant to Rule

424 (b) (3)  
**PROSPECTUS**  
333-134111

Registration No.



LSB INDUSTRIES, INC.

7% Convertible Senior Subordinated Debentures Due 2011  
2,542,500 Shares of Common Stock

The debentures and shares of our common stock will be offered and sold by the Selling Security Holders named in this prospectus or in any amendment or supplement to this prospectus. See "Selling Security Holders" beginning on page 46. We will not receive any of the proceeds from the sale by the Selling Security Holders of these securities.

The debentures bear interest at the rate of 7% per year. Interest on the debentures is payable on March 1 and September 1 of each year, beginning on September 1, 2006. The debentures will mature on March 1, 2011 unless earlier converted or repurchased by us.

The debentures are convertible by holders, in whole or in part, into shares of our common stock prior to their maturity on March 1, 2011. 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 debentures (representing a conversion price of \$8.00 per share). 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 debentures (representing conversion prices between approximately \$7.08 and \$7.74 during such period). The conversion rate is subject to adjustment. This prospectus includes 2,542,500 shares of common stock that are issuable upon conversion of the debentures at the maximum conversion rate of 141.25 shares per \$1,000 principal amount of debentures (representing a conversion price of approximately \$7.08 per share). See "Description of Debentures—Conversion of debentures."

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Our common stock is listed on the American Stock Exchange under the symbol "LXU." The last reported sale price of our common stock on the American Stock Exchange on May 5, 2006 was \$8.60 per share. There is no established market for the debentures and we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures through any automated quotation system.

The Selling Security Holders may sell the securities offered by this prospectus from time to time on any exchange on which the securities are listed. They may also sell the securities in private sales or through dealers or agents. The Selling Security Holders may sell the securities at prevailing market prices or at prices negotiated with buyers. The Selling Security Holders will be responsible for any commissions due to brokers, dealers or agents. We will pay all expenses of the registration of the debentures and the common stock and certain other expenses as set forth in the registration rights agreement described in this prospectus.

Investing in the debentures or in our common stock involves risks.  
See "Risk Factors" beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities  
commission  
has approved or disapproved of these securities or passed upon the adequacy of  
this prospectus.

Any representation to the contrary is a criminal offense.

The date of this prospectus is May 26, 2006.

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### ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission. The securities described in this prospectus may be offered and sold by the Selling Security Holders using this prospectus from time to time as described the "Plan of Distribution" beginning on page 49. You should carefully read this prospectus and the information described under the heading "Incorporation by Reference" beginning on page 18 and "Where You Can Find More Information" beginning on page 19.

You should rely only on the information contained in, or incorporated by reference in, this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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### PROSPECTUS SUMMARY

This summary highlights certain information concerning our business and this offering. It does not contain all of the information that may be important to you and to your investment decision and is qualified in its entirety by, and should be read in conjunction with, the more detailed information about us and the debenture in this prospectus, including the section entitled "Risk Factors," along with our business information, our financial information and other documents incorporated by reference in this prospectus.

LSB Industries, Inc.

LSB Industries, Inc. (the "Company," "we," "us," or "our") was formed in 1968 as an Oklahoma corporation, and became a Delaware corporation in 1977. We are a diversified holding company operating through our subsidiaries. Our wholly-owned subsidiary, ThermaClime, Inc. ("ThermaClime") through its

subsidiaries, owns substantially all of our core businesses consisting of the:

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Climate Control Business, which is engaged in the manufacturing and selling of a broad range of heating, ventilation and air conditioning products used in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems; and

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Chemical Business, which is engaged in the manufacturing and selling of chemical products produced from three plants in Texas, Arkansas and Alabama for the industrial, mining and agricultural markets.

#### Company Information

Our executive offices are located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107, telephone (405) 235-4546. Our Web site is located at [www.lsb-okc.com](http://www.lsb-okc.com). The information on our Web site is not part of this prospectus and should not be considered in your decision to invest in the debentures or our common stock.

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#### THE OFFERING

##### Issuer

LSB Industries, Inc.

##### Selling Security Holders

The securities to be offered and sold using this prospectus will be offered and sold by the Selling Security Holders named in this prospectus, or in any amendment or supplement to this prospectus. See "Selling Security Holders."

##### Securities covered by this prospectus

\$18,000,000 aggregate principal amount of 7% convertible senior subordinated debentures due 2011.

2,542,500 shares of common stock, par value \$0.10 per share.

##### Maturity date of debentures

March 1, 2011, unless earlier converted, redeemed or repurchased.

##### Interest on debentures

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7% per annum on the principal amount, from March 3, 2006, payable semi-annually in arrears in cash on March 1 and September 1 of each year, beginning September 1, 2006.

### Ranking of debentures

The debentures are unsecured and subordinated in right of payment to the prior payment in full of all of our existing and future senior indebtedness and effectively subordinated to the indebtedness and all of the other liabilities, including trade payables, of our subsidiaries. As of March 31, 2006, we had approximately \$104.9 million of senior indebtedness outstanding, including approximately \$103.2 million of indebtedness of our subsidiaries which we have guaranteed. The debentures will also effectively be subordinated to all other present or future liabilities, including our subsidiaries' trade payables and \$7.4 million of our subsidiaries' senior unsecured debentures due 2007, which as of March 31, 2006, totaled approximately \$62.7 million. Therefore, as of March 31, 2006, the debentures are effectively subordinate to a total of \$167.6 million of senior indebtedness, including the liabilities of our subsidiaries. See "Risk Factors." Neither we nor our subsidiaries are prohibited from incurring additional debt, including senior indebtedness, under the indenture.

### Conversion of debentures

The debentures are convertible by holders in whole or in part into shares of our common stock, at any time prior to their maturity on March 1, 2011. The conversion rate of debentures for holders electing to convert all or any portion of a debenture prior to September 1, 2006, will be 125 shares per \$1,000 principal amount of debentures (representing a conversion price of \$8.00 per share). Holders of debentures electing to convert all or any portion of a debenture on or after September 1, 2006, and before March 1, 2009, will obtain the following conversion rate per \$1,000 principal amount of debentures during the dates indicated: September 1, 2006 to February 28, 2007, 141.25 shares (representing a conversion price of approximately \$7.08 per share); March 1, 2007 to August 31, 2007, 141.04 shares

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(representing a conversion price of approximately \$7.09 per share); September 1, 2007 to February 29, 2008, 137.27 shares (representing a conversion price of approximately \$7.28 per share); March 1, 2008 to August

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31, 2008, 133.32 shares (representing a conversion price of approximately \$7.50 per share); and September 1, 2008 to February 28, 2009 is 129.23 shares (representing a conversion price of approximately \$7.74 per share). On March 1, 2009, the conversion rate returns to 125 shares per \$1,000 principal amount of debentures (representing a conversion price of \$8.00 per share), until their maturity on March 1, 2011. The conversion rate is subject to adjustment. See "Description of Debentures-Conversion of debentures."

If a holder elects to convert its debentures in connection with certain changes in control, as defined herein, which occur prior to the maturity date, the holder will be entitled to receive additional shares of our common stock as a make-whole premium upon conversion under certain circumstances. See "Description of Debentures-Conversion of debentures."

Sinking fund as to debentures

None.

Optional redemption of debentures

Beginning March 1, 2009, we may redeem the debentures either in whole or in part, upon at least 30 and not more than 60 days' notice, at a redemption price, payable at our option in cash or, subject to certain conditions (see "- Payment of debentures in shares" below), shares of our common stock, equal to 100% of the principal amount of the debentures to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the redemption date, if: (1) the closing sale prices of our common stock for at least 20 of the 30 consecutive trading days ending on the trading day prior to the date we mail a notice of redemption, exceeds 115% of the adjusted conversion price of the debenture; (2) our common stock is listed on a U.S. national securities exchange or the NASDAQ Stock Market; and (3) a registration statement covering resales of the debentures and the common stock issuable upon conversion of the debentures is effective and expected to remain effective and available for use during the 30 days following the redemption date, unless registration is no longer required. See "Description of Debentures-Optional redemption by LSB."

Payment of debentures in shares

We may elect to pay the redemption price in shares of our common stock if, on the date of redemption: (1) our

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common stock is listed on a U.S. national securities exchange or the NASDAQ Stock Market; (2) the shares used to pay the redemption price are freely tradeable; and (3) we receive certain required opinions of counsel. Payments made with shares of our common stock will be valued at 95% of the weighted average of the closing sale prices of our common stock for the 20 consecutive trading days ending on the fifth trading day prior to the redemption date. We will publicly announce the number of shares of our common stock to be paid as the redemption price,

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per each \$1,000 principal amount of debentures to be redeemed, not later than the fourth trading day prior to the redemption date.

We may elect to pay, at maturity, up to 50% of the principal amount of the debentures, plus accrued and unpaid interest due thereon at maturity, in shares of our common stock if, on the maturity date: (1) our common stock continues to be listed on a U.S. national securities exchange or the NASDAQ Stock Market, (2) the shares used to pay the debentures and any interest thereon are freely tradeable, and (3) we receive certain required opinions of counsel. Payments made with our shares of common stock will be valued at 95% of the weighted average of the closing prices of our common stock for the 20 consecutive trading days ending on the fifth trading day prior to the maturity date. We will publicly announce the number of shares of our common stock to be paid per each \$1,000 principal amount of debentures on the maturity date, not later than the fourth trading day prior to the maturity date.

Repurchase of debentures at the option of the holder upon a designated event

If a designated event (as described under "Description of Debentures-Repurchase at option of the Holder upon a designated event") occurs prior to maturity, holders may require us to purchase, in cash, all or part of the holder's debentures at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest thereon to, but excluding, the repurchase date.

Make-whole premium of debentures

If a fundamental change occurs on or before September 1, 2009, we will pay a make-whole premium on the debentures converted in connection with the fundamental change, payable in shares of our common stock or the consideration into which our common stock has been converted or exchanged in connection with the fundamental change. The amount of the make-whole premium, if any, will be based on the stock price in the fundamental change transaction and the date of the fundamental change

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transaction. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and effective dates is set forth under "Description of Debentures-Conversion of debentures-Make-whole premium."

### No proceeds

We will not receive any proceeds from the sale made from time to time under this prospectus by the Selling Security Holders of the debentures or our common stock. See "No Proceeds."

### Registration rights

We entered into a registration rights agreement with each Selling Security Holder and have filed a registration statement of which this prospectus is a part with the SEC covering the resale of the debentures and the common stock issuable upon conversion of the debentures. We agreed to use commercially reasonable efforts to have the registration statement declared effective and to keep the registration statement effective until three years

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following the closing of the issuance of the debentures, which is March 3, 2009. See "Description of Debentures-Registration rights of the debenture holders."

### Absence of a Public Market for the Debentures

We cannot assure you that any active or liquid market will develop for the debentures. See "Plan of Distribution."

### Trading

We do not intend to apply to list the debentures on any national securities exchange or to include the debentures in any automated quotation system. Qualified institutional buyers may trade the debentures in the Private Offerings, Resale and Trading through Automated Linkages Market, commonly referred to as the PORTAL Market. The debentures sold using this prospectus, however, will no longer be eligible for trading in the PORTAL Market.

### Trustee, Paying Agent and Custodian Agent for debentures

Initially, UMB Bank, n.a.



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American Stock Exchange Symbol for our common stock

Our common stock is quoted on the American Stock Exchange under the symbol "LXU."

Transfer Agent for our common stock

UMB Bank, n.a.

### Risk Factors

You should read the "Risk Factors" section, beginning on page 6 of this prospectus, to understand the risks associated with an investment in the debentures or our common stock.

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### RISK FACTORS

An investment in the debentures or our common stock involves a high degree of risk. There are a number of factors associated with our business that could affect your decision to invest in the debentures or any common stock issuable upon conversion of the debentures. The following discussion describes the material risks currently known to us. However, additional risks that we do not know about or that we currently view as immaterial may also impair our business or adversely affect an investment in the debentures or any common stock issuable upon conversion of the debentures. You should carefully consider the risks described below, together with other information contained in, or incorporated by reference into, this prospectus before making a decision to invest in the debentures or any common stock offered under this prospectus by the Selling Security Holders.

#### **Risks Related to Us and Our Business**

##### ***Cost and availability of raw materials could materially affect our profitability and liquidity.***

Our Chemical Business' sales and profits are heavily affected by the costs and availability of its primary raw materials. Anhydrous ammonia and natural gas, which are purchased from unrelated third parties, represent the primary raw material feedstocks in the production of most of the products of the Chemical Business. The primary material utilized in anhydrous ammonia production is natural gas, and fluctuations in the price of natural gas can have a significant effect on the cost of anhydrous ammonia. During 2005, there were substantial increases in the cost of anhydrous ammonia and natural gas, and in many instances we were unable to increase our sales prices to cover all of the higher anhydrous ammonia and natural gas costs incurred. Although our Chemical Business has begun a program to enter into contracts with certain customers that provide for the pass-through of raw material costs, we have a substantial amount of sales by the Chemical Business that do not provide for these pass-throughs. Thus, in the future, we may not be able to pass along to all of our customers the full amount of increases in anhydrous ammonia and natural gas costs. As a result of the high cost of natural gas, our Chemical Business suspended ammonia production at the Cherokee Facility on December 20, 2005, until on or about January 12, 2006, and a customer of our Cherokee Facility who was taking approximately 8,000 tons of UAN per month temporarily suspended its obligations under the contract due to the high

prices of natural gas from October until December 2005 when it agreed to resume taking a limited amount of product as spot purchases as market conditions and the cost of natural gas permits. We could from time to time, suspend production at this facility due to, among other things, continuing high cost of its primary raw material, natural gas. Accordingly, our results of operations and financial condition have in the past been, and will in the future be, materially affected by cost increases of raw materials, including anhydrous ammonia and natural gas.

In addition, our Climate Control Business depends on raw materials such as copper and steel, which have recently shown considerable price volatility. While we periodically enter into fixed-price contracts on copper to hedge against price increases, there can be no assurance that our Climate Control Business will effectively manage against price fluctuations in copper and other raw materials or that future price fluctuations in copper and other raw materials will not have an adverse effect on our financial condition, liquidity and results of operations.

***In recent years our Chemical Business has been unable to generate significant positive cash flows.***

Due, in part, to lower than optimum sales levels, margin problems and extensive capital expenditures, our Chemical Business has not generated significant positive cash flows in recent years. Continuing significant cash flow expenditures by this business could have a material adverse effect on our financial condition and liquidity.

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Our Climate Control Business and its customers are sensitive to economic cycles.

Our Climate Control Business is affected by cyclical factors, such as interest rates, inflation and economic downturns. Our Climate Control Business depends on sales to customers in the commercial construction and renovation industries, which are particularly sensitive to these factors. A decline in the economic activity in the United States has in the past, and could in the future, have a material adverse effect on our customers in the commercial construction and renovation industries in which our Climate Control Business sells a substantial amount of its products. Such a decline could result in a decrease in revenues and profits, and an increase in bad debts, in our Climate Control Business.

***Weather conditions adversely affect our Chemical Business.***

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

***Environmental and regulatory matters entail significant risk for us.***

Our Chemical Business is subject to numerous environmental laws and regulations. The manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under environmental laws and regulations, many of which provide for substantial fines and potential criminal sanctions for violations. Our Chemical Business has in the past, and may in the future, be subject to fines, penalties and sanctions for violations of environmental laws and substantial expenditures for cleanup costs and other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from the Chemical Business' facilities. Further, a number of our Chemical Business' facilities are dependent on environmental permits to operate, the loss of which could

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have a material adverse effect on its operations and our financial condition.

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

During 2005, five customers of our Chemical Business accounted for 53% of its net sales and 31% of our consolidated sales, and during 2005, our Climate Control Business had one customer that accounted for 18% of its net sales and 7% of our consolidated sales. During the first quarter of 2006, four customers of our Chemical Business accounted for 46% of its net sales and 26% of our consolidated sales, and during the same period, one customer accounted for 17% of the net sales of our Climate Control Business and 7% of our consolidated net sales. The loss of, or a material reduction in purchase levels by, one or more of these customers could have a material adverse effect on our business and our results of operations, financial condition and liquidity if we are unable to replace a customer on substantially similar terms.

***Our working capital requirements fluctuate because of the seasonal nature of our Chemical Business' agricultural products.***

Because of the seasonal nature of our Chemical Business' agricultural products, our working capital requirements are significantly higher at certain times of the year due to increases in inventories of ammonium nitrate, UAN and other agricultural products prior to the beginning of each planting season. If additional working capital is required and not available under our revolving credit facility, this could have a negative impact on our other operations, including our Climate Control Business.

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

Substantially all of the markets in which we participate are highly competitive with respect to product quality, price, design innovations, distribution, service, warranties, reliability and efficiency. We compete with a number of established companies that have greater financial, marketing and other resources than we have and are less highly leveraged than we are. Competitive factors could require us to

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reduce prices or increase spending on product development, marketing and sales that would have a material adverse effect on our business, results of operation and financial condition.

***We are effectively controlled by the Golsen Group.***

Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), including Barry H. Golsen, our Vice Chairman and President, entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") beneficially owned as of May 1, 2006, an aggregate of 4,845,288 shares of our common stock and 1,020,000 shares of our voting preferred stock (1,000,000 of which shares have .875 votes per share, or 875,000 votes), which together represented approximately 29.3% of the voting power of our issued and outstanding voting securities as of that date. At such date, the Golsen Group also beneficially owned options, rights and other convertible preferred stock that allowed its members to acquire an additional 525,002 shares of our common stock within 60 days of March 31, 2006. If the Golsen Group were to acquire the additional 525,002 shares of common stock, the Golsen Group would, in the aggregate, beneficially own approximately 31.8% of the then issued and

outstanding shares of our voting securities (common or preferred), which includes 1,441,668 shares that the Golsen Group has the right to acquire upon the conversion of preferred stock, stock options and a promissory note. Thus, the Golsen Group may be considered to effectively control us. As a result, the ability of other stockholders to influence our management and policies could be limited.

***Loss of key personnel could negatively affect our business.***

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

***We may have inadequate insurance.***

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

***Our warranty claims are not generally covered by our insurance.***

The development, manufacture, sale and use of products by our Climate Control Business involve a risk of warranty and product liability claims. Warranty claims are not generally covered by our product liability insurance and there may be types of product liability claims that are not covered by our product liability insurance. A successful warranty or product liability claim not covered by our insurance could have a material adverse effect on our business, results of operations, financial condition and liquidity.

***Terrorist attacks and other acts of violence or war, including the military conflict in Iraq and natural disasters (such as hurricanes), have and could negatively impact the U.S. and foreign companies, the financial markets, the industries where we operate, our operations and profitability.***

Terrorist attacks and natural disasters (such as hurricanes) have in the past, and can in the future, negatively affect our operations. We cannot promise that there will be no further terrorist attacks and natural disasters in the United States and elsewhere. These attacks or natural disasters have contributed

economic instability in the United States and elsewhere, and further acts of terrorism, violence, war or natural disasters could further affect the industries where we operate, our ability to purchase raw materials, our business, results of operations and financial condition. In addition, terrorist attacks and

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natural disasters may directly impact our physical facilities, especially our chemical facilities, or those of our suppliers or customers and could impact our sales, our production capability and our ability to deliver products to our customers. As a result of Hurricane Katrina, the natural gas pipeline to our Cherokee Facility was damaged causing us to shutdown this facility for several weeks in September and October 2005. Although we resumed production at the Cherokee Facility in October 2005, the damaged pipeline was not repaired, resulting, in part, in this facility operating at less than full capacity from October 2005, until we suspended production at this facility on December 20, 2005, due to high cost of natural gas. We resumed production at the Cherokee Facility on or about January 12, 2006. The effect of the damaged pipeline on this facility until it is repaired is unknown. The consequences of any terrorist attacks or hostilities or natural disasters are unpredictable, and we may not be able to foresee events that could have an adverse effect on our operations.

***Our net loss carryovers are subject to various limitations and have not been approved by the Internal Revenue Service.***

Our net loss carryovers have resulted from certain losses, and we anticipate they may be used to reduce the federal income tax payments which we would otherwise be required to make with respect to income, if any, generated in future years. We had available regular-tax net operating loss carryovers of approximately \$67 million at December 31, 2005. The use of the net operating loss carryovers is, however, subject to certain limitations and will expire to the extent not utilized by the years 2009 through 2021. In addition, the amount of these carryovers has not been audited or approved by the Internal Revenue Service, and, accordingly, we cannot promise that such carryovers will not be reduced as a result of audits in the future.

***Recent restatements and amendments to our 2004 audited financial statements and certain matters related to our disclosure controls and procedures may present a risk of future restatements and could in turn lead to legal exposure.***

As a result of comments from the SEC, our 2004 Form 10-K and other changes we made internally, we restated and amended our 2004 audited financial statements and on December 30, 2005, filed a Form 10-K/A (Amendment No. 1) for year ended December 31, 2004. As a result of the restatement and amendments to our 2004 audited financial statements and SEC comments, we also filed on December 30, 2005, an amended Form 10-Q/A for each of the quarters ended March 31, 2005 and June 30, 2005.

As a result of this restatement to our 2004 financial statements, we also

revised our 2004 Form 10-K and first two quarters 2005 Form 10-Qs to provide that our disclosure controls and procedures were not effective as of December 31, 2004, March 31, 2005 and June 30, 2005, in our Form 10-K/A and Forms 10-Q/A, as a result of assessing that the change from the LIFO method to the FIFO method of accounting was not material resulting in the decision at the time of the change not to disclose and not to restate the prior years financial statements. We believe that during December 2005, we corrected the weakness to our disclosure controls and procedures by, among other things, establishing a Disclosure Committee to maintain oversight activities and to examine and reevaluate our policies, procedures and criteria to determine materiality of items relative to our financial statements taken as a whole. Restatements by others have, in some cases, resulted in the filing of class action lawsuits against such companies and their management. Any similar lawsuit against us could result in substantial defense and/or liability costs and would likely consume a material amount of management's attention that might otherwise be applied to our business. Under certain circumstances, these costs might not be covered by, or might exceed the limits of, our insurance coverage.

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

Our certificate of incorporation provides for a staggered board of directors and, except in limited circumstances, a two-thirds vote of outstanding voting shares to approve a merger, consolidation or sale of all, or substantially all, of our assets. In addition, we have entered into severance agreements with our executive officers and some of the executive officers of our subsidiaries that provide, among other things, that if, within a specified period of time after the occurrence of a change in control of our company, these

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officers are terminated, other than for cause, or the officer terminates his employment for good reason, we must pay such officer an amount equal to 2.9 times the officer's average annual gross salary for the last five years preceding the change in control.

We have authorized and unissued (including shares held in treasury) 61,237,382 shares of common stock and 3,398,541 shares of preferred stock as of March 31, 2006. These unissued shares could be used by our management to make it more difficult, and thereby discourage an attempt to acquire control of us.

We have further adopted a preferred share purchase plan, which is designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

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

Delaware has adopted an anti-takeover law which, among other things, will delay for three years business combinations with acquirers of 15% or more of the

outstanding voting stock of publicly-held companies (such as us), unless (a) the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction, or (b) two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the board of directors, and (c) the stockholders decide to opt out of the statute.

**Risks related to the debentures and common stock:**

***We are a holding company and depend, in large part, on receiving funds from our subsidiaries to fund our indebtedness, including our indebtedness relating to the debentures.***

Because we are a holding company and operations are conducted through our subsidiaries, principally ThermaClime and its subsidiaries, our ability to make scheduled payments of principal and interest on our indebtedness, including the debentures, depend on operating performance and cash flows of our subsidiaries and the ability of our subsidiaries to make distributions and pay dividends to us. Under its loan agreements, ThermaClime and its subsidiaries may only make distributions and pay dividends to us under limited circumstances and in limited amounts. If ThermaClime is unable to make distributions or pay dividends to us, or the amounts of such distributions or dividends are not sufficient for us to service our debts, we may not be able to pay the principal or interest, or both, due on our indebtedness, including the debentures.

***We are a highly leveraged company, which could affect our ability to pay the debentures.***

We have a substantial amount of debt. At March 31, 2006, after giving effect to the sale of the debentures and the application of the net proceeds therefrom, our aggregate consolidated debt was approximately \$126.4 million, resulting in total debt as a percentage of total capitalization of 88.8%. The amounts of our indebtedness and the indebtedness of our subsidiaries and our total debt as a percentage of total capitalization, as of March 31, 2006, are based on unaudited numbers and are subject to change upon completion of the audit of our 2006 consolidated financial statements.

The degree to which we are leveraged could have important consequences to holders of the debentures, including the following:

- our ability to obtain additional financing in the future for refinancing indebtedness, acquisitions, working capital, capital expenditures or other purposes may be impaired;
- funds available to us for our operations and general corporate purposes or for capital expenditures will be reduced because a substantial portion of our consolidated cash flow from operations could be dedicated to the payment of the principal and interest on our indebtedness;
- we may be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;

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- the agreements governing our long-term indebtedness, including indebtedness under the debentures, and those of our subsidiaries (including indebtedness under the debentures) and bank loans contain certain restrictive financial and operating covenants;
  - an event of default, which is not cured or waived, under financial and operating covenants contained in these debt instruments could occur and have a material adverse effect on us; and
  - we may be more vulnerable to a downturn in general economic conditions.

Our ability to make principal and interest payments, or to refinance

indebtedness, including the debentures, will depend on our future operating performance and cash flow, which are subject to prevailing economic conditions and other factors affecting us, many of which are beyond our control.

***The debentures are contractually subordinated to all of our senior debt and are effectively subordinated to all of our secured debt and to all of the debt and other liabilities of our subsidiaries.***

The debentures are our general unsecured obligations and are contractually subordinated to all of our existing and future senior debt, including obligations relating to credit facilities of our subsidiaries that we have guaranteed. As of March 31, 2006, our senior debt, including our subsidiaries' debt which we have guaranteed totaled \$104.9 million. Upon any distribution to our creditors in a bankruptcy, liquidation, reorganization or similar proceeding relating to us or our property, the holders of senior debt will be entitled to be paid in full in cash before any payment may be made with respect to the debentures. In addition, all payments on the debentures will be blocked in the event of a payment default on our senior debt and may be blocked for up to 179 days in the event of certain non-payment defaults on designated senior debt. Our assets remaining after payment of our senior debt may be insufficient to repay the debentures.

The debentures are not secured by any of our assets, and therefore will be effectively subordinated to all of our secured debt. In addition, future debt that we incur, including accounts payable and other liabilities incurred in obtaining goods and services, may be secured by our assets. If we become insolvent or are liquidated, or if payment of any of our secured debt is accelerated, the holders of that secured debt will be entitled to exercise the remedies available to secured lenders under applicable law, including the ability to foreclose on and sell the assets securing such debt to satisfy such debt. In any such case, our remaining assets may be insufficient to repay the debentures.

The debentures are obligations exclusively of LSB Industries, Inc. Since most of our operations are conducted through our wholly owned subsidiaries, principally ThermaClime and its subsidiaries, the cash flow and the consequent ability to service debt, including the debentures, are dependent upon the earnings of such subsidiaries and the distribution of those earnings to, or upon loans or other payments of funds by, those subsidiaries to us. Our subsidiaries have no obligation to pay any amounts due pursuant to the debentures or to make any funds available therefore. Any right we have to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of the debentures to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors (including trade creditors). As of March 31, 2006, we and our subsidiaries had approximately \$104.9 million in outstanding borrowings that would have constituted senior indebtedness under the indenture governing the debentures and our subsidiaries had other outstanding liabilities, all of which would be effectively senior to the debentures, of approximately \$62.7 million. There are no restrictions in the indenture on the creation of additional senior indebtedness (or any indebtedness).



The amounts of our indebtedness and the indebtedness of our subsidiaries as of March 31, 2006, are based on unaudited numbers and are subject to change upon completion of the audit of our 2006 consolidated financial statements.

***We may be unable to purchase the debentures for cash following a designated event.***

Holder of the debentures has the right to require us to repurchase the debentures upon the occurrence of a designated event prior to maturity as described under the heading "Description of

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Debentures - Repurchase at option of the holder upon a designated event." Any of our future debt agreements may contain a similar provision. We may not have sufficient funds to make the required repurchase in cash at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to repurchase the debentures may be limited by law or the terms of other agreements relating to our debt outstanding at the time. However, if we fail to repurchase the debentures as required by the indenture, it would constitute an event of default under the indenture governing the debentures which would cause a default in one or more of our senior credit facilities. Important corporate events, such as takeovers, recapitalizations or similar transactions, may not constitute a designated event under the indenture governing the debentures and thus not permit the holders of the debentures to require us to repurchase or redeem the debentures.

***There is currently no public market for the debentures, and an active trading market may not develop for the debentures. The failure of a market to develop for the debentures could adversely affect the liquidity and value of the debentures.***

The debentures are a new issue of securities, and there is no existing market for the debentures. Although the debentures are eligible for trading in The PORTAL MarketSM, we do not intend to apply for listing of the debentures on any securities exchange or for quotation of the debentures on any automated dealer quotation system. A market may not develop for the debentures, and if a market does develop, it may not be sufficiently liquid for your purposes. If an active, liquid market does not develop for the debentures, the market price and liquidity of the debentures may be adversely affected. Debentures traded after their initial issuance may trade at a discount from their face amount.

The liquidity of the trading market, if any, and future trading prices of the debentures will depend on many factors, including, among other things, the market price of our common stock, our ability to register the resale of the debentures, prevailing interest rates, our operating results, financial performance and prospects, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in these factors. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. The market for the

debentures may be subject to disruptions, which could have a negative effect on the holders of the debentures, regardless of our operating results, financial performance or prospects.

***Resale of the debentures and the common stock issuable upon conversion of the debentures is subject to significant restrictions.***

Although we are required to register the resale by the holders of the debentures and the common stock into which the debentures are convertible, such registration may not be available to holders at all times. We are not currently eligible to register the resale of the debentures and the common stock included in this prospectus on Form S-3, and, therefore, registered the resale of these securities on Form S-1. As a result, under certain circumstances, we must update the registration statement for the resale of such debentures and common stock by filing post-effective amendments to the registration statement that will not be effective until each is declared effective by the SEC. Between the time it is determined that the registration statement must be updated by a post-effective amendment and the time the SEC declares the applicable post-effective amendment effective, the registration statement will not be available for use and the price of our common stock could decline during that time. The SEC has broad discretion to determine whether any registration statement (including and post-effective amendment) will be declared effective and may delay or deny the effectiveness of any registration statement or post effective amendment filed by us for a variety of reasons. Selling Security Holders also may be subject to restrictions and potential liability under the Securities Act. See "Description of Debentures - Registration rights of the debenture holders."

***The debentures do not restrict our ability to incur additional debt, repurchase our securities or to take other actions that could negatively impact holders of the debentures.***

We are not restricted under the terms of the debentures from incurring additional debt, including secured debt, or repurchasing our securities. In addition, the limited covenants applicable to the debentures do not require us to achieve or maintain any minimum financial results relating to our

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financial position or results of operations. Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the debentures could have the effect of diminishing our ability to make payments on the debentures when due. Certain of our other debt instruments may, however, restrict these and other actions. See "Description of Debentures - Subordination of debentures."

***Determination of debenture terms***

The conversion rate of the debentures is initially 125 shares per \$1,000 principal amount of debentures, representing an initial conversion price of \$8.00, subject to adjustment. Because the market price of our common stock

fluctuate, there can be no assurance that the market price of our common stock will reach or exceed the representative price at which the debentures may be converted into shares of common stock. In addition, our right to redeem the debentures or pay the debentures at maturity in our common stock is not conditioned upon the closing sale price of our common stock exceeding the then effective conversion price of the debentures. Because the value of the common stock will be determined before the redemption date or the maturity date, if we specify that we will make payment of the redemption price or the principal and accrued interest thereon of the debentures at the maturity date in shares of our common stock, holders of debentures bear the market risk that our common stock will decline in value between the date of such determination and the redemption date or the maturity date, whichever is applicable. In addition, holders will not know the exact number of shares of common stock to be received upon redemption or maturity until the fourth trading day prior to the redemption date or maturity date, whichever is applicable. See "Description of Debentures."

***The price of our common stock, and therefore of the debentures may fluctuate significantly; and this may make it difficult for you to resell the debentures and/or our common stock when you want or at prices you find attractive.***

The price of our common stock on the American Stock Exchange constantly changes. We expect that the market price of our common stock will continue to fluctuate. In addition, because the debentures are convertible into our common stock, volatility or depressed prices for our common stock could have a similar effect on the trading price of the debentures. This may make it difficult for you to resell the debentures and/or our common stock when you want or at prices you find attractive.

***Future sales of our common stock in the public market or the issuance of securities senior to our common stock could adversely affect the trading price of our common stock, the value of the debentures, our ability to raise funds in new stock offerings and may dilute your percentage interest in our common stock.***

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

***We have not declared or paid dividends on our outstanding common stock in many years and have a substantial amount of accrued and unpaid dividends on our outstanding series of cumulative preferred stock.***

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

and since January 1, 1999, through December 31, 2005, we did not pay any accrued dividends on our outstanding cumulative preferred stock. As of December 31, 2005, there was approximately \$14.5 million of accrued and unpaid dividends on our outstanding cumulative preferred stock. We intend to retain most of our future earnings, if any, to provide funds for our operations and/or expansion of our businesses. However, on January 17, 2006, our Board of Directors declared nominal dividends, payable March 15, 2006, to holders of record as of February 15, 2006, on certain outstanding series of our preferred stock, as follows:

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\$.10 per share on our outstanding \$3.25 Convertible Exchangeable Class C, Series 2, which has 623,550 shares outstanding, \$.37 on our outstanding Series B 12% Cumulative Convertible Preferred, which has 20,000 shares outstanding, and \$.31 a share on our outstanding Non-Cumulative Preferred, which has 871 shares outstanding. These dividends are not for the full amount of the required quarterly dividends pursuant to the terms of all of our outstanding series of preferred stock. As a result, the amount of accrued and unpaid dividends on our outstanding cumulative preferred stock increased to approximately \$14.9 million as of March 15, 2006.

There are no assurances that we will in the future pay any additional quarterly dividends on any of our outstanding shares of preferred stock. We do not anticipate paying cash dividends on our outstanding common stock in the foreseeable future, and until all accrued and unpaid dividends are paid on our outstanding cumulative preferred stock, no dividends may be paid on our common stock. In the event of our liquidation, winding up or dissolution, there can be no distributions on our common stock until all of the liquidation preference and stated value amounts of our outstanding preferred stock and all accrued and unpaid dividends due on our outstanding cumulative preferred stock are paid in full. Further, not paying all of cumulative accrued dividends on our outstanding preferred stock could adversely affect the marketability of our common stock and our ability to raise additional equity capital.

#### FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference into this prospectus contain forward-looking statements." All statements in this prospectus and such incorporated information other than statements of historical fact are forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", "will", and similar expressions identify forward-looking statements. Such forward-looking statements relate to statements about our business strategies, our expected financial position and operating results, the projected size of our markets and our financing plans and similar matters, including but not limited to, the following:

-

our Climate Control Business has developed leadership positions in niche markets by offering extensive product lines, customized products and improved technologies,

- 

we have developed the most extensive line of water source heat pumps and hydronic fan coils in the United States,

- 

we have used geothermal technology in the climate control industry to create the most energy efficient climate control systems commercially available today,

- 

we are a leading provider of water source heat pumps to the commercial construction and renovation markets in the United States,

- 

the market for commercial water source heat pumps will continue to grow due to the relative efficiency and long life of such systems as compared to other air conditioning and heating systems, as well as to the emergence of the replacement market for those systems,

- 

the longer life, lower cost to operate, and relatively short payback periods of geothermal systems, as compared with air-to-air systems, will continue to increase demand for our geothermal products,

- 

our Climate Control Business is a leading provider of hydronic fan coils,

- 

the majority of raw material cost increases, if any, will be passed to our customers in the form of higher prices and while we believe we will have sufficient materials, a shortage of raw materials could impact production of our Climate Control products,

- 

our Climate Control Business will continue to launch new products and product upgrades in an effort to maintain and increase our current market position and to establish a presence in new

markets,

- 

the Climate Control's emphasis on increasing the sales and operating margins of all products and to continue to develop new products and increase production to meet customer demand,

- 

one of our new products, the SureFlow® system, is an effective solution to provide a long-lasting, quiet and high quality fan coil system at an attractive price to our customers,

- 

improvement in the long-term prospects for Climate Control's new products evidenced by increases in orders for these new products,

- 

we anticipate that a new supply agreement relating to El Dorado will be finalized during the second quarter 2006 or shortly thereafter,

- 

we can establish a strong presence within the large custom air handlers market,

- 

our investment in fabrication equipment and plant-wide process control systems will raise capacity and reduce overtime relating to the Climate Control Business,

- 

we have developed significant freight and distribution advantages over many of our competitors and established leading regional market positions in our Chemical Business

- 

the current market outlook justifies continuing production at the Cherokee Facility for the foreseeable future; however, we could from time to time, suspend production at this facility due to, among other things, continuing high cost of its primary raw material, natural gas,

- 

our results of operations and financial condition at Cherokee, will in the future be, materially affected by changes in the cost of raw materials and in particular natural gas,

•

agreement in principle to modify a supply contract relating to Cherokee with a term through at least 2011 which we anticipate will be finalized in the second quarter 2006 or shortly thereafter,

•

ThermaClime's ability to maintain an adequate amount of borrowing availability under its Working Capital Revolver Loan depends on its ability to comply with the terms and conditions of its loan agreements and its ability to generate cash flow from operations,

•

El Dorado believes it will be able to utilize one of the other two options described in order to meet its June 2007 deadline under its NPDES permit,

•

paying dividends,

•

ability to meet all required covenants for 2006 under our loan agreements,

•

the soil remediation at the former Hallowell facility will occur over the next two years,

•

our performance has been and will continue to be dependent upon the efforts of our principal executive officers and our future success will depend in large part on our continued ability to attract and retain highly skilled and qualified personnel,

•

with the infusion of new capital as a result of the recently completed debenture offering and based upon current forecasts, that we will have adequate cash in 2006 from internal cash flows and financing sources to enable us to satisfy our cash requirements as they become due in 2006,

•

our net loss carryovers may be used to reduce the federal income tax payments which we would otherwise be required to make with respect to income, if any, generated in future years,

•

retain most of our future earnings, if any, to provide funds for our operations and/or expansion of our businesses,

- use all or a substantial portion of the net proceeds from the sale of the debentures (which we estimate to be approximately \$16.5 million after paying commissions to the placement agent and our expenses relating to the offering) to repay or purchase our debt or debt of our subsidiaries, including our subsidiary's \$13.3 million senior unsecured debentures due 2007, and the balance, if any, for general corporate purposes and pending such uses, the net proceeds to be invested in investments with highly rated money market funds, U.S. government securities, treasury bills and/or short-term commercial paper,

- our ability to make principal and interest payments, or to refinance indebtedness, depends on our future operating performance and cash flow, which are subject to prevailing economic conditions and other factors affecting us, many of which are beyond our control,

- four customers account for approximately 25% of our total net receivables at December 31, 2005 which we do not believe this concentration represents a significant credit risk due to the financial stability of these customers,

- during December 2005, we corrected the weakness to our disclosure controls and procedures by, among other things, establishing a Disclosure Committee to maintain oversight activities and to examine and reevaluate our policies, procedures and criteria to determine materiality of items relative to our financial statements taken as a whole,

- the "E-2" brand ammonium nitrate fertilizer is recognized as a premium product,

- the agricultural products are the only seasonal products,

- competition within the Chemical and Climate Control Businesses is primarily based on price, location of production and distribution sites, service, warranty and product performance,



- 

the backlog of confirmed orders for Climate Control products at December 31, 2005 will be filled during 2006,

- 

management taking actions to increase the production level to reduce the current backlog in the Climate Control Business,

- 

we expect to obtain our requirements for raw materials in 2006,

- 

the amount of committed capital expenditures, for 2006,

- 

amounts to be spent relating to compliance with federal, state and local environmental laws at the El Dorado Facility including matters relating to the sulfuric acid plant,

- 

liquidity and availability of funds,

- 

anticipated financial performance,

- 

adequate resources to meet our obligations as they come due,

- 

ability to make planned capital improvements,

- 

amount of and ability to obtain financing for the Discharge Water disposal project,

- 

new and proposed requirements to place additional security controls over ammonium nitrate and other nitrogen fertilizers will not materially affect the viability of ammonium nitrate as a valued product,

-

we could obtain anhydrous ammonia from other sources in the event of a termination or interruption of service under our existing purchase agreement,

- 

under the terms of an agreement with a supplier, EDC purchasing substantially all of its anhydrous ammonia requirements through December 31, 2006,

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under the terms of an agreement, Bayer purchasing from EDNC all of its requirements for nitric acid at its Baytown operation through at least May 2009,

- 

ThermaClime's forecasts for 2006 for ThermaClime's operating results meeting all required covenant tests for all quarters and the year ending in 2006,

- 

the amount of capital expenditures required under the Discharge Water permit,

- 

Capital expenditures relating to the sulfuric acid plant's air emissions,

- 

the amount of additional expenditures relating to the Air CAO,

- 

whether we will be deemed an accelerated filer as of June 30m 2006, and if so, there will be a substantial increase in cost, and

- 

our primary efforts to improve the results of the Chemical business include efforts to increase the non-seasonal sales volumes of Cherokee and El Dorado with an emphasis on customers that will accept the commodity risk inherent with natural gas and anhydrous ammonia.

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

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decline in general economic conditions, both domestic and foreign,

- 

material reduction in revenues,

- 

material increase in interest rates,

- 

ability to collect in a timely manner a material amount of receivables,

- 

increased competitive pressures,

- 

changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such, pending,

- 

additional releases (particularly air emissions) into the environment,

- 

material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,

- 

the requirement to use internally generated funds for purposes not presently anticipated,

- 

the inability to secure additional financing for planned capital expenditures,

- 

the cost for the purchase of anhydrous ammonia and natural gas,

- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- adverse results in any of our pending litigation,
- inability to obtain necessary raw materials, and

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- other factors described in "Risk Factors."

The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "project" and similar expressions, as they relate to us, our management, and our industry are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Actual results may differ materially. Certain risks, uncertainties and assumptions about us that may cause actual results to differ from the results in these forward-looking statements are described in "Risk Factors" and "Special Note Regarding Forward-Looking Statements" contained in our Annual Report on Form 10-K for the year ended December 31, 2005, and our Form 10-Q for quarter ended March 31, 2006.

All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement. We undertake no obligation to publicly update or revise any forward-looking

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statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus might not transpire.

### INCORPORATION BY REFERENCE

We have elected to incorporate by reference certain information into this prospectus. By incorporating by reference, we can disclose important information to you by referring you to another document we have filed separately with the Securities and Exchange Commission, including without limitation, (a) the information contained in our 2005 Annual Report on Form 10-K, which includes, without limitation, information with respect to our business, properties, legal proceedings, certain stockholder matters, financial statements, selected financial data, supplementary financial information, management's discussion and analysis of financial condition and results of operations, quantitative and qualitative disclosures about market risk, directors and executive officers, executive compensation, security ownership of certain beneficial owners and management, and certain relationships and related transactions, and (b) the information contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006, which includes without limitation, information with respect to our legal proceedings, financial statements, management's discussion and analysis of financial condition and results of operations, defaults upon senior securities, and quantitative and qualitative disclosures about market risk.

The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed with the Securities and Exchange Commission:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2005;
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006;
- Current Reports on Form 8-K filed on March 16, April 5 and May 9, 2006; and
- Current Report on Form 8-K filed May 15, 2006, which amends our Form 8-K filed December 28, 2001.

To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write to LSB Industries, Inc., Attention: Secretary, 16 South Pennsylvania, P.O. Box 754, Oklahoma City, Oklahoma 73101-0754 (telephone (405) 235-4546). The information relating to us contained in this prospectus does not purport to be comprehensive and should be read together with the information contained in the documents incorporated or deemed to be incorporated by reference in this prospectus.

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### WHERE YOU CAN FIND MORE INFORMATION

We filed with the SEC a registration statement on Form S-1 including the exhibits, schedules and amendments to the registration statement under the Securities Act with respect to the debentures

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and shares of common stock to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information with respect to LSB Industries, the debentures, and the shares of common stock to be sold in this offering, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract, agreement or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference.

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and file periodic reports, proxy statements and other information with the SEC. You may read and copy all or any portion of the registration statement or any other information LSB Industries files at the SEC's public reference room at 100 F Street, N.E., Washington, DC 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our SEC filings, including the registration statement, are also available to you on the SEC's Web site,

[www.sec.gov](http://www.sec.gov).

Such registration statement and other information filed by us may also be inspected at the American Stock Exchange offices located at 86 Trinity Place, New York, New York 10006-1872 and is available at AMEX's website, [www.amex.com](http://www.amex.com). We furnish our shareholders with annual reports containing audited financial statements and make available quarterly reports for the first three quarters of each year containing unaudited interim financial information.

Our Internet address is [www.lsbindustries.com](http://www.lsbindustries.com). We make available, free of charge, on [www.lsbindustries.com](http://www.lsbindustries.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC.

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### RATIO OF EARNINGS TO FIXED CHARGES

Years ended December 31,

Three months ended March 31,

2001

2002

2003

30

2004

2005

2005

2006

Earnings

(Dollars in thousands, except ratio)

The sum of:

Pre-tax income from  
continuing operations

\$ 7,404

\$ 2,739

;

\$ 2,894

\$ 1,238

\$ 5,119

\$ 1,232

\$ 2,501

Fixed charges

19,572

13,476

10,882

11,955

15,936

3,865

3,964

Amortization of capitalized  
interest

-

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-

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	-
	-
Share of distributed income of 50% owned affiliate	600
	115
	60
	250
	488
	88
	200
Adjusted Earnings	
	\$27,576
	\$16,330
	\$13,836
	\$13,443
	\$21,543
	\$ 5,185
	\$ 6,665

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Fixed Charges (1):

The sum of:

(i) Interest expensed

\$13,972

\$ 8,218

\$ 6,097

\$ 7,393

\$11,407

\$2,737

\$2,875

(ii) Amortized premiums,  
discounts and capitalized  
expenses related to  
indebtedness (included in  
interest)

-

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-

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-

-

(iii) estimate of interest  
in rental expense

5,600

5,258

4,785

4,562

4,529

1,128

1,089

Fixed Charges

\$19,572

\$13,476

\$10,882

\$11,955

\$15,936

\$3,865

\$3,964

Ratio of earnings to fixed charges

1.4:1

1.2:1

1.3:1

1.1:1

1.4:1

1.3:1

1.7:1

(1) To estimate the amount of interest expense included in rental expense, we used various approaches, primarily the NPV approach for approximately 65% of the actual annual rent expense.

#### NO PROCEEDS

The debentures and shares of common stock to be offered and sold using this prospectus will be offered and sold by the Selling Security Holders named in this prospectus or in a supplement to this prospectus. We will not receive any proceeds from these sales or from conversion of the debentures into shares of our common stock.

#### DIVIDEND POLICY

We have not paid cash dividends on our outstanding common stock in many years, and since January 1, 1999, through December 31, 2005, we did not pay any accrued dividends on our outstanding cumulative preferred stock. As of December 31, 2005, there was approximately \$14.5 million of accrued and unpaid dividends on our outstanding cumulative preferred stock. We intend to retain most of our future earnings, if any, to provide funds for our operations and/or expansion of our businesses. However, on January 17, 2006, our Board of Directors declared nominal dividends, payable March 15, 2006, to holders of record as of February 15, 2006, on certain outstanding series of our preferred stock, as follows: \$.10 per share on our outstanding \$3.25 Convertible Exchangeable Class C, Series 2, which has 623,550

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shares outstanding, \$.37 on our outstanding Series B 12% Cumulative Convertible Preferred, which has 20,000 shares outstanding, and \$.31 a share on our outstanding Non-Cumulative Preferred, which has 871 shares outstanding. These nominal dividends were not for the full amount of the required quarterly

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dividends pursuant to the terms of all of our outstanding series of preferred stock. As a result, the amount of accrued and unpaid dividends on our outstanding cumulative preferred stock increased to approximately \$14.9 million as of March 15, 2006. There are no assurances that we will in the future pay any additional quarterly dividends on any of our outstanding shares of preferred stock.

We do not anticipate paying cash dividends on our outstanding common stock in the foreseeable future, and until all accrued and unpaid dividends are paid on our outstanding cumulative preferred stock, no dividends may be paid on our common stock. In the event of our liquidation, winding up or dissolution, there can be no distributions on our common stock until all of the liquidation preference and stated value amounts of our outstanding preferred stock and all accrued and unpaid dividends due on our outstanding cumulative preferred stock are paid in full. Further, not paying all of cumulative accrued dividends on our outstanding preferred stock could adversely affect the marketability of our common stock and our ability to raise additional equity capital.

### PRICE RANGE OF COMMON STOCK

Since December 15, 2003, our common stock has been listed for trading on the American Stock Exchange under the symbol "LXU." Prior to that date, our common stock traded on the over-the-counter bulletin board operated by the National Association of Securities Dealers, Inc. The table below shows the high and low bid prices for our common stock for the periods indicated, which reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

### Common stock price

#### High

#### Low

Fiscal year ending December 31, 2006:

Second quarter (through May 5, 2006)

\$8.75

\$6.95

First quarter

\$7.48

\$5.87

Fiscal year ending December 31, 2005:

Fourth quarter	\$6.68
	\$4.95
Third quarter	\$7.30
	\$6.10
Second quarter	\$7.49
	\$6.15
First quarter	\$7.85
	\$5.98
Fiscal year ended December 31, 2004:	
Fourth quarter	\$9.59
	\$7.43
Third quarter	\$9.49
	\$6.95
Second quarter	\$8.45
	\$6.97
First quarter	\$8.63
	\$6.00

On May 5, 2006, the closing sale price of our common stock on the American Stock Exchange was \$8.60 per share. As of May 5, 2006, there were approximately 775 holders of record of our common stock.

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DESCRIPTION OF DEBENTURES

The following description is a summary of the material provisions of the debentures, the indenture and the registration rights agreement relating to the debentures and the shares of common stock issuable upon conversion of the debentures. This summary is subject to and is qualified by reference to all the provisions of the indenture and the form of debenture, including the definitions of certain terms used in the indenture, and to all provisions of the registration rights agreement. Wherever particular provisions or defined terms of the indenture or form of debenture are referred to, these provisions or defined terms are incorporated in this prospectus by reference. We urge you to read the indenture because it, and not this description, defines the rights of a holder of the debentures.

**General**

The debentures are general unsecured indebtedness of LSB. Our payment obligations under the debentures are subordinated to our senior indebtedness and effectively subordinated to all of the indebtedness and other liabilities of our subsidiaries as described under "- Subordination of debentures." The debentures are convertible into common stock as described under "- Conversion of debentures." The debentures will mature on March 1, 2011, unless earlier converted, redeemed or repurchased.

We are not subject to any financial covenants under the indenture; however, we may not create future subordinated indebtedness unless, by its terms, it is either junior to, or *pari passu* with, the debentures. In addition, we are not restricted under the indenture from paying dividends, incurring debt or issuing or repurchasing our securities.

Holders of debentures are not afforded protection under the indenture in the event of a highly leveraged transaction of LSB, or in the event of a change in control of LSB except to the extent described below under

"- Repurchase at option of the holder upon a designated event" and "Make-whole premium."

The debentures bear interest at a rate of 7% per annum. Interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and accrues from March 3, 2006, or from the most recent date to which interest has been paid or duly provided for. We will pay interest semiannually on March 1 and September 1 of each year, beginning on September 1, 2006, to the holders of record at the close of business on the preceding February 15 and August 15, respectively.

Each payment of interest on the debentures will include interest accrued through the day before the applicable interest payment date (or repurchase, redemption or, in certain circumstances, conversion date, as the case may be). Any payment required to be made on any day that is not a business day will be made on the next succeeding business day. The term "interest" as used in the indenture includes interest payable under the terms of the debentures and liquidated damages, if any, payable under the terms of the registration rights agreement as described under "- Registration rights of the debenture holders."

We will maintain, or cause the trustee to maintain, an office where we will pay the principal and premium, if any, on the debentures and you may present the debentures for conversion,



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registration of transfer or exchange for other denominations, which shall initially be an office or agency of the trustee. The trustee currently maintains an office in Kansas City, Missouri, for such purposes. We may pay interest by check mailed to the holder's address as it appears in the debenture register, provided that a holder with an aggregate principal amount in excess of \$1.0 million shall be paid, at the holder's written election, by wire transfer in immediately available funds. However, payments to The Depository Trust Company, New York, New York, which we refer to as DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee.

Debentures may be presented for conversion at the office of the Company or the conversion agent and for exchange or registration of transfer at the office of the Company or the registrar. The conversion agent and the registrar shall initially be the trustee. No service charge will be made for any registration of transfer or exchange of debentures. However, we may require the holder to pay any tax, assessment or other governmental charge payable as a result of such transfer or exchange.

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### Conversion of debentures

Subject to the provisions of the indenture, holders may convert any of their debentures, in whole or in part, into shares of our common stock at any time prior to the close of business on February 28, 2011, at a conversion rate per \$1,000 principal amount of debentures determined as of the date of conversion under the conversion rate schedule below, subject to adjustment as described below under "- Conversion rate adjustments." A holder may convert debentures in part so long as such part is \$1,000 principal amount or a multiple of \$1,000.

Conversion Rate  
(Number of Shares Per  
\$1,000 Principal Amount  
of Debentures)

Approximate  
Conversion Price

Date of Debenture Conversion

125.00

\$8.00

before September 1, 2006

141.25

\$7.08

on or after September 1, 2006 and on or  
before February 28, 2007

141.04

\$7.09

on or after March 1, 2007 and on or before  
August 31, 2007

137.27

\$7.28

on or after September 1, 2007 and on or  
before February 29, 2008

133.32

\$7.50

on or after March 1, 2008 and on or before  
August 31, 2008

129.23

\$7.74

on or after September 1, 2008 and on or  
before February 28, 2009

125.00

\$8.00

on or after March 1, 2009

To convert debentures into common stock, a holder must do the following:

- complete and manually sign the conversion notice on the back of the debenture or facsimile of the conversion notice and deliver this notice to the conversion agent;
- surrender the debenture to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents;
- if required, pay all transfer or similar taxes; and
- if required, pay funds equal to interest payable on the next interest payment date.

The date a holder complies with these requirements is the conversion date under the indenture. If a holder's interest is a beneficial interest in a global debenture, to convert such a debenture, such holder must comply with the last three requirements listed above and comply with the depositary's procedures for converting a beneficial interest in a global debenture. A certificate, or a book-entry transfer through DTC, for the number of full shares of our common stock into which any debentures are converted, together with a cash payment for any fractional shares, will be delivered through the conversion agent as soon as practicable, but no later than the fifth business day, following the conversion date.

If we call debentures for redemption, a holder may convert its debentures only until the close of business on the business day prior to the redemption date

unless we fail to pay the redemption price. If a holder has submitted debentures for repurchase upon a designated event, such holder may convert debentures only if it first withdraws the repurchase election in accordance with the terms of the indenture.

Upon conversion, a holder will not receive any cash payment of interest. We will not issue fractional common shares upon conversion of debentures. Instead, we will pay cash in lieu of fractional shares based on the closing sale price of the common stock on the trading day prior to the conversion date. Our delivery to the holder of the full number of shares of our common stock into which a debenture is convertible, together with any cash payment for such holder's fractional shares, will be deemed to satisfy our obligation to pay the principal amount of the debenture and accrued but unpaid interest,

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attributable to the period from the most recent interest payment date to the conversion date. As a result, accrued but unpaid interest, to the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of a holder's tax treatment upon receipt of our common stock upon conversion, see "Certain United States Federal Income Tax Considerations."

Notwithstanding the preceding paragraph, if debentures are converted after a record date but prior to the next interest payment date, holders of such debentures at the close of business on the record date will receive the interest payable on such debentures on the corresponding interest payment date notwithstanding the conversion. Such debentures, upon surrender for conversion, must be accompanied by funds equal to the amount of interest payable on the debentures so converted; provided that no such payment need be made (1) if we have specified a redemption date that is after a record date but on or prior to the next interest payment date, (2) if we have specified a repurchase date following a designated event that is after a record date but on or prior to the next interest payment date or (3) to the extent of any overdue interest, if any overdue interest exists at the time of conversion with respect to such debenture.

#### ***Conversion rate adjustments***

The conversion rate will be subject to adjustment, without duplication, upon the occurrence of any of the following events:

1. the payment or issuance of common stock as a dividend or distribution on our common stock;
2. the issuance to all holders of common stock of rights, warrants or options to purchase our common stock (other than pursuant to our preferred share rights plan) for a period expiring within 45 days of the record date for such distribution at a price less than the average of the closing sale price for the 10 trading days preceding the declaration date for such distribution; provided that the conversion price will be readjusted to the extent that such rights, warrants or options are not exercised;
3. subdivisions, splits or combinations of our common stock; and

4. distributions to the holders of our common stock of a portion of our assets (including shares of capital stock or assets of a subsidiary) or debt or other securities issued by us or certain rights to purchase our securities (excluding dividends or distributions covered by clauses (1) or (2) above or our preferred share rights plan); provided, however, that if we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sale prices of those securities for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such distribution on the NASDAQ National Market or such other national or regional exchange or market on which the securities are then listed or quoted.

To the extent that we have a rights plan in effect upon conversion of the debentures into common stock, you will receive, in addition to the common stock, the rights under the rights plan unless the rights have separated from the common stock at the time of conversion, in which case the conversion rate will be adjusted as if we distributed to the holders of our common stock, a portion of our assets, or debt or other securities or rights as set forth under clause (4) above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

In the event of:

- any reclassification of our common stock;
- a consolidation, merger or combination involving us; or
- a sale or conveyance to another person or entity of all or substantially all of our property and assets in which holders of our common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, upon conversion of a

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holder's debentures the holder will be entitled to receive the same type of consideration that the holder would have been entitled to receive if the holder had converted the debentures into our common stock immediately prior to any of these events.

A holder may in certain situations be deemed to have received a distribution subject to U.S. federal income tax as a dividend in the event of any taxable distribution to holders of common stock or in certain other situations requiring a conversion rate adjustment. See "Certain United States Federal Income Tax Considerations."

We may, from time to time, increase the conversion rate if our board of directors has made a determination that this increase would be in our best interests. Any such determination by our board will be conclusive. In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock or rights distribution. See "Certain United States Federal Income Tax Considerations."

***Make-whole premium***

Under certain conditions, if a fundamental change occurs as described below, and a holder elects to convert its debentures in connection with such a fundamental change, we will increase the applicable conversion rate for the debentures surrendered for conversion by a number of additional shares of our common stock (the "make-whole premium"), as described below. A conversion of debentures will be deemed for these purposes to be "in connection with" such a fundamental change transaction if the notice of conversion of the debentures is received during the period commencing thirty days prior to the fundamental change transaction and ending forty-five days after the fundamental change transaction.

The number of additional shares of our common stock will be determined by reference to the table below and is based on the date on which such fundamental change transaction becomes effective (the "effective date") and the price (the "stock price") paid per share of our common stock in such transaction. If the holders of our common stock receive only cash in the fundamental control transaction, the stock price shall be the cash amount paid per share of our common stock. Otherwise, the stock price shall be the average of the closing sale prices of our common stock on the five consecutive trading days up to but excluding the effective date.

If the Company elects to pay the make-whole premium in the same form of consideration used to pay for the shares of the common stock in connection with the applicable fundamental change transaction, the value of the consideration to be delivered in respect of the make-whole premium will be calculated as follows:

- i. securities that are traded on a U.S. national securities exchange or approved for quotation on the NASDAQ National Market or any similar system of automated dissemination of quotations of securities prices will be based on 100% of the arithmetic average of the Closing Price of such securities during each of the ten (10) Trading Days ending on the Trading Day immediately preceding the Effective Date;
- ii. other securities, assets or property (other than cash) will be valued on 100% of the arithmetic average of the fair market value of such securities, assets or property (other than cash) as determined by two independent nationally recognized investment banks selected by the Trustee; and
- iii. 100% of any cash.

The stock prices set forth in the first row of the table (i.e., the column headers) will be adjusted as of any date on which the conversion rate of the debentures is adjusted (other than any increase to the conversion rate for a fundamental change as described in this section). The adjusted stock prices will equal the stock prices applicable immediately prior to such adjustment multiplied by fraction, the numerator of which is the conversion rate immediately prior to the adjustment giving rise to the stock price adjustment and the denominator of which is the conversion rate as so adjusted. In addition, the

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make-whole premium will be subject to adjustment in the same manner as the conversion rate as set forth above under "-Adjustment of Conversion Rate."

The following table sets forth the stock price and number of additional shares of our common stock to be received per \$1,000 principal amount of debentures:

Make-Whole Premium  
(Number of Additional Shares of Common Stock per \$1,000 principal amount of Debentures)

Stock Price

LSB Industries  
Make-Whole Premium in Additional Shares of Common Stock

\$7.00

0.00

0.00

0.00

0.00

0.00

0.00

0.00

\$7.50

20.53

17.97

15.16

11.86

0.00

0.00

0.00

\$8.00

22.66

20.15

46

17.40

14.15

10.16

3.62

0.00

\$8.50

19.87

17.44

14.77

11.62

7.77

1.68

0.00

\$9.00

17.54

15.20

12.63

9.62

5.99

0.76

0.00

\$10.00

13.94

11.80

9.46

6.79

47

3.70  
0.26  
0.00  
\$15.00  
6.06  
4.79  
3.52  
2.23  
1.08  
0.14  
0.00  
\$20.00  
3.75  
2.95  
2.18  
1.44  
0.77  
0.11  
0.00  
\$25.00  
2.76  
2.20  
1.66  
1.13  
0.61  
0.09  
48



	0.00
\$30.00 or Above	
	2.23
	1.79
	1.36
	0.93
	0.51
	0.07
	0.00
Effective Date	
3/1/2006 to 8/31/2006	
9/1/2006 to 2/28/2007	
3/1/2007 to 8/31/2007	
9/1/2007 to 2/29/2008	
3/1/2008 to 8/31/2008	
9/1/2008 to 2/28/2009	
After	
3/1/2009	

The exact stock prices and effective dates may not be set forth in the table, in which case:

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1. if the stock price is between two stock price amounts in the table on the effective date and the effective date is between two dates in the table, the additional shares will be determined by straight-line interpolation between the number of additional shares set forth for the higher and lower stock price amounts and the two dates, as applicable, based on a 365-day year (or 366-day year, if a leap year);
2. if the stock price is equal to or in excess of \$30.00 per share of our common stock (subject to adjustment), the make-whole premium will be the shares in the table in the stock price row "\$30.00 or above"; and
3. if the stock price is equal to or less than \$7.00 per share of our common stock (subject to adjustment), no additional make-whole premium will be issued upon conversion.

### Optional redemption by LSB

At any time on or after March 1, 2009, upon at least 30 and not more than 60 days' notice by mail to the holders of the debentures, we may, at our option, redeem the debentures, in whole or in part, at a redemption price, payable at our option in cash or, subject to the conditions set forth below, in shares of our common stock, equal to 100% of the principal amount of the debentures to be redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date, if the following three conditions are all satisfied on the date we mail the notice of redemption: (1) the closing sale prices of our common stock for at least 20 of the 30 consecutive trading days ending on the trading day prior to the date we mail a notice of redemption, exceeding 115% of the adjusted conversion price of the debentures; (2) our common stock is listed on a U.S. national securities exchange or the NASDAQ Stock Market; and (3) a registration statement covering resales of the debentures and the common stock issuable upon their conversion is effective and available for use and is expected to remain effective and available for use during the 30 days following the redemption date, unless registration is no longer required. We will specify in the redemption notice the type of consideration to be paid upon redemption and the amount of each debenture to be paid by each type.

We may only elect to pay the redemption price in shares of our common stock, in whole or in part, if the following three conditions are all satisfied on the date of redemption: (1) our common stock is listed on a U.S. national securities exchange or the NASDAQ Stock Market; (2) the trustee has received

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an opinion of counsel (in form and substance reasonably satisfactory to the trustee) that the common stock to be issued in respect of the redemption price will be duly issued in compliance with all laws and listing requirements (including any shareholder approval requirements) and is fully paid and non-assessable; and (3) the shares of common stock used to pay the redemption price are duly registered and freely tradeable without time or volume restrictions. Payments made in our common stock will be valued at 95% of the weighted average of the closing sale prices of our common stock for the 20 consecutive trading days ending on the fifth trading day prior to the redemption date. Not later than the fourth trading day prior to the redemption date, we will publicly announce the number of shares of common stock to be paid as the redemption price per each \$1,000 principal amount of debentures to be

redeemed.

Our right to optional redemption at any time on or after March 1, 2009, is not conditioned upon the closing sale price of our common stock exceeding the then effective conversion price of the debentures. Because the value of the common stock will be determined before the redemption date, if we specify that we will make payment of the redemption price in our common stock, holders of debentures bear the market risk that our common stock will decline in value between the date of such determination and the redemption date. In addition, holders will not know the exact number of shares of common stock to be received upon redemption until the fourth trading day prior to the redemption date.

The "closing sale price" of our common stock on any date means the closing per share sale price (or if no closing sale price is reported, the average of the closing bid and closing ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported in composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national securities exchange, as reported by the NASDAQ National Market or the NASDAQ SmallCap Market or the over-the-counter bulletin board.

If less than all of the outstanding debentures are to be redeemed, the trustee will select the debentures to be redeemed in principal amounts of \$1,000 or multiples of \$1,000 by lot or other equitable method as determined by the trustee. If a portion of a holder's debentures is selected for partial redemption and the holder converts a portion of the holder's debentures, the converted portion will be deemed, to the extent practicable, to be included in the portion selected for redemption.

We may not redeem the debentures if we have failed to pay any interest on the debentures and such failure to pay is continuing.

**Optional right of LSB to pay the debentures at maturity in LSB common stock**

At the maturity of the debentures, upon at least 30 and not more than 60 days' notice by mail to the holders of the debentures, we may, at our option, pay up to 50% of the principal amount of the debentures, plus accrued and unpaid interest thereon, to, but excluding, the maturity date, subject to the conditions set forth below, in shares of our common stock. Such notice to the holders of the debentures will state the amount of the debentures and, if applicable, accrued and unpaid interest thereon, to be paid in cash and the amount to be paid in common stock.

We may only elect to pay the debentures at maturity in shares of our common stock if the following three conditions are all satisfied on the maturity date: (1) our common stock continues to be listed on a U.S. national securities exchange or the NASDAQ Stock Market; (2) the trustee has received an opinion of counsel (in form and substance satisfactory to the trustee) that the common stock to be issued in payment of the debentures at maturity will be duly issued in compliance with all laws and listing requirements (including any shareholder approval requirements) and is fully paid and non-assessable; and (3) the shares of common stock used to pay the debentures and any interest accrued thereon at maturity are duly registered and freely tradeable without time or volume restrictions. Payments made in our common stock will be valued at 95% of the weighted average of the closing sale prices of our common stock for the 20 consecutive trading days ending on the fifth trading day prior to the maturity date. Not later

than the fourth trading day prior to the maturity date, we will publicly announce the number of shares of common stock to be paid on the maturity date per each \$1,000 principal amount of debentures.

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Our right to pay the debentures at the maturity date in our common stock is not conditioned upon the closing sale price of our common stock exceeding the then effective conversion price of the debentures. Because the value of the common stock will be determined before the maturity date, if we specify that we will make payment of the debentures at the maturity date in our common stock, holders of debentures bear the market risk that our common stock will decline in value between the date of such determination and the maturity date. In addition, holders will not know the exact number of shares of common stock to be received upon maturity until the fourth trading day prior to the maturity date.

The "closing sale price" of our common stock on any date means the closing per share sale price (or if no closing sale price is reported, the average of the closing bid and closing ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) on such date as reported in composite transactions for the principal U.S. national securities exchange, on which our common stock is traded or, if our common stock is not traded on a U.S. national securities exchange, as reported by the NASDAQ National Market or the NASDAQ SmallCap Market or the over-the-counter bulletin board.

If we elect to pay a portion of the outstanding debentures at maturity using our common stock, the trustee will select the debentures to be paid in principal amounts of \$1,000 or multiples of \$1,000 by lot or other equitable means as determined by the trustee and the remaining balance of the debentures will be paid in cash.

**Repurchase at option of the Holder upon a designated event**

If a designated event (as defined below) occurs at any time prior to the maturity of the debentures, a holder may require us to repurchase the holder's debentures, in whole or in part, for cash on a repurchase date specified by us that is not less than 45 days after the date of mailing of our notice of the designated event. The debentures will be repurchased only in multiples of \$1,000 principal amount.

We will repurchase the debentures at a cash price equal to 101% of the principal amount to be repurchased, plus accrued and unpaid interest to, but excluding, the repurchase date, unless the repurchase date falls after a record date and on or prior to the corresponding interest payment date, in which case we will pay the full amount of accrued and unpaid interest on such interest payment date to the holder of record at the close of business on the corresponding record date.

We will mail to all record holders a notice of a designated event within 15 days after it or a fundamental change has occurred. We are also required to deliver to the trustee a copy of the designated event notice.

Such designated event notice shall state, among other things:

- the events constituting a designated event or fundamental change;
- the date of the designated event or fundamental change;
- the last date on which a holder may exercise the purchase right, which may not be less than 45 days after the date of mailing of our notice of the designated event;
- the purchase price and date of repurchase, if applicable;
- the name and address of the paying agent and the conversion agent;
- the conversion rate and any adjustments to the conversion rate;

- that the debentures with respect to which a purchase notice has been given by the holder may be converted only if the holder withdraws the purchase notice in accordance with the terms of the indenture;
- the procedures that holders must follow to require us to purchase their debentures and to withdraw any surrendered debentures, if applicable;
- the CUSIP number or numbers of the debentures (if then generally in use);

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- in the case of a fundamental change, the amount and availability of the make-whole premium of the debentures converted in connection with a fundamental change; and
- in the case of a fundamental change, whether such make-whole premium will be paid in shares of common stock or the property into which the common stock was converted in such fundamental change transaction or a combination of both.

If a holder elects to require us to repurchase the holder's debentures, the holder must deliver to us or our designated agent, on or before the repurchase date specified in our designated event notice, the holder's repurchase notice and any debentures to be repurchased, duly endorsed for transfer. We may require the holder to pay any tax, assessment or other governmental charge payable as a result of any transfer or exchange of debentures by reason of such repurchase.

The repurchase notice from the holder must state:

- if certificated debentures have been issued, the debenture certificate numbers (or, if the holder's debentures are not certificated, the holder's repurchase notice must comply with appropriate DTC procedures);
- the portion of the principal amount of debentures to be repurchased, which must be in \$1,000 multiples; and
- that the debentures are to be repurchased by us pursuant to the applicable provisions of the debentures and the indenture.

A holder may withdraw any written repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the business day prior to the repurchase date. The withdrawal notice must state:

- the principal amount of the withdrawn debentures;
- if certificated debentures have been issued, the certificate numbers of the withdrawn debentures (or, if the holder's debentures are not certificated, the holder's withdrawal notice must comply with appropriate DTC procedures); and
- the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for a debenture for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the debenture, together with necessary endorsements, to the paying

agent at its corporate trust office in the Borough of Manhattan, The City of New York, or any other office of the paying agent, at any time after delivery of the repurchase notice. Payment of the repurchase price for the debenture will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the debenture. If the paying agent holds money sufficient to pay the repurchase price of the debenture on the business day following the repurchase date, then, on and after the date:

- the debenture will cease to be outstanding;
- interest will cease to accrue; and
- all other rights of the holder will terminate, other than the right to receive the repurchase price upon delivery of the debenture.

This will be the case whether or not book-entry transfer of the debenture has been made or the debenture has been delivered to the paying agent.

Definition of designated event

A "designated event" will be deemed to have occurred upon a fundamental change or a termination of trading.

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A "fundamental change" will be deemed to have occurred at any time after the debentures are originally issued that any of the following occurs:

- 1.a "person" or "group" within the meaning of Section 13(d) of the Exchange Act (other than us, our subsidiaries, our employee benefit plans, or any of the Golsen Group), files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, of our common stock representing more than 50% of the voting power of our common stock entitled to vote generally in the election of directors; provided, however, that the Golsen Group, as a whole, is only excluded if their beneficial ownership of our voting common stock is 70% or less.
2. consummation of any share exchange, consolidation or merger of us pursuant to which our common stock is converted into cash, securities or other property, or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of us and our subsidiaries, taken as a whole, to any person other than us or one or more of our subsidiaries; provided, however, that a transaction where the holders of our common stock immediately prior to such transaction have, directly or indirectly, more than 50% of the aggregate voting power of the common stock of the continuing or surviving corporation or transferee entitled to vote generally in the election of directors immediately after such event shall not be a fundamental change; or

3. continuing directors (as defined below in this section) cease to constitute at least a majority of our board of directors.

A designated event will not be deemed to have occurred in respect of any of the foregoing, however, if either:

1. the last reported sale price of our common stock for any five trading days within the 10 consecutive trading days ending immediately before the later of the fundamental change or the public announcement thereof, equals or exceeds 105% of the applicable conversion price of the debentures in effect immediately before the fundamental change or the public announcement thereof; or
2. at least 90% of the consideration, excluding cash payments for fractional shares, in the transaction or transactions constituting the fundamental change consists of shares of capital stock traded on a national securities exchange or quoted on the NASDAQ National Market or which will be so traded or quoted when issued or exchanged in connection with a fundamental change (these securities being referred to as "publicly traded securities") and as a result of this transaction or transactions the debentures become convertible into such publicly traded securities, excluding cash payments for fractional shares.

For purposes of the above paragraph, the term capital stock of any person means any and all shares, interests, participations or other equivalents however designated of corporate stock or other equity participations, including partnership interests, whether general or limited, of such person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such person.

A "termination of trading" means the termination of trading in our common stock (or other securities into which the debentures are then convertible) on the NASDAQ National Market, the NASDAQ SmallCap Market, or any U.S. national securities exchange, following which our common stock (or other securities into which the debentures are then convertible) is no longer approved for trading on the NASDAQ National Market, the NASDAQ SmallCap Market, or any U.S. national securities exchange or the over-the-counter bulletin board.

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"Continuing director" means a member of our board of directors who either was a member of our board of directors on the date of this prospectus or who becomes a member of our board of directors subsequent to that date and whose appointment, election or nomination for election by our stockholders is duly approved by a majority of the continuing directors on our board of directors at the time of such approval, either by a specific vote or by approval of the proxy statement issued by us on behalf of the board of directors in which such individual is named as nominee for director. The two directors elected by the holders of our Series 2 Preferred Stock from time to time shall not be deemed "continuing directors" for this purpose.

We will comply with the applicable provisions of Rule 13e-4 and any other applicable tender offer rules under the Exchange Act, as amended, in the event of a designated event.

### **General**

This designated event repurchase right and the make-whole premium could discourage a potential acquirer of our company. However, this designated event repurchase feature and the make-whole premium is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer or solicitation, or part of a plan by management to adopt a series of anti-takeover provisions. The term "fundamental change" is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. Our obligation to offer to repurchase the debentures or to pay a make-whole premium if a holder converts the holder's debentures in connection upon a fundamental change would not necessarily afford the holder protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us. No debentures may be repurchased by us at the option of holders upon a designated event if the principal amount of the debentures has been accelerated, and such acceleration has not been rescinded, on or prior to the repurchase date.

The definition of fundamental change includes a phrase relating to the conveyance, transfer, sale, lease or disposition of "all or substantially all" of our consolidated assets. There is no precise, established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of the debentures to require us to purchase its debentures as a result of the conveyance, transfer, sale, lease or other disposition of less than all of our assets may be uncertain.

We may be unable to repurchase the debentures upon the occurrence of a designated event. If a designated event were to occur, we may not have enough funds to pay the repurchase price for all tendered debentures. Any future credit agreements or other agreements relating to our indebtedness may contain provisions prohibiting repurchase of the debentures under certain circumstances, or expressly prohibit our repurchase of the debentures upon a designated event or may provide that a designated event constitutes an event of default under that agreement. If a designated event occurs at a time when we are prohibited from repurchasing debentures, we could seek the consent of our lenders to repurchase the debentures or attempt to refinance this debt. If we do not obtain consent or refinance this debt, we would not be permitted to repurchase the debentures. Our failure to repurchase tendered debentures would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness. If a designated event would constitute an event of default under our senior indebtedness, the subordination provisions of the indenture would restrict payments to the holders of debentures.

### **Subordination of debentures**

Payment on the debentures will, to the extent provided in the indenture, be subordinated in



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right of payment to the prior payment in full of all of our senior indebtedness.

Upon any distribution of our assets upon any dissolution, winding up, liquidation or reorganization, the payment of the principal of, or premium, if any, and interest, if any, on the debentures will be subordinated in right of payment to the prior payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all senior indebtedness. In the event of any acceleration of the debentures because of an event of default, the holders of any outstanding senior indebtedness would be

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entitled to payment in full in cash or other payment satisfactory to the holders of senior indebtedness of all senior indebtedness obligations before the holders of the debentures are entitled to receive any payment or distribution. We are required under the indenture to promptly notify holders of senior indebtedness, if payment of the debentures is accelerated because of an event of default.

We may not make any payment on the debentures if:

- a default in the payment of designated senior indebtedness occurs and is continuing beyond any applicable period of grace (called a "payment default"); or
- a default, other than a payment default, on any designated senior indebtedness occurs and is continuing (or such default would occur as a result of such payment, provided, in this last case that we have notified the trustee that such default would result from such payment prior to the time the trustee is required to make such payment) that permits holders of designated senior indebtedness to accelerate its maturity, or in the case of a lease, a default occurs and is continuing that permits the lessor to either terminate the lease or require us to make an irrevocable offer to terminate the lease following an event of default under the lease, and the trustee receives a notice of such default (called "payment blockage notice") from any person permitted to give such notice under the indenture (called a "non-payment default").

We may resume payments and distributions on the debentures:

- in case of a default in the payment of designated senior indebtedness, upon the date on which such default is cured or waived or ceases to exist; or
- in case of a default, other than a payment default, on any designated senior indebtedness, the earlier of the date on which such nonpayment default is cured or waived or ceases to exist or 179 days after the date on which the payment blockage notice is received, if the maturity of the designated senior indebtedness has not been accelerated, or in the case of any lease, 179 days after notice is received if we have not received notice that the lessor under such lease has exercised its right to terminate the lease or require us to make an irrevocable offer to terminate the lease following an event of default under the lease.

No new period of payment blockage may be commenced pursuant to a payment blockage notice unless 365 days have elapsed since the initial effectiveness of the immediately prior payment blockage notice. No non-payment default that

existed or was continuing on the date of delivery of any payment blockage notice shall be the basis for any later payment blockage notice.

If the trustee or any holder of the debentures receives any payment or distribution of our assets in contravention of the subordination provisions on the debentures before all senior indebtedness is paid in full in cash or other payment satisfactory to holders of senior indebtedness, then such payment or distribution will be held in trust for the benefit of holders of senior indebtedness or their representatives to the extent necessary to make payment in full cash or payment satisfactory to the holders of senior indebtedness of all unpaid senior indebtedness.

Because of the subordination provisions discussed above, in the event of our bankruptcy, dissolution or reorganization, holders of senior indebtedness may receive more, ratably, and holders of the debentures may receive less, ratably, than our other creditors. This subordination will not prevent the occurrence of any event of default under the indenture.

The debentures are our exclusive obligations. We are a holding company and, as such, our operations are conducted through subsidiaries. As a result, our cash flow and our ability to service our debt, including the debentures, depend upon the earnings of our subsidiaries and on the distribution of such earnings, loans or other payments from our subsidiaries. Any payment of dividends, distributions, loans or advances by our subsidiaries to us are or may be subject to statutory and/or contractual restrictions. Payments to us by our subsidiaries are also contingent upon our subsidiaries' business considerations.

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Our right to receive any assets of any of our subsidiaries upon its liquidation or reorganization, and therefore the right of debenture holders to participate in those assets, are and will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, to the extent we are now or in the future a creditor of any of our subsidiaries, our rights as a creditor are and would be subordinate to any security interest in the assets of such subsidiary and to any indebtedness of such subsidiary senior to that held by us. The term "senior indebtedness" is defined in the indenture and includes principal, premium, interest, rent, fees, costs, expenses and other amounts accrued or due on our existing or future indebtedness, as defined below, or any existing or future indebtedness guaranteed or in effect guaranteed by us, subject to certain exceptions. The term does not include:

- any indebtedness that by its express terms provides that it is not senior to the debentures or is pari passu or junior to the debentures; or
- any indebtedness we owe to any of our majority-owned subsidiaries; or
- the debentures.

The term "indebtedness" is also defined in the indenture and includes, in general terms, our liabilities (contingent or otherwise) in respect of borrowed money, notes, bonds, debentures, letters of credit, bank guarantees, bankers'

acceptances, capital and certain other leases, interest rate and foreign currency derivative contracts or similar arrangements, guarantees and certain other obligations described in the indenture, subject to certain exceptions. The term does not include, for example, any account payable or other accrued current liability or obligation incurred in the ordinary course of business in connection with the obtaining of goods or services.

The term "designated senior indebtedness" is defined in the indenture and includes obligations under our working capital loan, our term loan, real estate mortgages, equipment loans and certain other indebtedness guaranteed by us, and any senior indebtedness that by its terms expressly provides that it is "designated senior indebtedness" for purposes of the indenture.

As of December 31, 2005, we had approximately \$95.2 million of senior indebtedness outstanding, all of which is designated senior indebtedness. This amount includes \$93.4 million of "indebtedness" of our subsidiaries for which we are contingently liable by virtue of a guarantee or otherwise and which is therefore treated as our "senior indebtedness." The debentures will also be effectively subordinated to all other present or future liabilities, including trade payables, and \$13.3 million of senior unsecured debentures due 2007, of our subsidiaries, which, as of December 31, 2005, totaled approximately \$74.0 million. Therefore, as of December 31, 2005, the debentures are effectively subordinate to a total of \$169.2 million of senior indebtedness, including liabilities of our subsidiaries. See "Risk Factors." Neither we nor any of our subsidiaries are prohibited from incurring debt, including senior indebtedness, under the indenture. We may from time to time incur additional debt, including senior indebtedness.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against certain losses, liabilities or expenses incurred by the trustee in connection with its duties relating to the debentures. The trustee's claims for these payments will generally be senior to those of debenture holders in respect of all funds collected or held by the trustee.

#### **Merger and sale of assets by LSB**

The indenture provides that we may not consolidate with or merge with or into any other person or sell, convey, transfer or lease all or substantially all of our properties and assets to another person, unless among other things:

- we are the surviving person, or the resulting, surviving or transferee person, if other than us, is organized and existing under the laws of the United States, any state thereof or the District of Columbia;

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- the successor person assumes, by supplemental indenture satisfactory in form and substance to the trustee, all of our obligations under the debentures and the indenture;

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- after giving effect to such transaction, there is no event of default, and no event which, after notice or passage of time or both, would become an event of default; and
- we have delivered to the trustee an officers' certificate and an opinion of counsel each stating that such consolidation, merger, sale, conveyance, transfer or lease complies with these requirements.

If we were to sell our chemical business, based upon our current configuration, such sale would not constitute a sale of all or substantially all of our property and assets (computed on a consolidated basis) for purposes of the foregoing.

When a person described above assumes our obligations in such circumstances, subject to certain exceptions, we shall be discharged from all obligations under the debentures and the indenture.

If we are a party to a consolidation, merger, binding share exchange or sale of all or substantially all of our assets, in each case pursuant to which our common stock is converted into cash, securities, or other property, then at the effective time of the transaction, the right to convert a debenture into our common stock will be changed into a right to convert it into the kind and amount of cash, securities and other property that a holder would have received if the holder had converted its debentures immediately prior to the transaction.

### Notice of certain events

If we elect to pay a dividend or other distribution to all holders of our common stock, we must notify the holders of debentures at least 20 days prior to the ex-dividend date for such distribution, but in no event less than 20 days before the record date for such dividend or other distribution. The ex-dividend date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer.

### Events of default; notice and waiver

The following will be events of default under the indenture:

- failure to pay principal or premium, if any, when due at maturity, upon redemption, repurchase or otherwise on the debentures, whether or not the payment is prohibited by subordination provisions of the indenture;
- failure to pay any interest, if any, on the debentures, when due and such failure continues for a period of 10 days, whether or not the payment is prohibited by subordination provisions of the indenture;
- default in our obligation to deliver shares of our common stock or other property upon conversion of the debentures;
- failure to provide notice of the occurrence of a designated event on a timely basis;
- failure by us to pay any indebtedness for money borrowed or other senior indebtedness (after giving effect to any applicable grace periods) in an outstanding principal amount in excess of \$5,000,000 at interim or final maturity or upon acceleration, which indebtedness is not discharged, or such default in payment or acceleration is not cured or rescinded, within 10 days after written notice as provided in the indenture;
- failure to perform or observe any of the covenants in the indenture for 30 days after written notice to us from the trustee (or to us and the trustee from (a) two or more holders holding at least 25% or (b) one holder holding at least 35%, in the aggregate

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- principal amount of the debentures at the time outstanding); or
- certain events involving our bankruptcy, insolvency or reorganization.

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The trustee may withhold notice to the holders of the debentures of any default, except defaults in payment of principal, premium, interest, if any, on the debentures. However, the trustee must consider it to be in the interest of the holders of the debentures to withhold this notice.

If an event of default occurs and continues, the trustee or (a) two or more holders holding at least 25% or (b) one holder holding at least 35%, in the aggregate principal amount of the debentures at the time outstanding may declare the principal, premium, if any, and accrued and unpaid interest, if any, on the outstanding debentures to be immediately due and payable. In case of certain events of bankruptcy or insolvency involving us, the principal, premium, if any, accrued and unpaid interest, if any, on the debentures will automatically become due and payable. However, if we cure all defaults, except the nonpayment of principal, premium, if any, interest, and additional interest, if any, that became due as a result of the acceleration, and meet certain other conditions, with certain exceptions, this declaration may be cancelled and the holders of a majority of the principal amount of outstanding debentures may waive these past defaults.

Payments of principal, premium, if any, and interest, if any, on the debentures that are not made when due will accrue interest from the required payment date at the annual rate of 1% above the then applicable interest rate for the debentures.

The holders of a majority of outstanding debentures will have the right to direct the time, method and place of any proceedings for any remedy available to the trustee, subject to limitations specified in the indenture.

No holder of the debentures may pursue any remedy under the indenture, except in the case of an event of default in the payment of principal, premium, if any, or interest, if any, on the debentures, unless:

- (a) two or more holders holding at least 25% or (b) one holder holding at least 35%, in the aggregate principal amount of the debentures at the time outstanding has given the trustee written notice of an event of default;
- (a) two or more holders holding at least 25% or (b) one holder holding at least 35%, in the aggregate principal amount of the debentures at the time outstanding make a written request, and offer reasonable indemnity, to the trustee to pursue the remedy;
- the trustee does not receive an inconsistent direction from the holders of a majority in principal amount of the debentures;
- the holder or holders have offered reasonable security or indemnity to the trustee against any costs, liability or expense of the trustee; and
- the trustee fails to comply with the request within 60 days after receipt of the request and offer of indemnity.

**Modification and waiver**

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The consent of the holders of a majority in principal amount of the outstanding debentures is required to modify or amend the indenture. However, a modification or amendment requires the consent of the holder of each outstanding debenture affected if it would:

- extend the fixed maturity of any debenture;
- reduce the rate or extend the time for payment of interest, if any, of any debenture;
- reduce the principal amount or premium of any debenture;
- reduce any amount payable upon redemption or repurchase of any debenture;
- adversely change our obligation to repurchase any debenture at the option of the holder;
- adversely change our obligation to repurchase any debenture upon a designated event;
- impair the right of a holder to institute suit for payment on any debenture;

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- change the currency in which any debenture is payable;
- impair the right of a holder to convert any debenture or reduce the number of shares of common stock or any other property receivable upon conversion;
- adversely modify, in any material respect, the subordination provisions of the indenture;
- reduce the quorum or voting requirements under the indenture; or
- subject to specified exceptions, modify certain of the provisions of the indenture relating to modification or waiver of provisions of the indenture.

We are permitted to modify certain provisions of the indenture without the consent of the holders of the debentures.

### **Form, denomination and registration**

The debentures will be issued:

- in fully registered form;
- without interest coupons; and
- in denominations of \$1,000 principal amount and multiples of \$1,000.

### Global debenture, book-entry form

Debentures are evidenced by one or more global debentures. We deposited the global debenture or debentures with DTC and registered the global debentures in the name of Cede & Co. as DTC's nominee. Except as set forth below, a global debenture may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global debenture may be held through organizations that are participants in DTC (referred to as participants). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global debenture to such persons may be limited.

Beneficial interests in a global debenture held by DTC may be held only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (referred to as indirect participants). So long as Cede & Co., as the nominee of DTC, is the registered owner of a global debenture, Cede & Co. for all purposes will be considered the sole holder of such global debenture. Except as provided below, owners of beneficial interests in a global debenture will:

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- not be entitled to have certificates registered in their names;
- not receive physical delivery of certificates in definitive registered form; and
- not be considered holders of the global debenture.

We will pay interest on, and the redemption price and the repurchase price of, a global debenture to Cede & Co., as the registered owner of the global debenture, by wire transfer of immediately available funds on each interest payment date or the redemption or repurchase date, as the case may be. Neither we, the trustee nor any paying agent will be responsible or liable:

- for the records relating to, or payments made on account of, beneficial ownership interests in a global debenture; or
- for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

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Neither we, the trustee, registrar, paying agent nor conversion agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of debentures, including the presentation of debentures for conversion, only at the direction of one or more participants to whose account with DTC interests in the global debenture are credited, and only in respect of the principal amount of the debentures represented by the global debenture as to which the participant or participants has or have given such direction.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York and a member of the Federal Reserve System;
- "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a global debenture among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time.

We will issue debentures in definitive certificate form only if:

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- DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the Securities and Exchange Act of 1934, as amended, and a successor depository is not appointed by us within 90 days;
- an event of default shall have occurred and the maturity of the debentures shall have been accelerated in accordance with the terms of the debentures and any holder shall have requested in writing the issuance of definitive certificated debentures; or
- we have determined in our sole discretion that debentures shall no longer be represented by global debentures.

### Registration rights of the debenture holders

We entered into a registration rights agreement with the Selling Security Holders, pursuant to which we filed a registration statement, of which this prospectus is a part, with the SEC covering resale of the registrable securities. We will use commercially reasonable efforts to keep the registration statement effective until the earlier of: (i) the date there are no longer any registrable securities or (ii) three years following the closing of the debenture offering, which is March 3, 2009.

When we use the term "registrable securities" in this section, we are referring to the debentures and the common stock issuable upon conversion of the debentures until the earlier of (1) the transfer pursuant to Rule 144 under the Securities Act or the registration statement of all registrable securities, or (2) the expiration of the holding period that would be applicable to such securities if they were held by persons that are not affiliates of LSB under Rule 144(k) under the Securities Act or any successor provision.

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We will pay to holders of debentures predetermined amounts as liquidated damages on any interest payment date if the registration statement is not made effective on or before August 12, 2006, at an annual rate equal to 0.25% for the first 90 days and 0.50% thereafter of the aggregate principal amount of such debentures until the registration statement is filed or declared effective.

We will not be required to pay liquidated damages on any debentures that are not registrable securities or on any common stock issued upon conversion of the debentures.

We may, on one or more occasions, suspend the use of this prospectus, as may be amended and supplemented, under certain circumstances relating to pending corporate developments, public filings with the SEC and similar events. Any suspension periods shall not exceed an aggregate of 90 days for all periods in any 12-month period.

A holder who elects to sell registrable securities pursuant to the registration statement will be required to:

- be named as a Selling Security Holder in the prospectus;
- deliver a prospectus to purchasers; and
- be subject to the provisions of the registration rights agreement, including indemnification provisions.

We will give notice to all holders of the filing and effectiveness of any post effective amendment to the registration statement by issuing a press release to two of Reuters Economic Services, Bloomberg Business News or Business Wire.



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The terms of the registration rights agreement require us to pay up to \$5,000 for fees and expenses of the Selling Security Holders' counsel in connection with Blue Sky qualifications and up to \$25,000 for fees and expenses of such counsel in connection with the registration statement, which includes this prospectus.

This summary of the registration rights agreement is not complete. This summary is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement.

### Information Concerning the Trustee

We have appointed UMB Bank, n.a., the trustee under the indenture, as paying agent, conversion agent, debenture registrar and custodian for the debentures.

The trustee or its affiliates may also provide other services to us in the ordinary course of their business. The indenture contains certain limitations on the rights of the trustee, if it or any of its affiliates is then our creditor, to obtain payment of claims in certain cases or to realize on certain property received on any claim as security or otherwise. The trustee and its affiliates will be permitted to engage in other transactions with us. However, if the trustee or any affiliate continues to have any conflicting interest and a default occurs with respect to the debentures, the trustee must eliminate such conflict or resign.

### Governing Law

The debentures and the indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

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## DESCRIPTION OF CAPITAL STOCK

### Authorized capital stock

Our authorized capital stock consists of 75,000,000 shares of common stock, \$.10 par value per share, and 250,000 shares of preferred stock, \$100 par value per share ("Preferred Stock"), and 5,000,000 shares of Class C Preferred Stock, no par value ("Class C Preferred Stock").

### Common stock

As of March 31, 2006, we had issued and outstanding 13,762,618 shares of our common stock (excluding 3,321,607 shares held in treasury). The shares of common stock currently outstanding are validly issued, fully paid and non-assessable. Subject to the rights of the holders of shares of preferred stock outstanding, if any, holders of shares of our common stock:

- are entitled to receive dividends, when and as declared by the board of directors, from legally available funds;
- are entitled, upon our liquidation, dissolution or winding up, to a pro rata distribution of the assets and funds available for distribution to stockholders;
- are entitled to one vote per share on all matters on which stockholders generally are entitled to vote; and
- do not have preemptive rights to subscribe for additional shares of common stock or securities convertible into shares of common stock.

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Holders of common stock vote on all matters brought for the stockholders' approval, except as otherwise required by law and subject to the voting rights of the holders of any outstanding shares of preferred stock. As of March 31, 2006, we had outstanding three series of voting preferred stock that vote together with our common stock as a single class, as described below.

### Preferred Stock

The Preferred Stock and Class C Preferred Stock are issuable in one or more series, each with such designations, preferences, rights, qualifications, limitations and restrictions as our board of directors may determine in resolutions providing for their issuance. As of March 31, 2006, the following shares of Preferred Stock and Series C Preferred Stock are authorized:

- 4,662 shares of our convertible, noncumulative preferred stock, \$100 par value ("Noncumulative Preferred"), of which 821 shares are issued and outstanding;
- 20,000 shares of our Series B 12% cumulative, convertible preferred stock, \$100 par value ("Series B Preferred"), of which 20,000 shares are issued and outstanding;
- 920,000 shares of our Series 2 \$3.25 convertible, exchangeable Class C preferred stock, no par value ("Series 2 Class C Preferred") (excluding 18,300 shares held in treasury) of which 605,250 shares are issued and outstanding; and
- 1,000,000 shares of our Series D 6% cumulative, convertible Class C preferred stock no par value ("Series D Class C Preferred"), of which 1,000,000 shares are issued and outstanding.

The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the voting and other rights of the holders of our common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including loss of voting control to others. As of March 31, 2006, we had outstanding the following series of Preferred Stock and Class C Preferred Stock:

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Outstanding Preferred Stock:

Noncumulative Preferred, par value \$100.

Each outstanding share of Noncumulative Preferred:

- is entitled to receive noncumulative cash dividends, when and as declared by our board of directors, at the rate of 10% per year of the par value;
- is entitled to one vote for each outstanding share (or one-half of one vote for each fractional one-half share) on all matters submitted to a vote of the shareholders and votes together with the common stock and each series of voting preferred stock as a single class or as otherwise required by law;
- is convertible, at anytime and at the option of the holder, into 40 shares of our common stock (or each fractional one-half share is convertible into 20 shares of our common stock), subject to adjustment under certain conditions;
- is redeemable by us at par value (or each fractional one-half share at one-half of the par value) at the option of the holder to the extent we earn net income (as determined under GAAP) after all debt owed by us to our senior lenders (as defined) has been paid in full;
- is redeemable by us, in whole or in part, by paying the holders in cash the par value (one-half of par value for a fractional share); and
- in the event of our liquidation or dissolution, will be entitled to be paid the par value (for each fractional share, one-half of par value) to the extent funds are available

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before any payment is made to the holders of our common stock, but will not be entitled to participate any further in our assets.

Series B Preferred, par value \$100.

All of the Series B Preferred are owned by the Golsen Group. Each share of the Series B Preferred:

- is entitled to receive cumulative cash dividends, when and as declared by our board of directors, at the annual rate of 12% of the par value of each outstanding share;
- is entitled to one vote for each outstanding share on all matters submitted to a vote of shareholders and votes together with our common stock and each series of voting preferred stock as a single class or as otherwise required by law;
- is convertible, at any time and at the option of the holder, into 33.3333 shares of our common stock, subject to adjustment under certain conditions; and
- in the event of our liquidation each outstanding, will be entitled to be paid its par value, plus accrued and unpaid dividends, before any payment is made to holders of our common stock, but will not be entitled to participate any further in our assets.

Outstanding Class C Preferred Stock:

Series 2 Class C Preferred, no par value.

Each outstanding share of Series 2 Class C Preferred:

- has a stated value of \$50 per share;
- entitled to receive cumulative cash dividends, when and as declared by our board of directors, at the rate of \$3.25 per annum;
- does not have any voting rights, except as otherwise required by law or if dividends are in arrears and unpaid, whether or not declared, in an amount equal to at least six quarterly dividends elect (voting separately as class with all other affected classes or series of parity stock upon which like voting rights have been conferred) two additional directors to our board of directors;

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- is convertible into that number of shares of our common stock, obtained by dividing the stated value by the conversion price then in effect, with the initial conversion price set at \$11.55 per share, subject to adjustment under certain conditions;
- is subject to special conversion rights upon a change in control or ownership change (as such terms are defined in the terms of the Series 2 Class C Preferred);
- in the event of our liquidation, dissolution or winding up, is entitled to be paid its stated value plus accrued and unpaid dividends, before any payment shall be made on our common stock;
- is redeemable by us at its stated value plus all accrued and unpaid dividends; and
- is exchangeable at our option in whole, but not in part, for our 6.50% convertible subordinated debentures.

Series D Class C Preferred, no par value

. All outstanding shares of Series D Class C Preferred are owned by the Golsen Group. Each outstanding share of Series D Class C Preferred:

- has a liquidation preference of \$1.00 per share;
- is to receive cumulative cash dividend, when and if declared by our board of directors, at the rate of 6% per annum of the liquidation preferences, except if the dividends on the Series 2 Class C Preferred are in default, in whole or in part, no dividends shall be paid on this stock until all accrued and unpaid dividends on the Series 2 Class C Preferred

have been paid;

- shall be entitled to .875 votes on all matters submitted to a vote of shareholders and vote together with our common stock and each series of voting preferred stock as a single class or as otherwise required by law;
- shall have the right to convert four shares of Series D Class C Preferred into one share of our common stock (equivalent to a conversion price of \$4 per share of our common stock), subject to adjustment under certain conditions;
- in the event of our liquidation, dissolution or winding up or any reduction in our capital resulting from any distribution of assets to our shareholders, shall receive the sum \$1.00, plus all accrued and unpaid dividends, before any amount is paid to holders of our common stock; and
- there shall be no mandatory or optional redemption of these shares.

As of March 31, 2006, there were approximately \$14.9 million of accrued and unpaid dividends on our outstanding cumulative preferred stock. On January 17, 2006, our board of directors declared a nominal quarterly dividend on certain outstanding series of our preferred stock, paid on March 15, 2006, to holders of record on February 15, 2006. See "Risk Factors." This dividend is not for the full amount of the required dividend pursuant to the terms of all of our outstanding series of preferred stock. Until all accrued and unpaid dividends are paid on our outstanding cumulative preferred stock, no dividends may be paid on our common stock. Not paying cumulative accrued dividends on our outstanding preferred stock could adversely affect the marketability of our common stock and our ability to raise additional equity capital.

The terms of our Series 2 Class C Preferred provide that whenever dividends in the Series 2 Class C Preferred are in arrears and unpaid in an amount equal to at least six quarterly dividends, the Series 2 Class C Preferred may elect 2 additional directors to our board of directors to serve until all accrued and unpaid dividends are paid. In 2002, the holders of our cumulative preferred stock elected Grant J. Donovan and Dr. N. Allen Ford to serve on our board of directors, and they are currently serving as members of our board of directors.

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## Preferred share purchase rights

We have adopted a preferred share rights plan (the "Rights Plan"), which Rights Plan became effective as of February 27, 1999. The Rights Plan replaced and renewed a rights plan that was terminating as of that date. Under the Rights Plan, we declared a dividend distribution of one Renewed Preferred Share Purchase Right (the "Renewed Preferred Right") for each outstanding share of our common stock outstanding as of February 27, 1999 and all further issuances of our common stock would carry the rights. The Rights Plan has a term of ten years from its effective date. The Renewal Preferred Rights are designed to ensure that all of our stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

The Renewed Preferred Rights are generally exercisable when a person or group (other than Jack E. Golsen, our Chairman and Chief Executive Officer, and his affiliates, our company or any of our subsidiaries, our employee benefit plans and certain other limited excluded persons or entities, as set forth in the Rights Plan) acquire beneficial ownership of 20% or more of our common stock (such a person or group will be referred to as the "Acquirer"). Each Renewed Preferred Right (excluding Renewed Preferred Rights owned by the Acquirer) entitles stockholders to buy one one-hundredth (1/100) of a share of a new series of participating preferred stock (Series 3 Participating Class C Preferred Stock, no par value ["Series 3 Preferred"]) at an exercise price of \$20. Following the acquisition by the Acquirer of beneficial ownership of 20%

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or more of our common stock, and prior to the acquisition of 50% or more of our common stock by the Acquirer, our board of directors may exchange all or a portion of the Renewed Preferred Rights (other than Renewed Preferred Rights owned by the Acquirer) for our common stock at the rate of one share of common stock per Renewed Preferred Right. Following acquisition by the Acquirer of 20% or more of our common stock, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of our common shares having a market value of two times the Renewed Preferred Right's exercise price in lieu of the Series 3 Preferred. Thus, only as an example, if our common shares at such time were trading at \$10 per share and the exercise price of the Renewed Preferred Right is \$20, each Renewed Preferred Right would thereafter be exercisable at \$20 for four of our common shares.

If after the Renewed Preferred Share Rights are triggered, we are acquired, or we sell 50% or more of our assets or earning power, each Renewed Preferred Right (other than the Renewed Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the acquiring company's common shares having a market value at the time of two times the Renewed Preferred Right's exercise price, except if the transaction is consummated with a person or group who acquired our common shares pursuant to a Permitted Offer, the price for all of our common shares paid to all of our common shareholders is not less than the price per share of our common stock pursuant to the Permitted Offer and the form of consideration offered in the transaction is the same as the form of consideration paid pursuant to the Permitted Offer. As defined in the Rights Plan, a "Permitted Offer" is an offer for all of our common shares at a price and on terms that a majority of our Board, who are not officers or the person or group who could trigger the exercisability of the Renewed Preferred Rights, deems adequate and in our best interest and that of our shareholders. Thus, only as an example, if our common shares were trading at \$10 per share and the exercise price of a Renewed Preferred Right is \$20, each Renewed Preferred Right would thereafter be exercisable at \$20 for four shares of the Acquirer.

Prior to the acquisition by the Acquirer of beneficial ownership of 20% or more of our stock, our board of directors may redeem the Renewed Preferred Rights for \$.01 per Renewed Preferred Right.

### **Warrants and Options; other agreements**

On March 25, 2003, we issued warrants (the "Jayhawk Warrants") for the purchase up to 112,500 shares of our common stock. The exercise price of such warrants is \$3.49 per share, and the warrants expire on March 24, 2008. The Jayhawk Warrants are subject to certain anti-dilution adjustments.

In May 2002, we issued warrants to certain of our lenders ("Lender Warrants") entitling the holders to purchase up to an aggregate of 595,585 shares of our common stock. The exercise price under

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each Lender Warrant was set at the par value of our common stock and payable, at the option of the holder, by:

- cash or cashier's certified check; or
- holder surrendering to us that number of shares of common stock issuable upon exercise of the Lender Warrant having an aggregate market value equal to the aggregate exercise price; or
- a combination thereof.

All of the Lender Warrants were exercised during the first half of 2005, pursuant to the cashless exercise provisions of the warrants, which reduced the total number of shares of our common stock issued to the holders as a result of the exercise of the Lender Warrants to 586,140 shares.

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The following sets forth certain summary information as of March 31, 2006, with respect to our stockholder approved equity compensation plans.

- 1993 Stock Option and Incentive Plan (the "1993 Plan") and 1998 Stock Option Plan (the "1998 Plan"). As of March 31, 2006, 384,500 shares are issuable under outstanding options granted under the 1993 Plan, and no additional shares are available for future issuance. As of March 31, 2006, 493,204 shares are issuable under outstanding options granted under the 1998 Plan, and 8,000 additional shares are available for future issuance. The 1993 Plan and 1998 Plan each authorize us to grant options to purchase common stock to our employees. All outstanding options granted to employees under these plans have a term of ten years and become exercisable as to 20% of the underlying shares after one year from date of grant, 40% after two years, 70% after three years, and 100% after four years. However, our board of directors accelerated the vesting of all options outstanding as of December 31, 2005, and outstanding options under the 1993 Plan and 1998 Plan are fully exercisable. The exercise price of outstanding options granted under these plans is equal to the market value of our common stock at the date of grant. However, with respect to participants who own 10% or more of our common stock at the date of grant, the options have a term of five years, and the exercise price is 110% of the market value at the date of grant.
- Outside Directors Stock Option Plan (the "Outside Directors Plan"). As of March 31, 2006, 90,000 shares are issuable under outstanding options granted under the Outside Directors Plan and 295,000 additional shares are available for future issuance. The Outside Directors Plan authorizes us to grant options to purchase common stock to each member of our board of directors who is not an officer or employee of ours or our subsidiaries. These options become fully exercisable after six months and one day from the date of grant and lapse at the end of ten years. The exercise price of options granted under the Outside Directors Plan is equal to the market value of our common stock at the date of grant.

The following sets forth certain summary information as of March 31, 2006, with respect to our non-stockholder approved equity compensation plans. Unless otherwise indicated below, (a) the price of each of the following options is equal to the market value of our common stock at the date of grant, (b) the options become exercisable as to 20% of the underlying shares after one year from the date of grant, 40% after two years, 70% after three years, and 100% after four years, and (c) each option expires ten years from the grant date, subject to vesting being accelerated by our board.

- Effective December 1, 2002, we granted nonqualified options to purchase up to an aggregate 112,000 shares of common stock to former employees of two former subsidiaries. These options were part of the employees' severance compensation arising from the sale of the former subsidiaries' assets. Each recipient of a grant received options for the same number of shares and having the same exercise price as under the recipient's vested incentive stock options which expired upon the sale. Each nonqualified option was exercisable as of the date of grant and has a term of ten years from the original date of grant. As of March 31, 2006,

7,000 shares are issuable under the following options: 3,000 have an exercise price of \$4.188 per share and expire April 22, 2008, and 4,000 have an exercise price of \$2.73 per share and expire November 21, 2011.

- On November 7, 2002, we granted to one of our employees a nonqualified stock option to acquire 50,000 shares of common stock in consideration of services rendered to us. As of March 31, 2006, 30,000 shares are issuable at an exercise price of \$2.62 per share.
- On November 29, 2001, we granted to our employees nonqualified stock options to acquire 102,500 shares of common stock in consideration of services to us. As of March 31, 2006, 74,500 shares are issuable at an exercise price of \$2.73 per share.
- On July 20, 2000, we granted nonqualified options to one of our former employees to acquire 185,000 shares of common stock in consideration of services to us. The following are the exercise prices per share for these options: 5,000 shares at \$5.362; 80,000 shares at \$4.538; 60,000 shares at \$1.375; and 40,000 shares at \$1.25. These options were for the same number of shares and the same exercise prices as under the stock options held by the former employee prior to leaving us. These options were fully vested at the date of grant and expire, as to 100,000 shares, on July 20, 2009 and as to the remaining 85,000 shares, on July 20, 2007.
- On July 8, 1999, in consideration of services to us, we granted nonqualified stock options to acquire 371,500 shares of common stock at an exercise price of \$1.25 per share to Jack E. Golsen (176,500 shares), Barry H. Golsen (55,000 shares) and Steven J. Golsen (35,000 shares), David R. Goss (35,000 shares), Tony M. Shelby (35,000 shares), and David M. Shear (35,000 shares), and also granted to certain other employees nonqualified stock options to acquire a total of 145,000 shares of common stock at an exercise price of \$1.25 per share in consideration of services to us. As of March 31, 2006, 516,500 shares are issuable under these options.
- On April 22, 1998, we granted to certain employees and to each member of our board of directors who was not an officer or employee of us or our subsidiaries nonqualified stock options to acquire shares of common stock at an exercise price of \$4.1875 per share in consideration of services to us. As of March 31, 2006, 99,600 shares are issuable under outstanding options under these agreements.

## Registration rights

We entered into a Registration Rights Agreement, dated March 25, 2003, with Kent C. McCarthy, Jayhawk Capital Management Company, LLC, a Delaware limited liability company, Jayhawk Investments Company, L.P., a Delaware limited partnership, and Jayhawk Institutional Partners, L.P., a Delaware limited partnership (collectively, the "Jayhawk Parties"). The agreement covers 1,248,500 shares of common stock owned the Jayhawk Parties, 112,500 shares issuable upon the exercise of the Jayhawk Warrants, and 1,401,081 shares of common stock issuable to the Jayhawk Parties upon conversion of 323,650 shares of our \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, owned by the Jayhawk Parties. We are required to use our reasonable

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efforts to affect the registration of the securities upon the written request of the holders of at least 50% of such securities. We are not required to affect more than two registrations pursuant to such demand rights of the Jayhawk Parties. In addition, the agreement entitles the Jayhawk Parties to certain piggyback registration rights if, at any time, we propose to register any of our common stock, whether or not for our own account, subject to certain limitations. The Jayhawk Parties did not exercise their rights to include such shares in the registration statement, of which this prospectus is a part.

### **Certificate of incorporation, by-laws and Delaware law**

Our certificate of incorporation provides for three classes of directors having staggered terms and, except in limited circumstances, a two-thirds vote of outstanding shares to approve a merger,

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consolidation, sale of all or substantially all of our assets, amend certain provisions of our certificate of incorporation or amend our bylaws. The term of office of each class is for three years. Under the Delaware General Corporation Law, if a board of directors is classified, a director on such a board may be removed by shareholders only for cause, unless the certificate of incorporation otherwise provides. Our certificate of incorporation does not provide otherwise. In this regard, our bylaws add a definition of "cause" for the purpose of removal of a director. "Cause" is defined to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such director's duty to us and, in each case, only after such adjudication is no longer subject to direct appeal.

Pursuant to our certificate of incorporation, we also have authorized and unissued (including shares held in treasury) 61,237,382 shares of common stock and 3,055,338 shares of preferred stock as of March 31, 2006. These unissued shares could be used by our management to make it more difficult, and thereby discourage, an attempt to acquire control of us.

In addition, our bylaws provide a procedure for filling a vacancy on our board of directors resulting from a newly-created directorship, removal or resignation of a director. Pursuant to those procedures, such a vacancy shall be filled only by the affirmative vote of a majority of the directors then in office. Therefore, shareholders would not have the power to elect any director to fill such vacancy.

Further, our bylaws provide for certain procedures to be followed in order to obtain a consent of our shareholders in lieu of a meeting, the business that may be conducted at a meeting of our shareholders and who may be eligible for election as a director. Our bylaws further provide that they may only be amended by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of our stock entitled to vote.

Delaware has adopted an anti-takeover law, which, among other things, will delay for three years business combinations with acquirers of 15% or more of the outstanding voting stock of certain publicly-held companies (such as us), unless (a) the acquirer owned at least 85% of the outstanding voting stock of such company prior to commencement of the transaction, or (b) two-thirds of the stockholders, other than the acquirer, vote to approve the business combination after approval thereof by the board of directors and (c) the shareholders decide to opt out of the statute.

As of May 1, 2006, the Golsen Group owned an aggregate of 3,403,620 shares of our common stock and 1,020,000 shares of our voting preferred stock (of which 1,000,000 shares have .875 votes per share, or 875,000 votes), which together represented approximately 29.3% of the voting power of our issued and outstanding voting securities as of that date. At such date, the Golsen Group also beneficially owned options, rights and other convertible preferred stock that allowed its members to acquire an additional 525,002 shares of our common stock within 60 days of May 31, 2006. If the Golsen Group were to acquire the additional 525,002 shares of common stock, the Golsen Group would, in the aggregate, beneficially own approximately 31.8% of the voting power



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of our issued and outstanding shares of our voting securities (common and preferred). Thus, the Golsen Group may be considered to effectively control us. See "Risk Factors."

The foregoing preferred share rights plan, the provisions of our certificate of incorporation and bylaws, the laws of Delaware, and the Golsen Group's ownership of our voting capital stock could render more difficult or discourage a tender offer or proxy contest for control of us and could have the effect of making it more difficult to remove incumbent management in such situations.

### **Transfer agent and registrar**

The transfer agent and registrar for our common stock is UMB Bank, n.a. Its address is P.O. Box 410064, Kansas City, Missouri 64141, and its telephone number is (800) 821-2171.

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### SELLING SECURITY HOLDERS

On March 14, 2006, we issued and sold to the Selling Security Holders listed in the following table a total of \$18,000,000 aggregate principal amount of the debentures, effective as of March 3, 2006, in a private placement transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. The Selling Security Holders, which term includes their transferees, pledgees, donees and successors, may from time to time offer and sell pursuant to this prospectus any and all of the debentures and the shares of our common stock issuable upon conversion of the debentures.

The debentures and our shares of common stock to be issued upon conversion of the debentures are being registered pursuant to a registration rights agreement between us and the Selling Security Holders. In that agreement, we undertook to file a registration statement with regard to the debentures and our shares of common stock issuable upon conversion of the debentures and, subject to certain exceptions, to keep that registration statement effective for up to three years. The registration statement to which this prospectus relates is intended to satisfy our obligations under that agreement.

The Selling Security Holders named below represented to us that each was a qualified institutional buyer, and each has advised us that they currently intend to sell pursuant to this prospectus the debentures and our shares of common stock set forth below. Additional Selling Security Holders may choose to sell debentures and our shares of common stock from time to time upon notice to us. None of the Selling Security Holders named below has, within the past three years, held any position or office with us or any of our predecessors or affiliates, or had any other material relationship with us or any of our predecessors or affiliates, except as noted below with respect to Jayhawk Institutional Partners, L.P. ("Jayhawk Institutional").

The following table sets forth information, as of May 5, 2006, with respect to the Selling Security Holders, the principal amounts of debentures and common stock issuable upon conversion of the debentures which are beneficially owned by each Selling Security Holder that may be resold pursuant to this prospectus. The information is based on information provided by or on behalf of the Selling

Security Holders.

Prior to the initial sale of the debentures to the Selling Security Holders, Jayhawk Institutional Partners, L.P. and its affiliates, Kent C. McCarthy, Jayhawk Capital Management, LLC, and Jayhawk Investments, L.P. (collectively, the "Jayhawk Parties") beneficially owned 2,802,042 shares of our common stock, representing 18.1% of our then issued and outstanding common stock and 328,850 shares of our Series 2 Preferred, representing 54.3% of our then issued and outstanding Series 2 Preferred. Also, the Jayhawk Parties owned \$1 million of ThermaClime's 10-3/4% senior subordinated debentures, due 2007. As a holder of Series 2 Preferred Stock, the Jayhawk Parties participated in the nomination and election of two individuals to serve on our Board of Directors in accordance with the terms of the Series 2 Preferred. See "Description of Capital Stock - Preferred Stock." Jayhawk Institutional was an initial purchaser of our debentures and is a Selling Security Holder, acquiring \$1 million in principal amount of our debentures, which are convertible into 141,250 shares of our common stock, assuming a conversion rate of 141.25 shares per \$1,000 principal amount of debentures (representing a conversion price of \$7.08 per share). The actual number of shares issuable upon conversion of the debentures will vary, depending upon the date of conversion. See "Description of debentures-Conversion of debentures." The aggregate beneficial ownership of our securities held by the Jayhawk Parties as of the date indicated below is set forth in the table below. During April 2006, we purchased from the Jayhawk Partners their \$1 million of ThermaClime's 10-3/4% of senior subordinated debentures for the full face amount of such debentures, plus accrued and unpaid interest, using a portion of the net proceeds we received from the private placement of the debentures.

The Selling Security Holders may offer all, some or none of the debentures or the common stock issuable upon conversion of the debentures. Because the Selling Security Holders may offer all or some portion of the debentures or the common stock, we cannot estimate the amount of the debentures or the

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common stock that will be held by the Selling Security Holders upon termination of any of these sales. In addition, the Selling Security Holders identified below may have sold, transferred or otherwise disposed of all or a portion of their debentures since the date on which they provided the information regarding their debentures in transactions exempt from the registration requirements of the Securities Act.

The percentage of outstanding debentures beneficially owned by each Selling Security Holder is based on \$18 million aggregate principal amount of debentures outstanding. The number of shares of common stock owned prior to the offering includes the maximum number of shares of common stock issuable upon conversion of the debentures, assuming a conversion rate of 141.25 shares per \$1,000 principal amount of debentures (representing a conversion price of \$7.08) and a cash payment in lieu of any fractional share. Such number of shares is subject to change based upon the terms of our debentures, which provide that (a) at any time prior to September 1, 2006 and on or after March

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1, 2009, the conversion rate is 125 shares per \$1,000 principal amount of 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 debentures. See "Description of Debentures Conversion of debentures."

Because each Selling Security Holder may sell pursuant to this prospectus all or a portion of the offered debentures and common stock issuable upon conversion of the debentures, we cannot know or estimate number or percentage of debentures and common stock that the Selling Security Holder will hold upon the termination of this offering. Please refer to the "Plan of distribution" beginning on page 49 of this prospectus. The information presented below assumes that all of the Selling Security Holders will fully convert the debentures into shares of our common stock and that the Selling Security Holders will sell all shares of our common stock that they receive pursuant to such conversion.

Name of Selling Security Holder

Amount of Debentures Beneficially Owned (\$)

Percentage of Debentures Beneficially Owned

Amount of Debentures Offered

Shares of Common Stock Beneficially Owned

(1)

Shares of Common Stock Offered

Shares of Common Stock Owned After Offering

Alexandra Global Master Fund Ltd.(2)

\$ 3,000,000

16.67%

\$ 3,000,000

423,750

423,750

0

Bancroft Fund Ltd.(3)

\$ 1,500,000

8.33%

\$ 1,500,000

211,875

211,875

0

Context Advantage Fund, L.P.(4)

\$ 1,200,000

6.67%

\$ 1,200,000

169,500

169,750

0

Context Offshore Advantage Fund, Ltd.(4)

\$ 3,800,000

21.11%

\$ 3,800,000

536,750

536,750

0

Ellsworth Fund Ltd.(3)

\$ 1,500,000

8.33%

\$ 1,500,000

211,875

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211,875

0

Highbridge International, LLC(5)

\$ 5,000,000

27.78%

\$ 5,000,000

706,250

706,250

0

Jayhawk Institutional Partners, L.P. (Kent C. McCarthy)(6)

\$ 1,000,000

5.56%

\$ 1,000,000

2,803,514(6)

141,250

2,662,264(6)

Technology Yield Fund(7)

\$ 1,000,000

5.56%

\$ 1,000,000

141,250

141,250

0

1. Assumes conversion of the debentures at a conversion rate of 141.25 shares per \$1,000 principal amount of debentures, representing a conversion price of approximately \$7.08 per share. The actual conversion rate will vary from 141.25 to 125 per \$1,000 principal amount of debentures, based on the date on which conversion occurs. See "Description of debentures-Conversion of debentures."

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- Alexandra Investment Management, LLC, a Delaware limited liability company ("Alexandra"), as the investment adviser to Alexandra Global Master Fund Ltd., a British Virgin Islands company

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("Master Fund"), may be deemed to share dispositive power over the debentures and shares of common stock stated as beneficially owned by Master Fund and to share voting power over such shares of common stock. Alexandra disclaims beneficial ownership of such debentures and shares of common stock. Messrs. Mikhail A. Filimonov ("Filimonov") and Dimitri Sogoloff ("Sogoloff"), as the managing members of Alexandra, may be deemed to share dispositive power over the debentures and shares of common stock beneficially owned by Master Fund and to share voting power over such shares of common stock. Filimonov and Sogoloff disclaim beneficial ownership of such debentures and shares of common stock. The address of Master Fund is 767 Third Avenue, 39th Floor, New York, NY 10017

- Thomas H. Dinsmore has sole voting and dispositive power over the securities held by Bancroft Convertible Fund ("Bancroft") and Ellsworth Fund Ltd. ("Ellsworth"). The address of Bancroft and Ellsworth is 65 Madison Avenue, Morristown, New Jersey 07960.
- Context Capital Management LLC, as investment advisor, has sole voting and dispositive power over the securities held by Context Advantage Fund, L.P. ("Context Fund") and Context Offshore Advantage Fund, Ltd. ("Context Offshore"). The address of Context Fund and Context Offshore is 12626 High Bluff Drive, Suite 440, San Diego, California 92130.
- Highbridge Capital Management, LLC ("Highbridge"), is the trading manager of Highbridge International LLC ("HIC"), and consequently has voting control and investment discretion over securities held by HIC. Glenn Dubin and Henry Swieca control Highbridge. Each of Highbridge, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities held by HIC. The address of HIC is 9 West 57th Street, New York, NY 10019.
- 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 2,803,514 shares of our common stock, which includes 1,425,064 shares of common stock receivable upon conversion of 329,190 shares of Series 2 Preferred, 112,500 shares of common stock that may be acquired upon exercise of warrants, and 141,250 shares of common stock that may be acquired upon conversion of \$1 million principal amount of the debentures. The common stock beneficially owned by the Jayhawk Parties includes (a) 1,938,575 shares of common stock that Jayhawk Institutional owns or has the right to acquire, including (i) 731,125 shares of common stock receivable upon the conversion of 168,890 shares of Series 2 Preferred, (ii) 112,500 shares of common stock receivable upon the exercise of warrants, and (iii) 141,250 shares of common stock receivable upon the conversion of \$1 million principal amount of the 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 2,662,264 shares of common stock owned after the offering represents 18.16% of our issued and outstanding common stock, based on 13,762,618 shares outstanding on May 5, 2006 (excluding 3,321,607 shares held in treasury), calculated pursuant to Rule 13d-3 of the Securities Act of 1934, as amended. 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 debentures other than his personal holdings. Mr. McCarthy's address is 8201 Mission Road, Suite 110, Prairie Village, Kansas 66208.

7. James A. Bitzer, Michael I. Mahoney, and William E. Grayson, as the general partners of EGM Capital, LLC, the general partner of Technology Yield Fund, have shared voting and dispositive

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power over the securities held by Technology Yield Fund. The address of Technology Yield Fund is 2 Embarcadero Center, Suite 1300, San Francisco, California 94111.

Information concerning other Selling Security Holders will be set forth in prospectus supplements or post-effective amendments from time to time, if required. Information concerning the Selling Security Holders may change from time to time and any changed information will be set forth in prospectus supplements or post-effective amendments if and when necessary. In addition, the conversion price, and therefore, the number of shares of common stock issuable upon conversion of the notes, is subject to adjustment under certain circumstances. Accordingly, the number of shares of common stock into which the notes are convertible may increase or decrease.

#### PLAN OF DISTRIBUTION

The securities to be offered and sold using this prospectus are being registered to permit secondary public trading of the securities by the Selling Security Holders. We will not receive any of the proceeds from the sale by the Selling Security Holders of the securities. The aggregate proceeds to the Selling Security Holders from the sale of the debentures will be the purchase price of the debentures or common stock less any discounts, concessions or commissions. Each Selling Security Holder reserves the right to accept and, together with its agents, to reject, any proposed purchases of debentures or common stock to be made directly or through agents.

The debentures and the common stock issuable upon conversion of the debentures may be sold from time to time to purchasers directly by the Selling Security Holders and their successors, which includes their transferees, pledges or donees and their successors, or, alternatively, through underwriters, broker-dealers or agents. If the debentures or common stock issuable upon conversion of the debentures are sold through underwriters, broker-dealers or agents, the Selling Security Holders will be responsible for any discounts, concessions or commissions. These discounts, concessions or commissions may be greater than those customary in the types of transactions involved.

The debentures and the common stock issuable upon conversion of the debentures may be sold or otherwise distributed in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. The sales or other distributions may be completed in transactions (which may involve block or cross transactions):

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on any national securities exchange or quotation service on which the debentures or the common stock issuable upon conversion of the debentures are listed or quoted at the time of sale;

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in the over-the-counter market;

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in ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

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in purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

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in an exchange distribution in accordance with the rules of the applicable exchange;

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through the writing of options (including the issuance by the Selling Security Holders of derivative securities);

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through the settlement of short sales;

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pursuant to Rule 144;

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in a combination of any such methods of sale; or

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in any other method permitted pursuant to applicable law.

In connection with sales of the debentures and the common stock issuable upon conversion of the debentures, the Selling Security Holders may:

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enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging positions they assume;

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sell the securities short;



- loan or pledge the securities to broker-dealers or other financial institutions that in turn may sell the securities;

- enter into option or other transactions with broker-dealers or other financial institutions that require

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the delivery by the Selling Security Holders of debentures or the common stock issuable upon conversion of the debentures, which the broker-dealer or other financial institution may resell pursuant to this prospectus; or

- enter into transactions in which a broker-dealer makes purchases as a principal for resale for its own account or through other types of transactions.

The Selling Security Holders and any underwriters, broker-dealers or agents who participate in the distribution of the debentures and the common stock issuable upon conversion of the debentures may be deemed to be "underwriters" within the meaning of the Securities Act. As a result, any profits on the sale of the debentures and the common stock issuable upon conversion of the debentures by Selling Security Holders and any discounts, concessions or commissions received by any such broker-dealers or agents may be deemed to be "underwriting discounts" within the meaning of the Securities Act. Selling security holders who are deemed to be underwriters might be subject to certain statutory liabilities under the Securities Act and the Securities Exchange Act. In addition, underwriters will be subject to prospectus delivery requirements of the Securities Act. Accordingly, each is deemed to be, under the interpretations of the SEC, an "underwriter" within the meaning of the Securities Act. For details about the amount of debentures and number of shares of common stock beneficially owned and being offered by these Selling Security Holders, see the table under "Selling Security Holders" beginning on page 46.

Some of the Selling Security Holders own shares of our common stock. For information about these holdings, see the table under "Selling Security Holders" above.

#### CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general discussion of certain U.S. federal income tax considerations relevant to holders of the debentures and common stock into which the debentures may be converted. This discussion is based upon the Internal Revenue Code of 1986, as amended, which we refer to as the Code, Treasury regulations, Internal Revenue Service (the "IRS") rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. There can be no assurance

that the IRS will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income tax consequences of acquiring or holding debentures or common stock.

This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of the holder's circumstances (for example, persons subject to the alternative minimum tax provisions of the Code or a Holder (as defined below) whose "functional currency" is not the U.S. dollar). Also, it is not intended to be wholly applicable to all categories of investors, some of which (such as dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, banks, thrifts, regulated investment companies, insurance companies, tax-exempt organizations and persons holding debentures or common stock as part of a hedging or conversion transaction or straddle or persons deemed to sell debentures or common stock under the constructive sale provisions of the Code) may be subject to special rules. The discussion also does not discuss any aspect of state, local or foreign law or U.S. federal estate and gift tax law that may be applicable to the holders of the debentures and common stock into which the debentures may be converted. In addition, this discussion is limited to the purchasers of debentures who acquire the debentures at their original issue price within the meaning of Section 1273 of the Code, and who will hold the debentures and common stock as "capital assets" within the meaning of Section 1221 of the Code. This summary also assumes that the IRS will respect the classification of the debentures as indebtedness for federal income tax purposes.

**All prospective purchasers of the debentures are advised to consult their own tax advisors regarding the federal, state, local and foreign tax consequences of the purchase, ownership and disposition of the debentures and the common stock in their particular situations.**

As used herein, the term "Holder" means a beneficial holder of a debenture or of common stock that for United States federal income tax purposes is (a) a citizen or resident (as defined in Section

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7701(b) of the Code) of the United States, (b) a corporation formed under the laws of the United States or any political subdivision of the United States, (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source and (d) in general, a trust subject to the primary supervision of a court within the United States and the control of a United States person as described in Section 7701(a)(30) of the Code.

If a partnership (including for this purpose any entity, domestic or foreign, treated as a partnership for U.S. tax purposes) is a beneficial owner of the debentures or common stock into which the debentures may be converted, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. As a general matter, income earned through a foreign or domestic partnership is

attributed to its owners. A holder of the debentures or common stock into which the debentures may be converted that is a partnership and partners in such partnership should consult their individual tax advisors about the U.S. federal income tax consequences of holding and disposing of the debentures and the common stock into which the debentures may be converted.

#### **Interest**

Interest on the debentures will generally be included in a Holder's gross income as ordinary income for U.S. federal income tax purposes at the time it is paid or accrued in accordance with the Holder's regular method of accounting. It is expected, and this discussion assumes, that the debentures will be issued at their principal amount for U.S. federal income tax purposes. However, if the issue price of the debentures is less than their principal amount by more than a de minimis amount, a Holder will be required to include such difference in gross income as original issue discount, as it accrues, using a constant-yield method.

In general, if the terms of a debt instrument entitle a Holder to receive payments other than fixed periodic interest, the debenture could be subject to special rules that apply to debt instruments with original issue discount or "contingent payment debt instruments." These rules generally require a Holder to accrue interest income at a rate higher than the stated interest rate on the debenture and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange or retirement of a debenture before the resolution of the contingencies. In certain circumstances, holders of our debentures could receive payments in excess of stated principal or interest. For example, if we do not comply with our obligations under the registration rights agreement, such non-compliance may result in the payment of predetermined additional amounts in the manner described in the section "Description of Debentures - Registration rights of the debenture holders." Based on our belief that the possibility for us to make such additional payments is "remote," we do not believe that the debentures should be treated as contingent payment debt instruments or as having original issue discount because of these potential additional payments. Therefore, for purposes of filing tax or information returns with the IRS, we will not treat the debentures as contingent payment debt instruments or as having original issue discount. Our position in this regard is binding on Holders unless they disclose their contrary position. In the event that we pay additional interest as liquidated damages, Holders would be required to recognize additional ordinary income.

#### **Certain matters relating to contingencies**

As discussed in "Description of Debentures - Make-whole premiums," if a fundamental change occurs on or before September 1, 2009, we will pay a make-whole premium on the debentures converted in connection with the fundamental change, payable in shares of our common stock or the consideration into which our common stock has been converted or exchanged in connection with the fundamental change. As a consequence of the possibility of a make-whole premium payment, the debentures may be subject to Treasury regulations applicable to debt instruments providing for

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one or more contingent payments (the "contingent payment debt instrument regulations"). For purposes of determining whether the debentures are issued with "original issue discount" for U.S. federal income tax purposes, we intend to take the position that as of the issue date, the debentures do not represent "contingent payment debt instruments" because we believe that, both separately and in the aggregate, the likelihood of our making

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any make-whole premium payments is remote. Therefore, we intend to take the position that the debentures will not be issued with original issue discount. Although the treatment of the make-whole premium is not entirely clear, we intend to take the position that if we become obligated to make any make-whole premium payments, such payments will be includible in a holder's income in accordance with the holder's method of accounting.

If the IRS were successfully to assert a contrary position, then the debentures would be subject to the contingent payment debt instrument regulations, and holders may be required to include in gross income interest in excess of the coupon amount of interest received periodically over the term of the debentures as it accrues, regardless of the holder's method of tax accounting, which may result in the recognition of interest income before the receipt of cash in respect of such interest income. In addition, in such event, any gain on the sale, exchange, redemption, retirement or other taxable disposition of a debenture (including any gain realized on the conversion of a debenture) may be recharacterized as ordinary income. Holders should consult their tax advisors regarding the tax consequences of the debentures being treated as contingent payment debt instruments.

The remainder of this discussion assumes that the debentures do not represent "contingent payment debt instruments."

### **Conversions of debentures into common stock**

A Holder generally will not recognize any income, gain or loss upon conversion of a debenture into common stock except that the fair market value of common stock received with respect to accrued interest will be taxed as a payment of interest as described above under "Interest," and except with respect to cash received in lieu of a fractional share of common stock. Cash received in lieu of a fractional share of common stock should generally be treated as a payment in exchange for such fractional share rather than as a dividend. Gain or loss recognized on the receipt of cash paid in lieu of such fractional share generally will equal the difference between the amount of cash received and the amount of tax basis allocable to the fractional share. The adjusted tax basis of shares of common stock received on conversion will equal the adjusted tax basis of the debenture converted (increased by the amount of income recognized upon conversion with respect to accrued interest, and reduced by the portion of adjusted tax basis allocated to any fractional share of common stock exchanged for cash). The holding period of such common stock received on conversion will generally include the period during which the converted debentures were held prior to conversion, except that the holding period of any common stock received with respect to accrued interest will commence on the date after conversion.

If a Holder surrenders a debenture for conversion and we deliver a combination of shares of common stock and cash, the tax treatment to the Holder is uncertain. A Holder may be required to recognize any gain (but not loss) realized, but only to the extent such gain does not exceed the amount of cash received (other than any cash received in lieu of a fractional share or attributable to accrued but unpaid interest, as discussed above). In such case, a Holder's basis in the common stock received in the conversion (excluding any shares of common stock attributable to accrued but unpaid interest) would be equal to such holder's adjusted tax basis in the debenture, reduced by any cash received in the conversion (other than any cash received in lieu of a fractional share or attributable to accrued but unpaid interest) and increased by the amount of any gain recognized on the conversion (other than gain with respect to a fractional share). Holders should consult their tax advisors regarding the proper treatment to them of the receipt of a combination of cash and common stock upon a conversion of a debenture.

### **Adjustments to the conversion price**

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The conversion price of the debentures is subject to adjustment under certain circumstances. Section 305 of the Code and the Treasury regulations issued thereunder may treat the holders of the debentures as having received a constructive distribution, resulting in ordinary income to the extent of our current and/or accumulated earnings and profits, if, and to the extent that, certain adjustments in the conversion price (particularly an adjustment to reflect a taxable dividend to holders of common stock) increase the proportionate interests of the holders of debentures in our assets or earnings and profits, whether or not such Holder ever exercises its conversion privilege. Therefore, Holders may recognize

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income in the event of a deemed distribution even though they may not receive any cash or property. Moreover, if there is not a full adjustment to the conversion ratio of the debentures to reflect a stock dividend or other event increasing the proportionate interest of the holders of outstanding common stock in our assets or earnings and profits, then such increase in the proportionate interest of the holders of outstanding common stock generally will be treated as a taxable distribution to such holders to the extent of our current and/or accumulated earnings and profits. Adjustments to the conversion price made pursuant to a bona fide reasonable adjustment formula that has the effect of preventing dilution in the interest of the holders of the debt instruments, however, will generally not be considered to result in a constructive dividend distribution. It is unclear how the adjustment to the conversion price for conversions made on or after September 1, 2006 and before March 1, 2009 should be treated for purposes of determining whether there is a constructive distribution pursuant to Section 305 as described above. It is also unclear whether any constructive distribution would be eligible for the preferential rates of U.S. federal income tax applicable to certain dividends received by non-corporate holders. It is also unclear whether a corporate holder would be entitled to claim the dividends received deduction with respect to a constructive dividend.

### **Sale, exchange or other taxable disposition of the debentures**

Each Holder generally will recognize gain or loss upon the sale, exchange (other than by exercise of the conversion privilege) or other taxable disposition of debentures measured by the difference (if any) between (a) the amount of cash and the fair market value of any property received (except to the extent that such cash or other property is attributable to the payment of accrued interest not previously included in gross income, which amount will be taxable as ordinary income) and (b) such holder's adjusted tax basis in the debentures. Any such gain or loss recognized on the sale, exchange or other taxable disposition of a debenture generally will be capital gain or loss and will be long-term capital gain or loss if the debenture has been held for more than one year at the time of the sale or exchange. In general, the maximum U.S. federal income tax rate for non-corporate taxpayers is currently 15% for long-term capital gain that is recognized before January 1, 2009 and 35% for short-term capital gain. For corporate taxpayers, both long-term and short-term capital gains are subject to a maximum tax rate of 35%. For both corporate and non-corporate taxpayers, the deductibility of capital losses is subject to certain limitations.

### **Dividends**

Distributions, if any, paid on the common stock, to the extent made from our current and/or accumulated earnings and profits, as determined under U.S. federal income tax principles, will be included in a Holder's gross income as dividends taxable as ordinary income (subject to a possible dividends received deduction in the case of corporate holders) when received. In general, dividends paid to a non-corporate Holder in taxable years beginning before January 1, 2009 are taxable at a maximum rate of 15% provided that such holder (a) holds the shares for more than 60 days during the 120 day period beginning 60 days before the ex-dividend date and (b) meets other holding period requirements. To the extent, if any, that a Holder receives distributions on shares of common stock that would otherwise constitute dividends for U.S. federal income tax purposes but that exceed our current and accumulated earnings and profits, such distributions will be treated first as a non-taxable return of capital, reducing the Holder's basis in the shares of common stock. Any distributions in excess of the Holder's basis in the shares of common stock generally will be treated as capital gains.

**Sales of common stock**

Gain or loss realized on the sale, exchange or other taxable disposition of common stock will equal the difference between (a) the amount realized on such sale, exchange or other taxable disposition and (b) the Holder's adjusted tax basis in such common stock. Such gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the Holder has held the common stock for more than one year. In general, the maximum U.S. federal income tax rate for non-corporate taxpayers is currently 15% for long-term capital gain that is recognized before January 1, 2009 and 35% for short-term capital gain. For corporate taxpayers, both long-term and short-term capital gains are subject to a

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maximum tax rate of 35%. For both corporate and non-corporate taxpayers, the deductibility of capital losses is subject to certain limitations.

**Information reporting and backup withholding**

A Holder of debentures or common stock may be subject to "backup withholding" at a rate currently of 28% with respect to certain "reportable payments," including interest payments, dividend payments, proceeds from the disposition of the debentures or common stock to or through a broker and, under certain circumstances, principal payments of the debentures. These backup withholding rules apply if the Holder, among other things, (a) fails to furnish a social security number or other taxpayer identification number (TIN) certified under penalties of perjury within a reasonable time after the request therefor, (b) fails to report properly interest or dividends, (c) under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN furnished is the correct number and that such holder is not subject to backup withholding or if (d) the IRS provides notification that the Holder has furnished us with an incorrect TIN. Any amount withheld from a payment to a Holder under the backup withholding rules is creditable against the Holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS. Backup withholding will not apply, however, with respect to payments made to certain Holders, including corporations and tax-exempt organizations, provided their exemptions from backup withholding are properly established.

We will report to the Holders of debentures and common stock and to the IRS the amount of our "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to such payments.

***The preceding discussion of certain U.S. federal income tax consequences is intended for general information only and does not constitute tax advice. Accordingly, each investor should consult its own tax adviser as to particular tax consequences to it of purchasing, holding and disposing of the debentures and the common stock, including the applicability and effect of any state, local or foreign tax laws, and of any proposed changes in applicable laws.***

***Prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues in this prospectus is not intended or written to be relied upon, and cannot be relied upon for the purpose of avoiding penalties that may be imposed under the code; (b) such discussion is included in this prospectus in connection with the promotion or marketing (within the meaning of circular 230) of the sale of debentures; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.***

**Disclosure of Commission Position in Indemnification for Securities Act Liabilities**

Insofar as indemnification for liabilities arising under the Securities Act of 1933, or the Securities Act, may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

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LEGAL MATTERS

Selected legal matters in connection with the common stock being offered by this prospectus are being passed upon for us by Conner & Winters, LLP, Oklahoma City, Oklahoma.

EXPERTS

The consolidated financial statements of LSB Industries, Inc. as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005 appearing in LSB Industries, Inc.'s Annual Report (Form 10-K) for the year ended December 31, 2005 (including schedules appearing therein) have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.