

FORM 10-K
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended: December 31, 1993

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

Commission File Number: 1-7677

LSB INDUSTRIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware

73-1015226

(State of Incorporation)

(I.R.S. Employer
Identification No.)

16 South Pennsylvania Avenue
Oklahoma City, Oklahoma

73107

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(405) 235-4546

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value \$.10	American Stock Exchange

(Facing Sheet Continued)

Securities Registered Pursuant to Section 12(g) of the Act:
\$3.25 Series 2 Convertible Exchangeable Class C Preferred Stock.

Preferred Share Purchase Rights

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

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

As of March 14, 1994, the aggregate market value of the 9,336,942 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately \$82,865,360 based on the closing sales price for the common stock as reported for that date. That amount does not include (1) the 1,619 shares of Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company, (2) the 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock (the "Series B Preferred Stock"), and (3) the 920,000 shares of \$3.25 Series 2 Convertible Exchangeable Class C Preferred Stock (the "Series 2 Preferred Stock"). An active trading market does not exist for the shares of Non-Cumulative Preferred Stock and the Series B Preferred Stock. The shares of Series 2 Preferred Stock do not have voting rights except under limited circumstances.

As of March 14, 1994, the Registrant had 13,634,691 shares of common stock outstanding (excluding 880,085 shares of common stock held as treasury stock).

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PART I

Item 1. BUSINESS

General

LSB Industries, Inc. (the "Company") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. The Company is a diversified holding company which is engaged, through its subsidiaries, in (i) the manufacture and sale of chemical products for the explosives, agricultural and industrial acids markets (the "Chemical Business"), (ii) the manufacture and sale of a broad range of air handling and heat pump products for use in commercial and residential air conditioning systems (the "Environmental Control Business"), (iii) the manufacture or purchase and sale of certain automotive and industrial products, including automotive bearings and other automotive replacement parts (the "Automotive Products Business") and the purchase and sale of machine tools (the "Industrial Products Business") and (iv) the financial services business (the "Financial Services Business").

Recent Development

The Company and Fourth Financial Corporation ("Fourth Financial") have entered into a Stock Purchase Agreement, dated as of February 9, 1994 ("Acquisition Agreement"), in which the Company has agreed to sell, and Fourth Financial has agreed to buy, the Company's wholly owned subsidiary, Equity Bank for Savings, F.A. ("Equity Bank"), which constitutes the Financial Services Business of the Company. Fourth Financial is to acquire all of the outstanding shares of capital stock of Equity Bank. The closing of this transaction is contingent upon several factors being met, including, but not limited to, regulatory approvals, minimum tangible book value (as defined) of Equity Bank and stockholder approval of the Company.

Under the Acquisition Agreement, the Company is to acquire from Equity Bank, prior to closing, certain subsidiaries of Equity Bank ("Retained Corporations") that own the real and personal property and other assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying value of the assets contributed at the time of such purchase, which the Company estimates will be approximately \$65.4 million. At the time of closing of the sale of Equity Bank, the Company is also required under the Acquisition Agreement to acquire: (A) the loan and mortgage on and an option to purchase Equity Tower located in Oklahoma City, Oklahoma, ("Equity Tower Loan"), which Equity Bank previously classified as an in-substance foreclosure on its books, (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure (the Equity Tower Loan and other real estate owned by Equity Bank acquired through foreclosure are collectively call the "Retained Assets"), and (C) the outstanding accounts receivable sold to Equity Bank by the Company and its subsidiaries under various Receivables Purchase Agreements, dated March 8, 1988 ("the Receivables"). The Retained Assets are to be acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank, which were approximately \$18.9 million at February 28, 1994. In addition, the Company has the option, but not the obligation, to acquire any loan owned by Equity Bank that has been charged off or written down for a price equal to the net book value of such loan that has been written down and for a price of \$1.00 in the case of each loan that has been charged off ("Other Loans"). The purchase price ("Purchase Price") to be paid by Fourth Financial for Equity Bank under the Acquisition Agreement at the closing is estimated to be approximately \$92 million. The exact amount of the Purchase Price is based on a formula, with the exact amount of such formula to be determined at closing as the sum of the following: (i) the tangible book value of Equity Bank (defined as the aggregate consolidated stockholders' equity of Equity Bank, less the amounts

in the accounts relating to purchased mortgage servicing rights, goodwill, and United BankCard goodwill) at the closing, plus a premium over Equity Bank's tangible book value of the following determined at the closing: (a) \$9.3 million for Equity Bank's credit card business, (b) 1% of the aggregate of the unpaid principal balance at closing of Equity Bank's loans secured by fixed rate mortgages having fully amortizing original terms of fifteen (15) years or less, excluding loans originated after October 31, 1993, (c) 6% of the aggregate unpaid principal balance at closing of Equity Bank's loans secured by fixed rate mortgages having fully amortizing original terms in excess of (15) years but not more than thirty (30) years, excluding loans originated after October 31, 1993, and (d) 2% of the aggregate unpaid principal balance at closing of Equity Bank's loans secured by variable rate mortgages, excluding loans originated after October 31, 1993; (ii) an amount at the closing equal to the unamortized discount on Equity Bank's mortgages included in (i)(b), (c), and (d) above; (iii) an amount at the closing equal to (a) 0.65% of the aggregate unpaid principal balance of loans serviced by Equity Bank prior to March 1, 1993, on which Equity Bank performs mortgage servicing (other than loans serviced for the account of Equity Bank), (b) 1% of such balance on such loans serviced by Equity Bank that were originated after March 31, 1993, secured by fixed or adjustable rate mortgages of fully amortizing original terms of at least ten (10) but not more than fifteen (15) years, and (c) 1.25% of such balance on such loans originated on or after March 1, 1993, secured by fixed or adjustable rate mortgages having original fully amortized terms of more than fifteen (15) but not more than thirty (30) years, (iv) an amount obtained by subtracting the "required reserve" (as defined below) from Equity Bank's actual loan loss reserve account at the closing, with the "required reserve" meaning \$2.7 million as adjusted by the amount by which Equity Bank's loan loss account would have been adjusted at the closing under normal and prudent banking practice to reflect aggregate changes of at least \$500,000 occurring subsequent to October 31, 1993, or originating since October 31, 1993, and not reviewed in advance by Fourth Financial; provided, that no such change in the quality of a loan is to be included in the calculation to the extent such change has been reflected in the tangible book value of Equity Bank at the closing or if such change is less than \$25,000; (v) to the extent not otherwise reflected in the tangible book value of Equity Bank, an amount either positive or negative, by which the aggregate fair market value of Equity Bank's securities portfolio at the closing differs from Equity Bank's book value of such portfolio at the closing; (vi) the difference, positive or negative, between the carrying value of Equity Bank's time deposits and the aggregate value of such deposits after repricing them to the Treasury yield curve at the closing; (vii) \$10.5 million for Equity Bank's net operating loss; (viii) \$11.0 million for Equity Bank's deposit balance; and, (ix) \$1.4 million for certain of Equity Bank's branches.

The percentages specified in (i)(b) and (c) immediately above are determined utilizing the spread between the bank's average portfolio yield and FNMA required thirty (30) day yield as of August 31, 1993. If, at the time of the closing, such spreads have fluctuated by more than 0.25%, the applicable percentages in such subparagraphs (i)(b) and (c) will be adjusted up or down by one-fourth of 1% for each full one-eighth of 1% change in the spread, in the case of loans with an original term of fifteen (15) years or less, and by three-eighths of 1% for each full one-eighth of 1% change in the spread, in the case of loans with an original terms of more than fifteen (15) but not more than thirty (30) years.

Based on the above, the Company estimates that at closing the Purchase Price will be approximately \$92 million, which amount is estimated based upon estimates which cannot be definitively determined until the closing. Management of the Company has made estimates with respect to the variables which make up the Purchase Price. The Purchase Price will be affected by, among other things, the results of operations of and the fluctuation of interest rates between the date of this report and the closing. As a result,

the exact amount of the Purchase Price may be higher or lower depending on factors of the formula that can only be determined at time of closing of the sale of Equity Bank. Notwithstanding the foregoing, if the Purchase Price, as finally determined at the closing, is less than \$92 million, the Company may, at its option, terminate the Acquisition Agreement.

The Company will use approximately \$65.4 million, plus interest, of the Purchase Price to repay certain indebtedness the Company intends to incur to finance the purchase from Equity Bank of the Retained Corporations. In addition, it is anticipated that the Company will use approximately \$18.9 million of the Purchase Price to purchase from Equity Bank the Retained Assets, which is the carrying value of the Retained Assets on the books of Equity Bank as of February 28, 1994. As of this date, the Company has made no decision if it will acquire any of the Other Loans. As of March 31, 1994, Equity Bank owned approximately \$13.5 million of the Receivables, which if the closing occurs on or about June 30, 1994, the Company expects such to be less than \$10 million as of the closing. On March 30, 1994, the Company entered into a \$25 million accounts receivable financing line of credit with Bank IV Oklahoma, N.A., a wholly owned subsidiary of Fourth Financial, and expects to use borrowings under such line of credit to purchase the outstanding Receivables from Equity Bank at the closing. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations"

The balance of the Purchase Price, if any, remaining after (i) repayment of the indebtedness incurred by the Company to purchase the Retained Corporations, (ii) purchase from Equity Bank of the Retained Assets, and (iii) payment of the transactional costs relating to the sale of Equity Bank under the Acquisition Agreement will be used by the Company for general working capital. See "Business - Financial Services Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion as to matters affecting the proposed sale of Equity Bank.

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of revenues, operating profit and loss, and identifiable assets attributable to each of the Company's lines of business and of the amount of export sales of the Company in the aggregate and by major geographic area for each of the Company's last three fiscal years appear in Note 15 of the Notes to Consolidated Financial Statements included elsewhere in this report.

A discussion of any risks attendant as a result of a foreign operation or the importing of products from foreign countries appears below in the discussion of each of the Company's business segments.

Chemical Business

General:

The Chemical Business manufactures and sells the following types of chemical products to the mining, agricultural and other industries: sulfuric acid, concentrated nitric acid, prilled ammonium nitrate fertilizer and ammonium nitrate-based blasting products. In addition, the Chemical Business markets emulsions that it purchases from others for resale to the mining industry. In July 1993, the Chemical Business acquired Total Energy Systems Limited ("TES"), an Australian explosives business, which sells blasting agents and high explosives to the Australian mining industry.

For 1993, approximately 33% of the revenues of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 12% of the Company's 1993 consolidated revenues, and 43% consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 15% of the Company's 1993 consolidated revenues. The Chemical Business accounted for approximately 42% and 43% of the Company's 1993 and 1992 consolidated revenues, respectively.

Seasonality:

The Company believes that the only seasonal products of the Chemical Business are fertilizer and related chemical products sold to the agricultural industry. The selling seasons for those products generally occur during the spring and fall planting seasons, i.e., from February through May and from September through November. In addition, sales to the agricultural markets depend upon weather conditions and other circumstances beyond the control of the Company.

Raw Materials:

Ammonia represents an essential component in the production of most of the products of the Chemical Business, and the price of those products generally fluctuates with the price of ammonia. The Company has a contract with a supplier of ammonia pursuant to which the supplier has agreed to supply the ammonia requirements of the Chemical Business on terms the Company considers favorable. The Company believes that it could obtain ammonia from other sources in the event of a termination of that contract.

Marketing and Distribution:

The Chemical Business sells and markets its products directly through its own sales force, 35 distribution centers and to wholesalers. See "Properties". The Chemical Business sells low density prilled ammonium nitrate-based explosives primarily to the surface coal mining industry through nine company-owned distribution centers located in close proximity to the customers' surface mines in the coal producing states of Kentucky, West Virginia, Indiana and Illinois. In addition, sales of explosives are made on a wholesale basis to independent wholesalers and other explosives companies.

The Chemical Business sells high density prilled ammonium nitrate for use in agricultural markets in geographical areas within a freight-logical distance from its El Dorado, Arkansas, manufacturing plant, primarily Texas, Oklahoma, Arkansas and Louisiana. The products are sold through 20 distribution centers, with 15 centers located in Northern and Eastern Texas, two centers located in Missouri and three centers located in Tennessee. The Chemical Business also sells its agricultural products directly to wholesale customers. The Company believes that it is a leader in the Texas ammonium nitrate market.

The Chemical Business sells its industrial acids, consisting primarily of high grade concentrated nitric acid and sulfuric acid, primarily to the food, paper, chemical and electronics industries. Concentrated nitric acid is a special grade of nitric acid used in the manufacture of pharmaceuticals, explosives, and other chemical products. The Company believes that the Chemical Business is one of the leading producers of concentrated nitric acid in the United States for third party sales.

Patents:

The Company believes that the Chemical Business does not depend upon any patent or license; however, the Chemical Business does own certain patents that it considers important in connection with the manufacture of certain blasting agents and high explosives. These patents expire through 1997.

Regulatory Matters:

Each of the Chemical Business' blasting product distribution centers are licensed by the Bureau of Alcohol, Tobacco and Firearms in order to manufacture and distribute blasting products. The Chemical Business also must comply with substantial governmental regulations dealing with environmental matters. See "PROPERTIES - Chemical Business" for a discussion as to an environmental issue regarding the Company's El Dorado, Arkansas, manufacturing facility.

Competition:

The Chemical Business competes with other chemical companies, in its markets, many of whom have greater financial resources than the Company. The Company believes that the Chemical Business is competitive as to price, service, warranty and product performance.

Environmental Control Business

General:

The Company's Environmental Control Business manufactures and sells a broad range of fan coil, air handling, air conditioning, heating, heat pumps and dehumidification products targeted to both new building construction and renovation, as well as industrial application. The fan coil products consist of in-room terminal air distribution equipment utilizing air forced over a fin tube heat exchanger which, when connected to centralized equipment manufactured by other companies, creates a centralized air conditioning and heating system that permits individual room temperature control. The heat pump products manufactured by the Environmental Control Business consist of heat-recovery, water-to-air heat pumps that include a self-contained refrigeration circuit and blower, which allow the unit to heat or cool the space it serves when supplied with water at mild temperatures. The Environmental Control Business accounted for approximately 25% and 22% of the Company's 1993 and 1992 consolidated revenues, respectively, with fan coil products accounting for approximately 14% and heat pump products accounting for approximately 11%, respectively, of the Company's 1993 consolidated revenue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" for a discussion relating to two letters of intent with foreign customers to supply such customers with equipment and technology to manufacture certain types of air handling products.

Production and Backlog:

Most of the Environmental Control Business' production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. As of December 31, 1993, the backlog of confirmed orders for the Environmental Control Business was approximately \$17 million, as compared to approximately \$13 million as of December 31, 1992. A customer generally has the right to cancel an order prior to the order being released to production. Past experience indicates that customers generally do not cancel orders after the Company receives them. As of December 31, 1993, the Company had released approximately \$14 million of backlog orders in the Environmental Control Business to production, all of which are expected to be filled by December 31, 1994.

Distribution:

The Environmental Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturer's representatives, who also represent complimentary product lines not manufactured by the Company. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Environmental Control Business as a separate item in competition with the Company or as part of a package with other air conditioning-heating equipment products to form a total air conditioning system which they then sell to mechanical contractors or end-users for commercial application. Sales to original equipment manufacturers accounted for approximately 36.4% of the sales of the Environmental Control Business in 1993.

Construction Industry:

The Environmental Control Business depends primarily on the commercial construction industry, including new construction and the remodeling and renovation of older buildings.

Raw Materials:

Numerous domestic and foreign sources exist for the materials used by the Environmental Control Business, which materials include aluminum, copper, steel, electric motors and compressors. The Company does not expect to have any difficulties in obtaining any necessary materials for the Environmental Control Business.

Competition:

The Environmental Control Business competes with approximately eight companies, several of whom are also customers of the Company. Some of the competitors have greater financial resources than the Company. The Company believes that the Environmental Control Business manufactures a broader line of fan coil and water source heat pump products than any other manufacturer in the United States, and, that it is competitive as to price, service, warranty and product performance.

General:

The Automotive Products Business is primarily engaged in the manufacture and sale of a line of anti-friction bearings, which includes straight-thrust and radial-thrust ball bearings, angular contact ball bearings, and certain other automotive replacement parts. These products are used in automobiles, trucks, trailers, tractors, farm and industrial machinery, and other equipment. In 1993, the Automotive Products Business manufactured approximately 48.5% of the products it sold and approximately 61% in 1992, and purchased the balance of its products from other sources, including foreign sources.

Distribution and Market:

The automotive and truck replacement market serves as the principal market for the Automotive Products Business. This business sells its products domestically and for export, principally through independent manufacturers' representatives who also sell other automotive products. Those manufacturers' representatives sell to retailers (including major chain stores), wholesalers, distributors and jobbers. The Automotive Products Business also sells its products directly to original equipment manufacturers and certain major chain stores.

Inventory:

The Company generally produces or purchases the products sold by the Automotive Products Business in quantities based on a general sales forecast, rather than on specific orders from customers. The Company fills most orders for the automotive replacement market from inventory. The Company generally produces or purchases bearings for original equipment manufacturers after receiving an order from the manufacturer.

Raw Materials:

The principal materials that the Automotive Products Business needs to produce its products consist of high alloy steel tubing, steel bars, flat strip coil steel and bearing components produced to specifications. The Company acquires those materials from a variety of domestic and foreign suppliers at competitive prices. The Company does not anticipate having any difficulty in obtaining those materials in the near future.

Competition:

The Automotive Products Business engages in a highly competitive business. Competitors include other domestic and foreign bearing manufacturers, which sell in the original equipment and replacement markets. Many of those manufacturers have greater financial resources than the Company.

General:

The Industrial Products Business purchases and markets a proprietary line of machine tools and also markets industrial supplies. The current line of machine tools distributed by the Industrial Products Business includes milling, drilling, turning, fabricating and grinding machines. The Industrial Products Business purchases most of the machine tools marketed by it from foreign companies, which manufacture the machine tools to the Company's specifications.

Distribution and Market:

The Industrial Products Business distributes its machine tools in the United States, Mexico, Canada and certain other foreign markets and distributes its industrial supplies principally in Oklahoma. The Industrial Products Business sells and distributes its products through its own sales personnel, who call directly on end users. The Industrial Products Business also sells its machine tools through independent machine tool dealers throughout the United States and Canada, who purchase the machine tools for resale to end users. The principal markets for machine tools, other than independent machine tool dealers, consist of manufacturing and metal working companies, maintenance facilities, utilities and schools.

Customer:

The Industrial Products Business does not depend on any single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on the Industrial Products Business. A significant increase in the revenues of the Industrial Products Business occurred during 1992 and 1993 as a result of an agreement with a foreign company ("Buyer"), dated July 6, 1992, to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products. The agreement provides for a total contract amount of approximately \$56.0 million, with \$12.0 million of the contract amount to be retained by the Buyer as the Company's subsidiary's equity participation in the Buyer. The Company's subsidiary has valued its equity participation in the Buyer at a nominal amount. The balance of approximately \$44.0 million has been or will be paid to the Company's subsidiary as follows: (i) approximately \$13.1 million was paid through December 31, 1993, and (ii) the balance of approximately \$30.9 million payable in equal quarterly installments over a ten (10) year period, plus interest. Payment of the quarterly installments has been delayed from time to time. However, during the fourth quarter of 1993, approximately \$791,000 of such balance was paid by the Buyer to the Industrial Products Business under this agreement. The Company has shipped to the Buyer certain machinery and equipment and expects to deliver the balance of such machinery and equipment and the tooling and designs to the Buyer by the end of June, 1994. Circumstances could arise that could delay the delivery of the machinery, equipment, designs and tooling to the Buyer. Under the agreement, the Company's subsidiary will use its best efforts to purchase approximately \$14.5 million of bearing products from the Buyer each year over a period of ten (10) years; provided, however, that the Company's subsidiary is not required to purchase more product from the Buyer in any one (1) year than the amount of tapered bearings the Company's subsidiary is able to sell in its market. The Company presently manufactures and purchases from outside sources tapered bearings. During 1993 and 1992, the Company sold approximately \$10.0 million and \$6.9 million, respectively, of tapered bearings. The Company

believes that the purchase price of these bearings will be favorable compared to its present cost in purchasing these products from other sources or manufacturing these products. Such prices are subject to increases or decreases based upon price increases or decreases sustained in the United States bearing industry. The Company will recognize revenues and profits on the sale of equipment and technology over the term of the agreement as they are realized. The revenue and profits realized during the delivery and installation period are being recognized on a percentage of completion basis. During the years ended December 31, 1993 and 1992, the Company recorded sales of approximately \$7.5 million and \$6.2 million, respectively, in connection with the agreement. The percentage of completion is determined by relating

the productive costs incurred to date to the total productive costs estimated to complete the performance under the contract for delivery and installation. The Company presently meets all of its obligations under the contract which generally coincides with the payout term.

During the fourth quarter of 1993, the Industrial Products Business exchanged its rights to the equity interest in the Buyer to a foreign non-affiliated company ("Purchaser of the Interest") for \$12.0 million in notes. The Company has been advised that the Buyer has agreed to repurchase from the Purchaser of the Interest up to \$6 million of such equity interest over a six (6) year period, with payment to be either in cash or bearing products. The notes issued to the Industrial Products Business for its rights to the equity interest in the Buyer will only be payable when, as and if the Purchaser of the Interest collects from the Buyer for such equity interest, and the method of payment to the Company will be either cash or bearing products in the same manner as received by the Purchaser of the Interest from the Buyer. Due to the Company's inability to determine what payments, if any, it will receive on such notes, the Company will carry such notes at a nominal amount. See "MANAGEMENT'S DISCUSSION AND ANALYSIS" and Note 8 to Consolidated Financial Statements for further discussion of this agreement.

Foreign Risk:

By purchasing a majority of the machine tools from foreign manufacturers, the Industrial Products Business must bear certain import duties and international economic risks, such as currency fluctuations and exchange controls, and other risks from political upheavals and changes in United States or other countries' trade policies. Most of the current contracts for the purchase of foreign-made machine tools provide for payment in United States dollars. Circumstances beyond the control of the Company could eliminate or seriously curtail the supply of machine tools from any one or all of the foreign countries involved.

Competition:

The Industrial Products Business competes with manufacturers and other distributors of machine tools and industrial supplies, many of whom have greater financial resources than the Company. The Company's machine tool business generally is competitive as to price, warranty and service, and maintains personnel to install and service machine tools.

Recent Developments:

See "Business - Recent Developments" under this section, "Management's Discussion and Analysis of Financial Condition" and Note 1 to Notes to Consolidated Financial Statements for discussion of the proposed sale of Equity Bank, which comprises all of the Company's Financial Services Business.

General:

The Company is engaged in the Financial Services Business through its wholly owned subsidiary, Equity Bank and its subsidiaries. The Financial Services Business offers retail banking services, mortgage, consumer and commercial lending, and other related financial products and services through 15 branch offices located in the Oklahoma City metropolitan area and western Oklahoma.

The Company's Financial Services Business operates an Oklahoma based credit card division ("BankCard") which provides MasterCard and Visa credit card services to member financial institutions and their customers and merchants. As of December 31, 1993, BankCard had approximately \$62.9 million in credit card receivables outstanding, approximately 96,000 cardholders and approximately 7,200 merchant accounts. At December 31, 1993, approximately \$23.6 million of credit card receivables are serviced for member financial institutions without recourse to BankCard.

The Financial Services Business engages in, among other things, the business of attracting deposits from commercial and retail customers and uses those deposited funds and other borrowed funds to originate one to four family residential loans and other loans. The loans, along with other investments, serve as a major source of the assets utilized by the Financial Services Business to generate its net interest income. Net interest income represents a significant source of income for Equity Bank and results from the difference between the amount of income earned on interest-earning assets and the expense incurred on interest-bearing liabilities. Equity Bank earns other income and fees principally in connection with credit card services, rental income, the origination, sale and servicing of loans and checking servicing of accounts. In 1993 and 1992, the Financial Services Business accounted for approximately 15% and 19% of the Company's consolidated revenues, respectively.

Affiliated Transactions:

In connection with the acquisition of Equity Bank in March, 1988, and the approval of the appropriate regulatory authority at that time, the Company and several of its subsidiaries transferred certain properties to Northwest Financial Corporation ("Northwest Financial"), a wholly-owned service corporation of Equity Bank. The properties included, but were not limited to, the then manufacturing facilities and the then existing distribution facilities of the Chemical Business, a portion of the real estate which the Environmental Control, the Automotive Products and Industrial Products Businesses conduct manufacturing and distribution operations and certain other assets (collectively, the "Transferred Assets"). Based upon approvals by the appropriate regulatory authority at that time, Equity Bank was allowed to record, on a stand-alone basis, the Transferred Assets at their then current fair market value based on MAI appraisals approved by the appropriate regulatory agency at that time. The MAI appraisals relating to the Transferred Assets were, in the aggregate, approximately \$69.8 million. The

Transferred Assets were transferred to Northwest Financial subject to approximately \$21.5 million in debt. Equity Bank was allowed to reflect the MAI appraised values of the Transferred Assets, less the associated debt, for capital purposes. The Company continued to reflect the historical cost, less depreciation to date, for such Transferred Assets on the Company's consolidated financial statements. The Company's historical cost for all of the Transferred Assets, less depreciation, equaled approximately \$18.8 million as of the time such were transferred to Northwest Financial. In order for the Company and its subsidiaries to continue their operations on those properties, Northwest Financial entered into agreements to lease or sublease certain of the Transferred Assets back to their original users for an original term of twelve (12) years expiring in the year 2000, with an option to renew for an additional term of ten (10) years, at an aggregate annual rental for the leased Transferred Assets of \$3.2 million. Due to an agreement with its regulators as hereafter discussed in this section, certain of the lease agreements involving certain of the Transferred Assets were amended. Under the amendments, the aggregate rentals relating to all of the Transferred Assets were increased to \$4.3 million and the lease terms as to certain of the Transferred Assets were amended by eliminating the options to renew. Subject to the terms of the leases between Northwest Financial and the Company's subsidiary leasing such, Northwest Financial transferred beneficial ownership of these properties to two general partnerships in which Northwest Financial owns 99.0% of the partnership interest and the other 1.0% is owned by another subsidiary of the Company. Northwest Financial continues to hold record title to the real properties that constitute part of the Transferred Assets.

As part of the acquisition of Equity Bank and thereafter Arrowhead and the approval of the appropriate regulatory authority at that time, the Company and its subsidiaries were permitted to sell up to \$60.0 million of eligible accounts receivable at any one time to Equity Bank with recourse to the seller ("Receivable Financing"). Under such Receivable Financing, each of the Receivables sold to Equity Bank was sold at 100% of face value. The OTS has taken the position that the initial five (5) year approvals granted in 1988 allowing for the Receivable Financing between Equity Bank and the Company and certain of its other subsidiaries expired, and because of an intervening change in the law, beginning in September, 1993, the amount of the Receivable Financing was to be reduced to amounts allowable under current regulations relating to transactions with affiliated companies which is based on a percentage of Equity Bank's capital. As part of the negotiations with the OTS, the parties agreed to a phase-down period regarding the Receivable Financing instead of having to reduce such to the applicable percentage of Equity Bank's capital by September, 1993. It was agreed that: (i) at no one time subsequent to September 28, 1993, but prior to September 1, 1994, would the total amount of such Receivable Financing outstanding at any one time exceed \$33.6 million; (ii) beginning February 1, 1994, Equity Bank will not purchase any new Receivables from the Company and/or its subsidiaries under the Receivable Financing arrangement if such would result in Equity Bank owning an amount that would exceed the amount allowed by current regulations, and (iii) on and after September 1, 1994, the outstanding amount of such Receivable Financing at any one time must be in compliance with current regulations. Assuming that on December 31, 1993, Equity Bank has been required to meet current regulations regarding such Receivable Financing, the amount would have had to be reduced to approximately \$9.2 million as of such date.

During 1993 and 1992, the Financial Services Business earned a significant portion of its income from two affiliated sources, which transactions were previously approved by the appropriate federal regulatory agency. These include rental income from payments made by the Company and certain of its subsidiaries of approximately \$4.3 million in 1993 and \$4.2 million in 1992 for the use of certain of the Transferred Assets. In addition,

the Financial Services Business earned fees of \$2.7 million in 1993 and 2.7 million in 1992 in connection with the Receivable Financing. At March 31, 1994, Equity bank held approximately \$13.5 million of such Receivables.

As provided in "Business - Recent Developments" The Company will, (a) if the Acquisition Agreement is to be consummated, acquire from Equity Bank the Retained Corporations that own the Transferred Assets one (1) day prior to consummation of the proposed sale of Equity Bank to Fourth Financial, and (b) upon consummation of the Acquisition Agreement, acquire from Equity Bank the Retained Assets and the outstanding Receivables owned by Equity Bank on the day of closing of the proposed sale of Equity Bank. See "Business - Recent Developments", "Management's Discussion and Analysis of Financial Condition" and Note 1 to Notes to Consolidated Financial Statements for further discussion of the terms of the proposed sale of Equity Bank, the amounts that the Company will pay for the Retained Corporations, the Transferred Assets and the Receivables and the method that the Company intends to use to purchase such assets from Equity Bank.

Competition:

The Financial Services Business experiences substantial competition in attracting and retaining deposits and in making loans. The primary factors in competing for deposits consist of the ability to offer attractive rates and the availability of convenient office locations. Competition for financial services historically comes from other savings institutions, commercial banks and credit unions. However, securities firms and mortgage companies are also competitors. Government and corporate securities also represent a source of competition for savings and loan institutions, especially during periods of declining interest rates when those securities may yield higher rates than those offered by savings institutions.

Competition for loans comes principally from other savings institutions, commercial banks, mortgage companies, insurance companies and other institutional investors. In recent years, the Oklahoma market for financial institutions like Equity Bank has changed as a result of large out-of-state banks establishing operations in Oklahoma. The primary factors in competing for loans consist of interest rates, loan origination fees and other terms and services offered.

Currently, Oklahoma allows interstate banking only in limited cases involving the acquisition of failing institutions.

Regulatory Matters:

(a) Capital Compliance

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), which became effective in August, 1989, significantly affects the business conducted by Equity Bank. The Office of Thrift Supervision ("OTS") is Equity Bank's primary regulator. Deposits in Equity Bank are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC") and backed by the full faith and credit of the United States. The OTS has adopted regulations specifying capital standards for all savings institutions that are no less stringent than capital standards for national banks, and the standards under these regulations exceed those required by FIRREA. If Equity Bank should fail to meet any of its capital requirements, such failure could have a material adverse effect on Equity Bank, its operations and the Company. In addition, Equity Bank would be required to submit a capital plan to the OTS to demonstrate the manner in which Equity Bank will come into capital compliance

and would also be subject to various operating restrictions on its business activities which could have a substantial impact on Equity Bank's profitability. See "Regulatory Matters" of this section discussing the Financial Services Business for further discussion as to Equity Bank's capital compliance.

FIRREA requires that Equity Bank meet progressively higher capital requirements each year until they are "fully phased-in" through December 31, 1994, except for certain assets for which the "phase-in" period has been extended through July, 1996. Equity Bank currently does and believes that it will be able to meet all applicable requirements of law and federal regulation relating to capital requirements as presently in effect and as the same become effective during the phase-in period, although there are no assurances that Equity Bank will be able to so comply. At December 31, 1993, Equity Bank exceeded the current regulatory capital requirements and under the technical definition and calculation of fully phased-in capital as prescribed by FIRREA, Equity Bank believes that it meets future capital standards as presently mandated by FIRREA. Equity Bank updated and submitted to the OTS a three (3) year business plan that indicates all future capital requirements will be met. See "Regulatory Matters" of this section discussing the Financial Services Business, "Management's Discussion and Analysis of Financial Condition", and Note 5 to Consolidated Financial Statements for further discussion as to the status of regulatory matters.

The Federal Deposit Insurance Corporation Improvements Act of 1991 ("FDICIA"), resulted in extensive changes to the federal banking laws and will result in extensive changes to banking regulations. The primary purpose of the law is to authorize additional borrowings by the FDIC in order to provide funds for the resolution of failing financial institutions. FDICIA institutes certain changes to the supervisory process and contains various provisions that may affect the operations of savings institutions like Equity Bank. Certain of these changes are discussed below and in, "Management's Discussion and Analysis - Financial Services Business, Savings Institution Regulation".

FDICIA made a number of significant changes to the statutory and regulatory framework within which Equity Bank and the Company, as a savings and loan holding company, must operate. Among the more significant regulations is that FDICIA requires the federal banking regulators to take prompt corrective action if an institution fails to satisfy certain minimum capital requirements. Under FDICIA, capital requirements include a leverage limit, a risk-based capital requirement, and any other measure of capital deemed appropriate by the federal banking regulators for measuring the capital adequacy of an insured depository institution. Depending on its capital structure, an institution will be classified as "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" or "critically undercapitalized". A financial institution is considered "well capitalized" if it is under no regulatory order or action and its leverage ratio is at least 5% and its Tier 1 and Total Risk-Based Capital ratios are at least 6% and 10% respectively. Equity Bank is deemed "well capitalized" under these regulations.

FDICIA amended the Federal Deposit Insurance Act to prohibit insured depository institutions that are not well-capitalized from accepting brokered deposits unless a waiver has been obtained from the FDIC. FDICIA also directed the FDIC to establish a risk-based assessment system for deposit insurance. Pursuant to FDICIA, the federal bank regulatory agencies are required to adopt uniform regulations for real estate mortgage and construction loans. The federal bank regulatory agencies are required to biannually review risk-based capital standards to ensure that they adequately address interest rate risk, concentration of credit risk and risks from non-traditional activities.

The FDIC, which insures the deposits of Equity Bank, has adopted a regulation which provides that any insured depository institution with a ratio of Tier 1 capital to total assets of less than 2% will be deemed to be operating in an unsafe or unsound condition, which would constitute grounds for the initiation of termination of deposit insurance proceedings. The FDIC, however, will not initiate termination of insurance proceedings if the depository institution has entered into and is in compliance with a written agreement with its primary regulator, and the FDIC is a party to the agreement, to increase its Tier 1 capital to such level as the FDIC deems appropriate. Tier 1 capital is defined as the sum of common stockholders' equity, noncumulative perpetual preferred stock (including any related surplus) and minority interests in consolidated subsidiaries, minus all intangible assets other than eligible purchased mortgage servicing rights and qualifying supervisory goodwill eligible for inclusion in core capital under OTS regulations and minus identified losses and investments in certain securities subsidiaries. Insured depository institutions with Tier 1 capital equal to or greater than 2% of total assets may also be deemed to be operating in an unsafe or unsound condition notwithstanding such capital level. The regulation further provides that in considering applications that must be submitted to it by savings institutions, the FDIC will take into account whether the savings institution is meeting the Tier 1 capital requirement for state non-member banks of 4% of total assets for all but the most highly rated state non-member banks. At December 31, 1993, Equity Bank had Tier 1 capital of 7.71%. FIRREA required that the value of certain assets be phased-out by 1994 in accordance with a prescribed schedule. The Housing and Community Development Act of 1992 authorized the OTS to permit eligible institutions to defer this phase-out to 1996 with regard to certain assets. Equity Bank received approval from the OTS to utilize this deferred phase-out schedule with regard to assets carried at a capital value of approximately \$11.5 million as of December 31, 1993.

(b) Borrowing Privileges:

So long as Equity Bank maintains an appropriate level of certain investments ("Qualified Thrift Investments") and otherwise qualifies as a "Qualified Thrift Lender," it will continue to enjoy full borrowing privileges from the Federal Home Loan Bank. The required percentage of Qualified Thrift Investment is 65% of portfolio assets, and such investments must continue to equal or exceed that percentage on a monthly basis in nine out of every twelve months. Qualified Thrift Investments include (i) loans that were made to purchase, refinance, construct, improve or repair domestic residential or manufactured housing; (ii) home equity loans; (iii) securities backed by or representing an interest in mortgages on domestic residential or manufactured housing; (iv) obligations issued by the federal deposit insurance agencies; and (v) stock in Federal Home Loan Bank, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Subject to a 20% of assets limitation, the amended definition of Qualified Thrift Investments allows savings institutions to include consumer loans, investments in certain subsidiaries, loans for the purchase or construction of schools, churches, nursing homes and hospitals and 200% of investments in loans for low-to-moderate income housing and certain other community-oriented investments.

The OTS amended the Qualified Thrift Lender ("QTL") regulations to reflect the statutory changes to the definition of Qualified Thrift Investments and to provide that a savings association that was not subject to penalties for failure to maintain QTL status as of June 30, 1991 shall be deemed a QTL as long as its percentage of Qualified Thrift Investments continues to equal or exceed 65% in at least nine out of each 12 months. Beginning January 1, 1993, a savings association will cease to be a QTL when its percentage of Qualified Thrift Investments as measured by monthly averages over the immediately preceding 12-month period falls below 65% for four or more months.

At December 31, 1993, approximately 73% of Equity Bank's assets were invested in Qualified Thrift Investments, which was in excess of the percentage required to qualify the Association under the QTL test in effect at that time.

FDICIA liberalized the Qualified Thrift Lender test to require that Qualified Thrift Investments equal or exceed 65% of portfolio assets on a monthly basis in nine out of every 12 months, raised the amount of liquidity investments excluded from portfolio assets to 20% of total assets and expanded the range of assets constituting Qualified Thrift Investments.

(c) Internal Controls, Compensation, etc.:

FDICIA requires the federal bank regulatory agencies to prescribe, by regulation, standards for all insured depository institutions and depository institution holding companies relating to: (i) internal controls, information systems and audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; and (vi) compensation, fees and benefits. These regulations became effective in July 1993. The compensation standards prohibit employment contracts, compensation or benefit arrangements, stock option plans, fee arrangements or other compensatory arrangements that would provide excessive compensation, fees or benefits or could lead to material financial loss. In addition, the federal banking regulatory agencies are required to prescribe by regulation standards specifying: (i) maximum classified assets to capital ratios; (ii) minimum earnings sufficient to absorb losses without impairing capital; and (iii) to the extent feasible, a minimum ratio of market value to book value for publicly traded shares of depository institutions and depository institution holding companies.

All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying any management fees that would cause the institution to fail to satisfy the minimum levels for any of its capital requirements. An institution that failed to meet the minimum level for any relevant capital measure (an "undercapitalized institution") will be: (i) subject to increased monitoring by the appropriate federal banking regulator; (ii) required to submit an acceptable capital restoration plan within 45 days; (iii) subject to asset growth limits; and (iv) required to obtain prior regulatory approval for acquisitions, branching and new lines of businesses. The capital restoration plan must include a guarantee by the institution's holding company that the institution will comply with the plan until it has been adequately capitalized on average for four consecutive quarters. Under such guarantee the holding company would be liable up to the lesser of 5% of the institution's total assets or the amount necessary to bring the institution into capital compliance as of the date it failed to comply with its capital restoration plan. A significantly undercapitalized institution, as well as any undercapitalized institution that did not submit an acceptable capital restoration plan, will be subject to regulatory demands for recapitalization, broader application of restrictions on transactions with affiliates, limitations on interest rates paid on deposits, asset growth and other activities, possible replacement of directors and officers, and restrictions on capital distributions by any bank holding company controlling the institution. Any company controlling the institution could also be required to divest the institution. The senior executive officers of a significantly undercapitalized institution may not receive bonuses or increases in compensation without prior approval and the institution is prohibited from making payments of principal or interest on its subordinated debt. If an institution's ratio of tier 1 capital to total assets falls below a level established by the appropriate federal banking regulator, which may not be less than 2% nor more than 65% of the minimum tier 1 capital level otherwise required (the "critical capital level"), the institution will be subject to conservatorship or receivership within 90 days unless periodic

determinations are made that forbearance from such action would better protect the deposit insurance fund. Unless appropriate fundings and certifications are made by the appropriate federal bank regulatory agencies, a critically undercapitalized institution must be placed in receivership if it remains critically undercapitalized. Most of these new capital requirements and applicable federal banking laws became effective in December, 1992, and the OTS has adopted regulations implementing these provisions.

(d) Qualified Thrift Lender:

In connection with the acquisition of Equity Bank by the Company, the predecessor of the OTS provided certain modifications to the Qualified Thrift Lender requirements applicable to Equity Bank. Pursuant to these modifications, Equity Bank was relieved of immediate compliance with the statutory Qualified Thrift Lender test. At December 31, 1993, Equity Bank maintained Qualified Thrift Investment of 73% of portfolio assets, meeting not only the lower modified requirement but also the full statutory requirement. If Equity Bank continues to meet the modified requirement as it phases in toward the full statutory requirement and thereafter meets the full percentage requirement provided by law, Equity Bank will continue to maintain its status as a Qualified Thrift Lender. If Equity Bank should fail to maintain its status as a Qualified Thrift Lender, the Company would be required within one year thereof to qualify and register as a bank holding company. Under present regulations, the Company is a savings and loan holding company, and, as a result of its present operations, is not qualified to be a bank holding company. Thus, if the Company were to be required to become a bank holding company, it would be necessary under present regulations for the Company to either dispose of Equity Bank or dispose of its non-banking operations in order to continue to own Equity Bank. A failure to maintain Qualified Thrift Lender status will also result in the following restrictions on the operations of a savings institution: (i) the savings institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank, (iii) the institution shall not be eligible to obtain any advances from the appropriate governmental agency; (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank; and (v) change its method for accounting for bad debts to the direct charge off method. No subsidiary savings institution of a savings and loan holding company may declare or pay a dividend on its permanent or non-withdrawable stock unless it first gives the Director of the OTS thirty (30) days advance notice of such declaration and payment. Any dividend declared during such period without the giving of such notice shall be invalid. "See Market for Company's Common Equity and Related Stockholder Matters".

(e) Acquiring other savings institutions:

The Home Owners Loan Act ("HOLA"), generally prohibits the Company, without prior approval of the Director of the OTS, from (i) acquiring control of any other savings institution or savings and loan holding company or the assets thereof or (ii) acquiring or retaining more than 5% of the voting shares of a savings institution or holding company thereof which is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of the Company or person owning or controlling by proxy or otherwise more than 25% of the Company's stock, may acquire control of any savings institution, other than a subsidiary association, or any other savings and loan holding company.

(f) Limitations in transactions with other savings institutions, officers and others:

Transactions between savings institutions and any affiliate are governed by the FRA and regulations of the OTS. An affiliate of a savings institution is any company or entity which controls, is controlled by or is under common control with the savings institution. In a holding company context, the parent holding company of a savings institution (such as the Company) and any company which is controlled by such parent holding company are affiliates of the savings institution. Generally, the FRA (i) limits the extent to which Equity Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and limit all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to Equity Bank or its subsidiary as those provided to a non-affiliate. The term "Covered Transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. In addition to the restrictions imposed by the FRA, FIRREA has further provided that Equity Bank may not, without the prior approval of the appropriate governmental agency, (i) loan or otherwise extend credit to an affiliate, except for any affiliate which engages only in activities which are permissible for bank holding companies, which would exclude the Company and most of its industrial subsidiaries, or (ii) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliate, except for those which are subsidiaries of the savings institution. See discussions elsewhere under this "BUSINESS - Financial Services Business" section for transactions between Equity Bank and the Company, or subsidiaries of the Company.

Further, FIRREA and FDICIA have extended to savings institutions the restrictions contained in FRA on loans to directors, executive officers and principal stockholders, wherein loans to an executive officer and to a greater than 10% stockholder of a savings institution and certain affiliated entities of either, may not exceed, together with all other outstanding loans to such person and affiliated entities, the association's loan-to-one-borrower limit as established by FIRREA. FRA also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and greater than 10% stockholders of a savings institution, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the association with any "interested" director not participating in the voting. The Federal Reserve Board has prescribed the loan amount (which includes all other outstanding loans to such person), as to which such prior board of director approval, if required, as being the greater of \$25,000 or 5% of capital and surplus (up to \$500,000). Further, the Federal Reserve Board pursuant to FRA requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons.

(g) Savings and Loan Holding Company:

The Board of Directors of the Company presently intends to continue to operate the Company as a unitary savings and loan holding company until Equity Bank is sold to Fourth Financial pursuant to the Acquisition Agreement. There are generally no restrictions on the activities of a unitary savings and loan holding company. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity constitutes a serious risk to the financial safety, soundness, or stability of its subsidiary savings institution, the Director of the OTS may impose such restrictions as deemed necessary to address such risk and limiting (i) payment of dividends by the savings institution, (ii) transactions between the savings institution and its affiliates, and (iii) any activities of the savings institution that might

create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. See "Termination of Supervisory Agreement" under this section.

As a diversified unitary savings and loan holding company engaged in a variety of commercial and industrial businesses, the Company is restricted in its ability to acquire other savings institutions. Acquisition of such a second savings institution would result in the Company becoming a "multiple savings and loan holding company" and the statutory restrictions on the types of permissible business activities for such entities is wholly inconsistent with the predominant nature of its current businesses. However, acquisitions of other savings institutions which result in a merger or similar consolidation with Equity Bank and retain the Company's status as a unitary savings and loan holding company are permitted. Also, an acquisition of a failing savings institution certified as such by the OTS would not result in the Company's loss of status as a unitary holding company.

The Change in Bank Control Act provides that no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire control of the Company unless the OTS receives sixty (60) days prior written notice. The HOLA provides that no company may acquire "control" of the Company without the prior approval of the OTS. Any company that acquires control becomes a "savings and loan holding company" subject to registration, examination and regulation by the OTS. Applicable statutes and regulations conclusively deem any person to have acquired "control" of the Company by, among other things, the acquisition of more than 25% of any class of voting stock of the Company or the ability to control the election of a majority of the directors of the Company. In addition, applicable regulations presume a person to have acquired control (subject to rebuttal), upon the acquisition of more than 10% of any class of voting stock or of more than 25% of any class of stock of the Company, when certain enumerated "control factors" also exist. The OTS may prohibit an acquisition of control if it finds, among other things, that (1) the acquisition would result in a monopoly or substantially less competition, (2) the financial condition of the acquiring person might jeopardize the financial stability of Equity Bank, or (3) the competence, experience or integrity of the acquiring person indicates that it would not serve the interest of the depositors or the public to permit the acquisition of control by the person.

Inherent Risk:

During 1993, Equity Bank's Board of Directors and management continued to place their priority on monitoring asset quality and maintaining profitability.

Approximately 70% of non-performing loans were real estate related. Adverse economic conditions experienced in the southwest and in the Oklahoma economy which produced a general oversupply of developed real estate have stabilized and in some areas improved during the year.

"Potential problem loans" are those loans which, although currently performing, have credit weaknesses such that management has serious doubts as to the borrowers' future ability to comply with present terms, and thus may result in a change to non-performing status. Equity Bank has identified, through internal credit ratings, certain performing loans which demonstrate some deterioration in credit quality and, accordingly, are scrutinized more carefully. At December 31, 1993 these loans totaled \$3.7 million. Exposure to loss of principal on such loans was estimated to be approximately \$273,000, all of which was considered in the reserve for possible loan losses at December 31, 1993.

Under the Acquisition Agreement the Company has agreed to purchase from Equity Bank at the closing of the Sale of Equity Bank the real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure for Equity Bank's then carrying value for such real estate. In addition, the Company has the option, but not the obligation to acquire any loan owned by Equity Bank that has been charged off or written down for a price equal to the net book value of such loan that has been written down and for a price of \$1.00 in the case of each loan that has been charged off. See "Business- Recent Developments".

Loans to executive officers and directors (or their associates) of Equity Bank and its principal subsidiaries are made in the ordinary course of business. These transactions are conducted on substantially the same terms as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risk or present other unfavorable features at the time they are made. No related party loans were identified by management as potential problem loans at December 31, 1993.

Termination of Supervisory Agreement:

During May 1991, as a result of a regulatory examination in 1990, Equity Bank entered into a Supervisory Agreement with the OTS. This agreement contained operating restrictions on Equity Bank, including limiting the overall growth of Equity Bank's assets and liabilities to specified levels, restricting investments, precluding the payment of cash and stock dividends and increasing reporting requirements. The agreement also mandated certain administrative actions to be taken, including the preparation and/or modification of policies and procedures and the addition of Board members considered not affiliated with its parent or other subsidiaries. In September 1993, Equity Bank was notified in writing by the OTS that such Supervisory Agreement had been terminated.

Non-Accrual Policies:

Interest income is not accrued on loans which are ninety (90) days or more delinquent. The interest previously accrued on these delinquent loans is reversed from income. Delinquent loans are reviewed on a monthly basis to determine the propriety of non-accrual status for each loan. Management also considers the financial strength of the borrower, collateral valuations, business operations and current status of each borrower to determine non-accrual status. Normally, loans are not reinstated to accrual status unless all interest and principal payments have been brought current.

Loan Loss and Asset Valuation Reserve:

Equity Bank's loan portfolio is reviewed on a monthly basis by internal management. The portfolio review normally includes large loans, delinquent loans and previously classified loans. These loans are classified utilizing general regulatory agency criteria. Specific losses identified by loan or asset are charged against income as a loss provision expense. The loan or asset balance is then written down upon approval by the Executive Committee of the Board of Directors. In addition, a General Valuation Allowance ("GVA") is computed as a percentage of the net book balance of the loan or asset. The computed allowance is charged against income as a loss provision expense and a general reserve is established to absorb potential future losses associated with the asset.

A GVA is computed for all internally classified assets and all appropriate unclassified loans and other assets. The GVA percentage utilized for these calculations ranges between 1% and 7.5% of the net book balance of the asset.

Credit Risk Concentration:

Loan concentrations are another important factor in the assessment of inherent risks of Equity Bank. The composition of the loan portfolio at year-end for the past five years is presented elsewhere in this report. As indicated therein, approximately 61% of Equity Bank's loan portfolio at December 31, 1993 was in real estate. While real estate values have stabilized and in some instances improved, Equity Bank has continuing exposure to declining real estate values.

Included in foreclosed real estate as an in-substance foreclosure is a \$13.8 million first mortgage real estate loan collateralized by the building in which Equity Bank's corporate office is located. As required by regulation for this type of asset, a marketing plan for the disposal of the asset has been prepared and submitted to the OTS. Equity Bank continues to work with the borrower and building manager affiliate to maximize the asset's net operating income while competing for optimum occupancy levels.

Investment Portfolio Policy:

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," was issued by the FASB in May 1993. This Statement requires investments to be classified in three categories and accounted for as follows:

- * Debt securities that Equity Bank has the positive intent and ability to hold to maturity are to be classified as held-to-maturity securities and reported at amortized cost.
- * Debt and equity securities that are bought and held principally for the purpose of selling in the near future are to be classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings.
- * Debt and equity securities not classified as either held-to-maturity securities or trading securities are to be classified as available-for-sale securities and reported at fair value, with unrealized gains and losses reported as a separate component of stockholder's equity.

The Statement is effective for fiscal years beginning after December 15, 1993 and is to be initially applied as of the beginning of the fiscal year. Equity Bank will adopt the provisions of this Statement as of January 1, 1994. Management has determined that the effect of the adoption of this statement will not be material to Equity Bank.

Termination of Assistance Agreement:

In connection with the acquisition of Arrowhead, Equity Bank and FSLIC entered into an Assistance Agreement with an original term of ten years. The Assistance Agreement provided for various forms of financial assistance and indemnifications to Equity Bank during the term of the Agreement and required payments to FSLIC for sharing of certain items including capital losses, net income and tax benefits.

In March 1993, Equity Bank, the Company and the RTC (FDIC as manager of the FSLIC Resolution Fund) finalized an agreement terminating the Assistance Agreement (the "Termination Agreement"). Under the Termination Agreement, the RTC paid Equity Bank approximately \$14.2 million in cash and all of the obligations of both parties under the Assistance Agreement were terminated. As a result of the Termination Agreement, Equity Bank assumed all credit risk with respect to existing "covered assets." Equity Bank allocated a substantial portion of such \$14.2 million to record the previously covered loans and foreclosed real estate at estimated fair value. As a result, the Company believes that there are adequate reserves relating to the assets to reserve for the credit risk which was assumed. Also as a result of the Termination Agreement, the Equity Bank is no longer indemnified for any potential claim relating to any covered asset arising out of, or based upon, any liability, action or failure to act of Equity Bank, or any of the Equity Bank affiliates, officers or directors from and after December 30, 1988 that are asserted against the FDIC. The effect of the accounting for the Termination Agreement included reclassifying previously covered assets to reflect their status at the date of termination of the Assistance Agreement (on a fair value basis), all related receivables and payables were extinguished, the cash payment from the FDIC Manager was recorded and goodwill existing relating to the Arrowhead acquisition was adjusted for this resolution of a contingent purchase price.

The Company has reserved a substantial portion of the \$14.2 million, and, as a result, the Company believes that there are adequate loss reserves on these assets. Termination of the Assistance Agreement (including receipt of the \$14.2 million) did not result in a charge or credit to the Company's income statement.

Recording of the Termination Agreement increased (decreased) the following accounts (in millions):

Cash and cash equivalents	\$14.2
Receivables from FSLIC	(18.9)
Assets covered by FSLIC Assistance	(33.1)
Loans receivable, net	13.3
Foreclosed real estate, net	8.7
Excess of purchase price over fair value of net assets acquired	6.7
Payable to FSLIC	(9.1)

The Financial Services Business' earnings include the following assistance income:

	1992	1991
	----	----
	(Dollars in Millions)	
Yield Maintenance on Covered Assets	\$.9	\$2.8
Interest Income on the FSLIC Note Receivable	-	.6
FSLIC Assistance Income	.9	3.4
Reimbursement of Capital Losses on Covered Assets	3.1	3.8
	----	----
	\$ 4.0	\$ 7.2
	=====	=====

Since the Assistance Agreement was terminated effective January 1, 1993, there was no income under the Assistance Agreement for the year ended December 31, 1993.

FINANCIAL SERVICES STATISTICAL INFORMATION

The following tables present statistical information regarding Equity Bank's operations for the periods listed.

Average Balance Sheet - The following table sets forth certain information relating to Equity Bank's average balance sheet on a stand-alone basis and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid at December 31, 1993, 1992 and 1991. The table includes assets transferred to Equity Bank by the Company in connection with the acquisition at fair value of approximately \$69 million rather than at the depreciated book value of approximately \$18.8 million at the date of acquisition. The yields and costs result from dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. The table uses month-end balances in calculating average balances. Management does not believe that the use of month-end balances instead of daily average balances has caused any material difference in the information presented.

For presentation purposes, non-interest earning assets include plant, property and equipment, foreclosed real estate, accounts receivable from FSLIC, excess of purchase price over fair value of net assets acquired, loan servicing rights and other assets. Non accrual loans have been included in the category "Loan Receivable, net".

The tables also set forth the ratios of average interest-earning assets to average interest-bearing liabilities, return on assets, return on equity and equity to assets by Equity Bank for the fiscal years ended December 31, 1993, 1992 and 1991:

YEAR ENDED DECEMBER 31, 1993

	AVERAGE BALANCE	REVENUE/ EXPENSE	YIELD/ COST
(Dollars in Thousands)			
Interest Earning Assets:			
Loan and Securities:			
Loans Receivable, net	\$151,446	\$17,483	11.54%
Mortgage-Backed Securities	188,820	8,976	4.75%
Investment Securities	1,184	34	2.87%
	-----	-----	-----
	341,450	26,493	7.76%
Other interest earning assets:			
Cash and cash equivalents-			
principally overnight funds	16,519	579	3.51%
Federal Home Loan Bank Stock	6,417	449	7.00%
Accounts receivable purchased			
from affiliates	29,775	2,659	8.93%
	-----	-----	-----
	52,711	3,687	6.99%
	-----	-----	-----
Total Interest Earning Assets	394,161	30,180	7.66%
Non-Interest Earning Assets	119,306		

Total Assets	\$513,467		
	=====		
Interest-Bearing Liabilities:			
Deposits	\$334,447	12,505	3.74%
Borrowed Funds	120,217	4,668	3.88%
	-----	-----	-----
Total Interest-Bearing			
Liabilities	454,664	17,173	3.78%
		-----	-----
Non-Interest Bearing			
Liabilities	3,937		

Total Liabilities	458,601		
Stockholder's Equity-average			
(Actual at December 31, 1993			
was \$58,627,000)	54,866		

Total Liabilities and			
Stockholder's Equity	\$513,467		
	=====		
Net Interest Income		\$ 13,007	
		=====	
Interest Rate Spread			3.88%
			=====
Net Yield on Interest Earning Assets			7.66%
			=====
Ratio of Average Interest-Earning Assets			
To Average Interest-Bearing Liabilities			86.69%
			=====
Ratio of Return on Assets (Net Interest			
Income/Average Total Assets)			2.53%
			=====
Ratio of Return on Equity (Net Interest			
Income/Average Equity)			23.71%
			=====
Ratio of Equity to Assets (Average			
Equity/average Total Assets)			10.69%
			=====

YEAR ENDED DECEMBER 31, 1992

	AVERAGE BALANCE	REVENUE/ EXPENSE	YIELD/ COST
--	--------------------	---------------------	----------------

(Dollars in Thousands)

Interest Earning Assets:			
Loans and Securities			
Loans Receivable, net	\$125,544	\$18,006	14.34%
Mortgage-Backed Securities	185,132	10,710	5.79%
Investment Securities	1,385	64	4.62%
	-----	-----	-----
	312,061	28,780	9.22%
Other interest earning assets:			
Cash and cash equivalents-			
principally overnight funds	25,414	846	3.33%
Federal Home Loan Bank Stock	6,386	545	8.53%
Accounts receivable purchased from affiliates	29,966	2,713	9.05%
Assets covered by FSLIC assistance	40,485	2,821	6.97%
	-----	-----	-----
	102,251	6,925	6.77%
	-----	-----	-----
Total Interest Earning Assets	414,312	35,705	8.62%
Non-Interest Earning Assets	126,522		

Total Assets	\$540,834		
	=====		
Interest-Bearing Liabilities:			
Deposits	\$347,198	16,445	4.74%
Borrowed Funds	134,034	5,853	4.37%
Payable to FSLIC	9,034	829	9.18%
	-----	-----	-----
Total Interest-Bearing Liabilities	490,266	23,127	4.72%
	-----	-----	-----
Non-Interest Bearing Liabilities	3,882		

Total Liabilities	494,148		
Stockholder's Equity-average (Actual at December 31, 1992 was \$50,423,000)	46,686		

Total Liabilities and Stockholder's Equity	\$540,834		
	=====		
Net Interest Income		\$12,578	
		=====	
Interest Rate Spread			3.90%
			=====
Net Yield on Interest Earning Assets			8.62%
			=====
Ratio of Average Interest-Earning Assets to Average Interest-Bearing Liabilities			84.51%
			=====
Ratio of Return on Assets (Net Interest Income/Average Total Assets)			2.33%
			=====
Ratio of Return on Equity (Net Interest Income/Average Equity)			26.94%
			=====
Ratio of Equity to Assets (Average Equity/Average Total Assets)			8.63%
			=====

YEAR ENDED DECEMBER 31, 1991

	AVERAGE BALANCE	REVENUE/ EXPENSE	YIELD/ COST
(Dollars in Thousands)			
Interest Earning Assets:			
Loan and Securities:			
Loans Receivable, net	\$142,481	\$21,758	15.27%
Mortgage-Backed Securities	118,507	9,506	8.02%
Investment Securities	3,082	215	6.98%
	-----	-----	-----
	264,070	31,749	12.02%
Other interest earning assets:			
Cash and Cash Equivalents-			
Principally overnight funds	43,381	2,392	5.51%
Federal Home Loan Bank Stock	5,879	579	9.85%
Accounts receivable purchased			
from affiliates	30,457	3,615	11.87%
Assets covered by FSLIC assistance	55,791	5,274	9.45%
Note receivable from FSLIC	6,732	589	8.75%
	-----	-----	-----
	142,240	12,449	8.75%
	-----	-----	-----
Total Interest Earning Assets	406,310	43,928	10.81%
Non-Interest Earning Assets	133,761		

Total Assets	\$540,071		
	=====		
Interest-Bearing Liabilities:			
Deposits	\$356,993	23,144	6.48%
Borrowed Funds	129,137	8,234	6.38%
Payable to FSLIC	8,341	746	8.94%
	-----	-----	-----
Total Interest-Bearing Liabilities	494,471	32,124	6.50%

Non-Interest Bearing Liabilities	5,609		

Total Liabilities	500,080		
Stockholder's Equity - Average (Actual at December 31, 1991 Was \$43,405,000)	39,991		

Total Liabilities and Stockholder's Equity	\$540,071		
	=====		
Net Interest Income		\$11,804	
		=====	
Interest Rate Spread			4.31%
			=====
Net Yield on Interest Earning Assets			10.81%
			=====
Ratio of Average Interest-Earning Assets To Average Interest-Bearing Liabilities			82.17%
			=====
Ratio of Return on Assets (Net Interest Income/Average Total Assets)			2.19%
			=====
Ratio of Return on Equity (Net Interest Income/Average Equity)			29.52%
			=====
Ratio of Equity to Assets (Average Equity/Average Total Assets)			7.40%
			=====

Changes in Interest Income and Expense

	REVENUE/ EXPENSE/ 1993	REVENUE/ EXPENSE/ 1992	CHANGE INCREASE (DECREASE)	CHANGE DUE TO VOLUME	CHANGE DUE TO RATE	VOLUME/ RATE
(Dollars in Thousands)						
Interest earning assets:						
Loans, including non-Accrual loans	\$17,483	\$18,006	\$ (523)	\$ 3,715	\$(3,513)	\$ (725)
Investment securities	34	64	(30)	(9)	(24)	3
Mortgage-backed securities	8,976	10,710	(1,734)	213	(1,911)	(36)
Other interest earning assets	3,687	6,925	(3,238)	(3,355)	227	(110)
TOTAL	\$30,180	\$35,705	\$(5,525)	\$ 564	\$(5,221)	\$(868)
Interest bearing liabilities:						
Deposits	\$12,505	\$16,445	\$(3,940)	\$ (596)	\$(3,472)	\$ 128
Borrowed funds	4,668	5,853	(1,185)	(603)	(649)	67
Payable to FSLIC	-	829	(829)	(829)	-	-
TOTAL	\$17,173	\$23,127	\$(5,954)	\$(2,028)	\$(4,121)	\$ 195

Changes in Interest Income and Expense

	REVENUE/ EXPENSE 1992	REVENUE/ EXPENSE 1991	CHANGE INCREASE (DECREASE)	CHANGE DUE TO VOLUME	CHANGE DUE TO RATE	VOLUME/ RATE
----- (Dollars in Thousands) -----						
Interest earning assets:						
Loans, including non-accrual loans	\$18,006	\$21,758	\$(3,752)	\$(2,585)	\$(1,325)	\$ 158
Investment securities	64	215	(151)	(118)	(73)	40
Mortgage-backed securities	10,710	9,506	1,204	5,344	(2,650)	(1,490)
Other interest earning assets	6,925	12,449	(5,524)	(3,499)	(2,816)	791
	-----	-----	-----	-----	-----	-----
TOTAL	\$35,705	\$43,928	\$(8,223)	\$(858)	\$(6,864)	\$(501)
	=====	=====	=====	=====	=====	=====
Interest bearing liabilities:						
Deposits	\$16,445	\$23,144	\$(6,699)	\$ (635)	\$(6,235)	\$ 171
Borrowed funds	5,853	8,234	(2,381)	312	(2,595)	(98)
Payable to FSLIC	829	746	83	62	19	2
	-----	-----	-----	-----	-----	-----
TOTAL	\$23,127	\$32,124	\$(8,997)	\$ (261)	\$(8,811)	\$ 75
	=====	=====	=====	=====	=====	=====

Composition of Loan Portfolio

The following indicates the loan distribution of Equity Bank as of December 31, 1993, 1992, 1991, 1990 and 1989.

	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----
	(Dollars in Thousands)				
Real estate - mortgage -	\$89,613	\$ 91,595	\$106,731	\$125,097	\$153,546
Real estate - construction	1,029	1,234	618	591	128
Undisbursed portion of loans in process	(819)	(768)	(236)	(162)	(79)
Net deferred loan origination fees	(63)	(188)	(125)	(83)	(54)
Unearned discounts	(11,812)	(13,372)	(17,912)	(24,442)	(29,525)
Net real estate	77,948	78,501	89,076	101,001	124,016
Commercial	3,231	1,686	4,691	10,599	5,469
Consumer and other	45,893	41,546	37,151	32,009	25,802
Allowance for loan losses	(3,625)	(3,142)	(3,424)	(3,712)	(2,712)
Loans, net	\$123,447 =====	\$118,591 =====	\$127,494 =====	\$139,897 =====	\$152,575 =====
Loans held for sale	\$ 18,574 =====	\$ 6,358 =====	\$ 6,275 =====	\$ 4,491 =====	- =====
Loans covered by FSLIC assistance	- =====	\$ 14,137 =====	\$ 21,231 =====	\$ 25,495 =====	\$ 33,352 =====

Note: The amounts included above do not include accrued interest receivable.

Investment Portfolio

The following table sets forth the book value of the investment securities portfolio, short-term investments, and mortgage-backed securities of Equity Bank at the date indicated. At December 31, 1993, 1992 and 1991, the market values of Equity Bank's investment securities portfolio was \$216.9 million and \$174.5 million and \$185.9 million, respectively.

	December 31,		
	1993	1992	1991

	(Dollars in Thousands)		
Investment securities			
U.S. Treasury securities	\$ 1,299	\$ 406	\$ 719
Corporate bonds	-	-	2,002
Other	90	187	241
	-----	-----	-----
Total	1,389	593	2,962
Mortgage-backed securities held for investment	201,623	174,241	181,358
Mortgage-backed securities held for sale	13,947	-	-
	-----	-----	-----
Total investment securities	\$216,959	\$174,834	\$184,320
	=====	=====	=====

Note: The above investment amounts do not include FHLB stock or accrued interest receivable.

The following table sets forth the scheduled maturities, book values, market values, and weighted average yields for the investment securities of Equity Bank at December 31, 1993 (excluding FHLB stock).

(Dollars in Thousands)

	One Year or Less		One to Five Years		Five to Ten Years		More Than Ten Years		Total Investment Securities		
	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Market Value	Weighted Average Yield
U.S. Government and Agency Obligations	\$1,193	3.16%	\$ 106	9.10%	\$ -	-%	\$ -	-%	\$1,299	\$1,304	3.64%
Other	90	-	-	-	-	-	-	-	90	72	-
Mortgage-Backed Securities held for investment (1)	-	-	8,147	6.55%	9,638	4.88%	183,838	4.62%	201,623	201,609	4.71%
Mortgage-Backed securities held for sale (1)	-	-	13,947	4.68%	-	-	-	-	13,947	13,947	4.68%
Total Investment Securities	\$1,283	2.94%	\$22,200	5.39%	\$9,638	4.88%	\$183,838	4.62%	\$216,959	\$216,932	4.70%

(1) Mortgage-backed securities scheduled maturities are based on contractual maturity dates. Payments on these securities are received monthly based upon payments of the underlying mortgage loans.

Analysis of the Allowance for Loan Losses

This table summarizes the Equity Bank loan loss experience for each of the years ended:

	1993	1992	December 31, 1991	1990	1989
(Dollars in Thousands)					
Balance at beginning of period	\$3,142	\$3,424	\$3,712	\$2,712	\$3,497
Charge-offs:					
Real estate-mortgage	(106)	(335)	(543)	(3,145)	(179)
Commercial	-	-	(200)	(63)	(11)
Consumer and other	(1,045)	(1,300)	(1,158)	(1,667)	(703)
	(1,151)	(1,635)	(1,901)	(4,875)	(893)
Recoveries:					
Real estate-mortgage	20	12	90	-	73
Commercial	150	104	150	15	-
Consumer and other	82	13	38	8	-
	252	129	278	23	73
Net Charge-offs	(899)	(1,506)	(1,623)	(4,852)	(820)
Additions charged to operations	1,382	1,224	1,335	5,852	35
Balance at end of period	\$3,625	\$3,142	\$3,424	\$3,712	\$2,712
Ratio of net charge-offs during the period to average loans outstanding during the period	0.60%	1.20%	1.14%	3.09%	0.55%

In connection with the termination of the Assistance Agreement, Equity Bank assumed the credit risk of \$13.3 million in loans whose credit risk had previously been covered under the Assistance Agreement. At December 31, 1993, approximately \$1.4 million in unearned nonaccrutable discounts exist to provide as additional reserves on these loans. These amounts are included as unearned discounts and are not included in the allowance for loan losses above.

The following tables show an allocation of the allowance for loan losses as of the end of each of the years ending:

Allocation of the Allowance for Loan Losses
(Dollars in Thousands)

December 31, 1993			
	Amount	Percent	Percentage of Loans in each Category to Total Loans
Real estate	\$1,592	43.92%	61.34%
Commercial	142	3.92%	2.54%
Consumer and other	1,891	52.16%	36.12%
	<u>\$3,625</u>	<u>100.00%</u>	<u>100.00%</u>
	=====	=====	=====

December 31, 1992			
	Amount	Percent	Percentage of Loans in each Category to Total Loans
Real estate	\$1,285	40.90%	64.49%
Commercial	116	3.69%	1.39%
Consumer and other	1,741	55.41%	34.12%
	<u>\$3,142</u>	<u>100.00%</u>	<u>100.00%</u>
	=====	=====	=====

Allocation of the Allowance for Loan Losses
(Dollars in Thousands)

December 31, 1991			
	Amount	Percent	Percentage of Loans in each Category to Total Loans
Real estate	\$1,441	42.09%	59.39%
Commercial	667	19.48%	11.49%
Consumer and other	1,316	38.43%	29.12%
	<u>\$3,424</u>	<u>100.00%</u>	<u>100.00%</u>
	=====	=====	=====

December 31, 1990			
	Amount	Percent	Percentage of Loans in each Category to Total Loans
Real estate	\$1,518	40.90%	61.94%
Commercial	813	21.90%	11.69%
Consumer and other	1,381	37.20%	26.37%
	<u>\$3,712</u>	<u>100.00%</u>	<u>100.00%</u>
	=====	=====	=====

Allocation of the Allowance for Loan Losses
(Dollars in Thousands)

December 31, 1989			
	Amount	Percent	Percentage of Loans in each Category to Total Loans
Real estate	\$1,091	40.23%	62.99%
Commercial	244	9.00%	20.45%
Consumer and other	1,377	50.77%	16.56%
	<u>\$2,712</u>	<u>100.00%</u>	<u>100.00%</u>
	=====	=====	=====

Note: For purposes of the above real estate mortgage and real estate construction are combined due to the insignificance of real estate construction loans and the related reserve.

Return on Equity and Assets

The table below sets forth certain performance ratios of Equity Bank for the periods indicated.

	Years Ended December 31,		
	1993	1992	1991
	(Dollars in Thousands)		
Net Income	\$8,204	\$ 7,017	\$ 7,035
Return on assets (net income divided by average total assets)	1.60%	1.30%	1.30%
Return on equity (net income divided by average equity)	14.95%	15.03%	17.59%
Equity to assets (average equity divided by average total asset)	10.69%	8.63%	7.40%
Dividend payout ratio (dividends declared per share divided by net income per share)	0.00%	0.00%	0.00%

Short-Term Borrowing

The following tables set forth certain information regarding short-term borrowings by Equity Bank at the end of and during the periods indicated:

At December 31,
 1993 1992 1991

 (Dollars in Thousands)

Summary of short-term borrowings:

Advances from the Federal Home Loan Bank with thirty day to one year maturities	\$31,000	\$73,500	\$ 72,500
---	----------	----------	-----------

Securities sold under agreements to repurchase	\$38,721	\$50,344	\$ 66,744
--	----------	----------	-----------

Weighted average rate:

FHLB advances	3.41%	4.13%	4.57%
---------------	-------	-------	-------

Securities sold under agreements to repurchase	3.38%	3.57%	4.44%
--	-------	-------	-------

During the year-ended
 December 31,
 1993 1992 1990

 (Dollars in Thousands)

Maximum amount of short-term borrowings outstanding at any month-end

FHLB advances	\$73,500	\$73,500	\$ 73,125
---------------	----------	----------	-----------

Securities sold under agreements to repurchase	\$50,344	\$66,744	\$ 82,162
--	----------	----------	-----------

Approximate average short-term borrowings outstanding with respect to:

FHLB advances	\$53,250	\$71,769	\$ 53,708
---------------	----------	----------	-----------

Securities sold under agreements to repurchase	\$44,473	\$57,553	\$ 74,549
--	----------	----------	-----------

Approximate weighted average rate paid on:

FHLB advances	4.03%	4.42%	6.13%
---------------	-------	-------	-------

Securities sold under agreements to repurchase	3.47%	4.12%	6.57%
--	-------	-------	-------

Deposits

The following table sets forth the average consolidated deposits and average rates paid for the years ended December 31, 1993, 1992 and 1991:

Type	Weighted Average Rate Paid			Deposits		
	1993	1992	1991	1993	1992	1991
(Dollars in Thousands)						
Demand	2.58%	3.28%	4.31%	\$ 86,283	\$ 80,268	\$ 58,151
Savings	3.02%	3.86%	5.47%	17,554	13,587	11,183
Time	4.26%	5.24%	6.92%	229,684	253,343	287,659
				\$333,521	\$347,198	\$356,993
				=====	=====	=====

Time certificates of deposits in amounts of \$100,000 or more totaled approximately \$27.0 million at December 31, 1993.

The following table sets forth the maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 1993:

(Dollars in Thousands)

3 months or less	\$ 6,743
Over 3 through 6 months	9,167
Over 6 through 12 months	6,925
Over 12 months	4,122

	\$26,957
	=====

Analysis of Non-Accrual, Past Due and Restructured Loans

The following table Summarizes the non-accrual, past due, and restructured loans: :

	At December 31,				
	1993	1992	1991	1990	1989
	(Dollars in Thousands)				
Non Accrual Loans	\$1,964	\$2,117	\$1,316	\$2,753	\$2,550
Accruing Loans past due 90 days or more	-	-	-	-	-
Restructured Loans	1,019	641	500	1,300	-
	\$2,983	\$2,758	\$1,816	\$4,053	\$2,500
	=====	=====	=====	=====	=====

Interest income that would have been recorded under the original terms of such loans and the interest income actually recognized for the year ended December 31, 1993 are summarized below:

Interest income that would have been recorded	\$ 397
Interest income recognized	(83)
Interest income foregone	\$ 314
	=====

Loan Maturity
 The following table shows the maturity of loans (excluding real estate mortgage loans and consumer loans) outstanding at December 31, 1993.

Maturing

	1 year or less	1 year to 5 years	over 5 years	Total
(Dollars in Thousands)				
Commercial Loans	\$2,326	\$ 809	\$ 96	\$3,231
Real estate - Construction	1,029	-	-	1,029
	\$3,355	\$ 809	\$ 96	\$4,260
	=====	=====	=====	=====
Loans maturing after one year with:				
Fixed interest rates		\$ 68	\$ -	
Variable interest rates		741	96	
		\$ 809	\$ 96	
		=====	=====	

Employees

As of December 31, 1993, the Company employed 1,671 persons. As of that date, (a) the Environmental Control Business employed 595 persons, (none of which is represented by a union)(b) the Automotive Products Business employed 236 persons with 106 represented by unions under an agreement that expired in August, 1990, (c) the Chemical Business employed 459 persons, with 110 represented by unions under agreements expiring in August, 1995, and (d) the Financial Services Business employed 204 persons, none of which are represented by unions.

The union contract within the Automotive Product Business expired on August 1, 1990, and the employees within that business have continued to work without a contract. The employees did not strike in 1990 when their contract expired, and as of the date of this report, there are no indications that the employees are considering striking. There are no pending negotiations in connection with the expired union contract. The Company does not believe such employees will strike within the foreseeable future, but there are no assurances to that effect.

Research and Development

The Company spent approximately \$788,000 in 1993, \$684,000 in 1992, and \$454,000 in 1991 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are sponsored by the Company.

Environmental Compliance

The Company does not anticipate, based on facts presently known to the Company, that it will be required during 1994 to incur any material capital expenditures for environmental control facilities relating to its industrial businesses. However, a subsidiary of the Company in its Automotive Products Business has been notified that it is a potentially responsible party as a result of having been a generator of waste disposed of at the Mosley site (as defined in the first paragraph of Item 3 of this report). See Item 3 "Legal Proceedings" for a discussion of the Mosley site. In addition, a subsidiary of the Company in its Chemical Business has been notified that its chemical manufacturing facility located in El Dorado, Arkansas, has been placed into the Environmental Protection Agency's data based tracking system and that there has occurred certain releases of contaminants at its El Dorado, Arkansas facility. See Item 2 "Properties - Chemical Business" for a discussion of the environmental issues at the El Dorado, Arkansas facility. While there are no assurances, based on the information presently available to the Company, the Company does not believe that the Mosley Site or the El Dorado, Arkansas facility being placed in the Environmental Protection Agency's data based tracking system or any response to contamination at such facility due to any release of contamination of such facility should have a material adverse effect on the Company.

Item 2. PROPERTIES

In connection with the acquisition of Equity Bank, the Company and several of its subsidiaries transferred certain properties to Northwest Financial Corporation ("Northwest Financial"), a wholly-owned service corporation of Equity Bank. The properties include, but are not limited to, the then existing manufacturing facilities at the site (as defined below under Chemical Business) and the then existing distribution facilities of the Chemical Business, a portion of the manufacturing facilities of the Environmental Control Business and certain other facilities. In order for the Company (and its subsidiaries) to continue their operations on those properties, Northwest Financial entered into several agreements to lease or sublease the properties back to their original users. Subject to the terms of the leases between Northwest Financial and the Chemical Business, Northwest Financial transferred beneficial ownership of these properties to two general partnerships in which Northwest Financial owns 99% of the partnership interest and the other 1% is owned by another subsidiary of the Company. Northwest Financial continues to hold record title to such real properties. See "BUSINESS - Financial Services Business." The Company has agreed to purchase these properties from Equity Bank in connection with the proposed sale of Equity Bank in 1994 under the Acquisition Agreement. See "Business - Recent Developments", "Business - Financial Service Business" , "Management's Discussion and Analysis" and Note 1 to Notes to Consolidated Financial Statements.

Chemical Business

The Chemical Business primarily conducts manufacturing operations (i) on 150 acres of a 1400 acre tract of land located in El Dorado, Arkansas (the "Site") and (ii) on 10 acres of land in a facility of approximately 60,000 square feet located in Hallowell, Kansas ("Kansas facility") .

As of December 31, 1993, the manufacturing facility at the Site was being utilized to the extent of approximately 85%, based on the continuous operation of those facilities. As of December 31, 1993, manufacturing operations at the Kansas facility were being utilized to the extent of approximately 80% based on one 10 hour shift per day and a 5 day week.

In addition, the Chemical Business distributes its products through 35 agricultural and blasting distribution centers. The Chemical Business currently operates 19 agricultural distribution centers, with 14 of the centers located in Texas (11 of which the Company owns and 3 of which it leases); 2 centers located in Missouri (1 of which the Company owns and 1 of which it leases); and 3 centers located in Tennessee (all of which the Company owns). The Chemical Business currently operates 16 blasting distribution centers located in Bonne Terre, Missouri (owned); Central City, Combs, and Pilgrim, Kentucky (leased); Midland, Indiana (leased); Rawlins, Wyoming (leased); Logan and Cabin Creek, West Virginia (leased); Percy, Illinois (leased); Carlsbad, New Mexico (leased); Homer, Georgia (leased); and Pryor, Oklahoma (leased). The Chemical Business also has manufacturing facilities in Australia located at: Peaks Down; Kalgoorlie; Karratha; and, Hunter Valley (all leased).

The Chemical Business also operates its business from buildings located on an approximate four acre site on the perimeter of the JayHawk Industrial site in southeastern Kansas, and a research and testing facility comprising of a one square mile tract of land including buildings and equipment thereon also located in southeastern Kansas which it leases for an annual rental of \$100 for a lease term of ten (10) years.

All facilities owned by the Chemical Business are subject to mortgages.

During November, 1993, the Company's Chemical Business acquired an additional concentrated nitric acid plant and related assets ("Plant and Assets") for approximately \$1.9 million. The Chemical Business is in the process of moving such Plant and Assets from Illinois to, and installing such at, its manufacturing plant located in El Dorado, Arkansas. The Company anticipates that the total amount that will be expended to acquire, move and install the Plant and Assets will be approximately \$12.0 million. As a result of such expansion and the present utilization of the Chemical Business' manufacturing facilities, the Company believes that it's present manufacturing facilities are suitable for it's current operations.

Since the 1940's, the Site has been a manufacturing facility for ammonium nitrate compounds, and until 1969, was a manufacturing facility for ammonia. In 1955, the Site was acquired by Monsanto Company ("Monsanto"), and in June, 1983, Monsanto sold the Site to El Dorado Chemical Company ("EDC"). EDC was acquired by the Company in 1984. Under the agreement with Monsanto, Monsanto agreed to indemnify EDC for any claim which is suffered, incurred or arises due solely out of Monsanto's disposal of chemical or chemical byproducts prior to acquisition of the Site by EDC from Monsanto or the use by Monsanto of any substance prior to the date EDC acquired the Site from Monsanto which is subsequently determined to be deleterious or dangerous to the public's health, safety or welfare. Under the agreement with Monsanto, the indemnification is not assignable to a party to which EDC transfers the Site without the prior written consent of Monsanto, except to any company 100% of the voting stock of which is owned or controlled, directly or indirectly, by EDC. Although EDC has operated the Site since its acquisition from Monsanto in 1983, in 1988, EDC transferred ownership of the Site to the Company, which in turn transferred title to its Financial Services subsidiary. All of the outstanding stock of EDC and the Financial Services subsidiary are, directly or indirectly, wholly owned by the Company. Although no consent was obtained from Monsanto when EDC transferred ownership of the Site to its affiliated company to assign the Monsanto indemnification, if such a consent was required under the agreement with Monsanto, the Monsanto indemnification remains applicable to EDC. Recently, the Company's Chemical Business was advised that the Site had been placed in the Environmental Protection Agency's ("EPA") data based tracking system (the "System"). The System maintains an inventory of sites in the United States where it is known or suspected that a release of hazardous waste has occurred. Notwithstanding inclusion in the System, EPA's regulations recognize that such does not represent a determination of liability or a finding that any response action will be necessary. Over 36,000 sites in the United States are presently listed in the System. If a site is placed in the System, EPA regulations require that the government or its agent perform a preliminary assessment of the site. If the preliminary assessment determines that there has been a release, or that there is suspected to have occurred a release, at the site of certain types of contamination, the EPA will perform a site investigation. Pursuant to such regulations, the State of Arkansas performed such preliminary assessment for the EPA. The preliminary assessment report prepared by the State of Arkansas, dated September 30, 1992, regarding the Site states, in part, that a release of certain types of contaminants is suspected to have occurred at the Site. It is anticipated that the EPA will, at some future date, perform a site inspection at the Site, which inspection will usually involve the gathering of additional data including environmental sampling of the Site. After conducting the site inspection, the regulations provide that the EPA may determine that: (i) the Site does not warrant further involvement in the evaluation process, or (ii) that further study of the Site is warranted to determine what appropriate action is to be taken in response to a release, if any, of contaminants at the Site or whether such release, if any, justifies the Site being placed on the National Priorities List. Being placed in the System will generally be the first step in the EPA's determination as to

whether a site will be placed on the National Priorities List. After the EPA completes its site inspection and evaluates other information, the EPA will then assess the Site using the Hazard Ranking System to ascertain whether the Site poses a sufficient risk to human health or the environment to be proposed for the National Priorities List. There are approximately 1,200 sites in the United States presently listed on the National Priorities List. The Company has been advised that there have occurred certain releases of contaminants at the Site. However, the Company does not believe that such releases should warrant the Site being placed on the National Priorities List, but there are no assurances to that effect. The Company is in the process of studying the Site in an attempt to determine the extent of such releases at the Site and when such releases may have occurred. In addition, as a result of certain releases of contaminants at the Site, EDC may be subject to assessment of certain civil penalties. The Company has not yet received from the appropriate governmental agency of the State of Arkansas a determination as to the appropriate plan of remediation of the Site and what contaminants, if any, must be remediated. The Company is unable to estimate the cost of such remediation until the Company receives an acceptable plan from such agency. The Company believes that it will receive such plan from the State of Arkansas in the near future, and at that time the Company will be able to estimate the cost of such remediation at the Site. While there are no assurances, based on information presently available to the Company, the Company does not believe, as of the date of this report, that the Site being placed in the System or the response to any contamination at the Site or the assessment of penalties, if any, due to release of certain contaminants at the Site should have any material adverse effect on the Company or the Company's financial condition.

Environmental Control Business

The Environmental Control Business conducts its fan coil manufacturing operations in various facilities, including two adjacent facilities located in Oklahoma City, Oklahoma, consisting of approximately 240,000 square feet owned by the Company. As of December 31, 1993, the Environmental Control Business was using the productive capacity of the above-referenced facility to the extent of approximately 92%, based on two, 8-hour shifts per day and a 5-day week.

The Environmental Control Business manufactures most of its heat pump products in a leased 230,000 square foot facility in Oklahoma City, Oklahoma. The lease carries a five year term beginning March 1, 1988, with options to renew for five additional five year periods, and currently provides for the payment of rent in the amount of \$52,389 per month. The Company also has an option to acquire the facility at any time in return for the assumption of the then outstanding balance of the lessor's mortgage. As of December 31, 1993, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 59%, based on one, 8 hour shift per day and a 5-day week.

The Environmental Control Business owns a 60,000 square foot facility in Juarez, Mexico, which it leases to a third party tenant. The Environmental Control Business also leases sales offices in Los Angeles and Chicago.

All of the properties utilized by the Environmental Control Business are considered by Company management to be suitable and adequate to meet the current needs of that business.

Automotive Products Business

The Automotive Products Business conducts its operations in plant facilities principally located in Oklahoma City, Oklahoma which are considered by Company management to be suitable and adequate to meet its needs. One of the manufacturing facilities occupies a building owned by the Company, subject to mortgages, totaling approximately 178,000 square feet. The Automotive Products Business also uses additional manufacturing facilities located in Oklahoma City, Oklahoma, owned and leased by the Company. During 1993, the Automotive Products Business under-utilized the productive capacity of its facilities.

In December 1993, International Bearings, Inc. ("IBI") of Memphis, Tennessee, was acquired as a wholly owned subsidiary of the Company operating as a separate entity within the Automotive Products Division. IBI is a warehouse unit operating from a leased warehouse of approximately 45,000 square feet in an industrial park section of Memphis, TN.

Industrial Products Business

The Company owns several buildings, some of which are subject to mortgages, totaling approximately 668,000 square feet located in Oklahoma City and Tulsa, Oklahoma, which the Industrial Products Business uses for showrooms, offices and warehouse facilities. The Company also owns real property located near or adjacent to the above-referenced buildings, which the Industrial Products Business uses for parking and storage.

The Industrial Products Business also leases a facility from an entity owned by the immediate family of the Company's President, which facility occupies approximately seven acres in Oklahoma City, Oklahoma, with buildings having approximately 44,000 square feet. The Industrial Products Business also has an office in Europe to coordinate its European activities.

All of the properties utilized by the Industrial Products Business are considered by Company management to be suitable and adequate to meet the needs of the Industrial Products Business.

Financial Services Business

The Financial Services Business' corporate headquarters is located in approximately 26,700 square feet of leased office space in Oklahoma City, Oklahoma. In addition to the corporate facility, the Financial Services Business operates 14 branch offices. These facilities are considered by Company management to be suitable and adequate to meet the needs of the Financial Services Business.

On January 4, 1989, Northwest Financial Corporation ("Northwest Financial"), a wholly-owned subsidiary of Equity Bank, acquired an option to purchase a 22-story, 340,000 square foot office building in Oklahoma City, Oklahoma, which contains the corporate headquarters of the Financial Services Business. This property is known as "Equity Tower". Northwest Financial acquired the option for \$100,000 contemporaneously with Equity Bank's acquisition of the note and mortgage relating to the property ("Equity Tower Loan"). Northwest Financial may exercise its option at any time during the six-month period beginning December 31, 1995. The option agreement provides that the purchase price for the property upon exercise of the option will equal the sum of (1) the then outstanding restated mortgage indebtedness

secured by the property and (2) the greater of (a) \$100,000 or (b) 20% of the difference between (i) the appraised fair market value of the property and (ii) \$15.1 million plus any additional advances under the loan plus any unpaid "cumulative deficiency amounts," as defined, accrued under the loan. As previously discussed, the Company has agreed under the Acquisition Agreement to acquire the Equity Tower Loan and option to purchase the Equity Tower at the time of closing of the sale of Equity Bank to Fourth Financial at Equity Bank's then current carrying value of the Equity Tower Loan on the books of Equity Bank. The carrying value of the Equity Tower Loan on the books of Equity Bank as of February 28, 1994, was approximately \$13.8 million.

In December 1987, the United States Environmental Protection Agency ("EPA") notified L&S Bearing Company ("L&S") of potential responsibility for releases of hazardous substances at the Mosley Road Landfill in Oklahoma ("the Mosley Site"). The recipients of such notification were: a) generators of industrial waste allegedly sent to the Mosley Site (including L&S), and b) the current owner/operator of the Mosley Site, Waste Management of Oklahoma ("WMO") (collectively, "PRPs"). Between February 20, and August 24, 1976, the Mosley Site was authorized to accept industrial hazardous waste. During this time, a number of industrial waste shipments allegedly were transported from L&S to the Mosley Site. In February 1990, EPA added the Mosley Site to the National Priorities List. WMO and the U.S. Air Force conducted the remedial investigation ("RI") and feasibility study ("FS"). It is too early to evaluate the probability of a favorable or unfavorable outcome of the matter for L&S. However, it is the PRP Group's position that WMO as the Mosley Site owner and operator should be responsible for at least half of total liability as the Mosley Site, and that 75% to 80% of the remaining liability, if allocated on a volumetric basis, should be assignable to the U.S. Air Force. The Company is unable at this time to estimate the amount of liability, if any, since the estimated costs of clean-up of the Mosley Site are continuing to change and the percentage of the total waste which were alleged to have been contributed to the Mosley Site by L&S has not yet been determined. If an action is brought against the Company in this matter, the Company intends to vigorously defend itself and assert the above position. Although there are no assurances to this effect, the Company is exploring whether it has insurance coverage for this claim. Insurance coverage, however, is not considered since it is not known whether insurance coverage will be provided in connection with this matter. The Company does not believe that the ultimate outcome of this matter will have a material adverse effect on the Company's financial position or results of operations.

In April, 1989, a subsidiary, International Environmental Corporation ("IEC") was named as a third party defendant in a lawsuit brought by Economy Mechanical Industries of Illinois, Inc. ("Economy"), in an action pending in the Circuit Court of Cook County, Illinois, in connection with a project in Chicago, Illinois. Economy had purchased fan coil units for the project from IEC and the units were built in accordance with Economy's specifications. This litigation initially resulted from disputes between the owner of the project and the general contractor, and in connection therewith, the owner withheld payment from the general contractor. The general contractor and a number of subcontractors (including Economy) filed mechanics liens against the property. The general contractor filed this action to foreclose on its lien and the owner has asserted numerous claims against the general contractor and certain subcontractors (including Economy) in the total amount of \$20,610,599. One of the counterclaims made by the owner relates to the fan coil system manufactured by IEC. As a result Economy brought a third party action against IEC alleging that if the fan coil system is defective, such was the responsibility of IEC and in breach of IEC's implied and express warranties. IEC has denied that the fan coils are defective and contends that any failures, if any, were caused by improper installation or other causes beyond IEC's control. IEC has filed fourth party complaints against certain of its suppliers. Discovery in this proceeding is ongoing. The Company does not believe this matter will have a material adverse effect on the financial condition or results of operations of the Company due to the probable receipt of insurance proceeds in the event of an adverse outcome.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 4A. EXECUTIVE OFFICERS OF THE COMPANY

Identification of Executive Officers. The following table identifies the executive officers of the Company.

Name	Age	Position and Offices With the Company	Served as an Officer From
Jack E. Golsen	65	Board Chairman and President	December, 1968
Barry H. Golsen	43	President of the Environmental Control Businesses and Director	August, 1981
David R. Goss	53	Senior Vice President of Operations and Director	March, 1969
Tony M. Shelby	52	Senior Vice President - Chief Financial Officer, and Director	March, 1969
Jim D. Jones	52	Vice President - Treasurer and Corporate Controller	April, 1977
Michael Tepper	54	Senior Vice President - International Operations	June, 1985
David M. Shear	34	Vice President and General Counsel	March, 1990
Heidi L. Brown	35	Vice President and Managing Counsel	March, 1990
Michael Adams	44	Vice President- Internal Audit	March, 1990

The Company's officers serve one-year terms, renewable on an annual basis by the Board of Directors. With the exception of Messrs. Adams and Shear and Ms. Brown, all of the individuals listed above have served in substantially the same capacity with the Company and/or its subsidiaries for the last five years. Prior to becoming an officer of the Company, Mr. Shear served as an antitrust attorney for the Federal Trade Commission and was in private law practice in Boston, Massachusetts. Ms. Brown was in private law practice in Boston, Massachusetts prior to joining the Company. Mr. Adams has been

employed by the Company for the last five years, serving as Assistant Vice President - Internal Audit since 1985 before being elected Vice President of the Company.

Family Relationships. The only family relationships that exist among the executive officers of the Company are the following: (i) Jack E. Golsen is the father of Barry H. Golsen, (ii) Jack E. Golsen is the uncle of Heidi L. Brown and (iii) David M. Shear and Heidi L. Brown are husband and wife.

PART II

Item 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information. The Company's Common Stock trades on the American Stock Exchange, Inc. ("AMEX") The following table shows, for the periods indicated, the high and low closing sales prices for the Company's Common Stock.

Quarter	Fiscal Year Ended December 31,			
	1993		1992	
	High	Low	High	Low
First	11-1/8	6-3/4	2-7/8	1-1/4
Second	12	9	4-7/8	2-3/8
Third	12-3/8	10	6-1/2	3-3/4
Fourth	11-3/8	8-1/8	7-3/4	4-3/4

Stockholders. As of March 14, 1994, the Company had 1,539 record holders of its Common Stock.

Issuance of Preferred Stock - On May 27, 1993, the Company completed a public offering of \$46 million of a new series of Class C Preferred Stock, designated as \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, no par value ("Series 2 Preferred"). The Series 2 Preferred has a liquidation preference of \$50.00 per share plus accrued and unpaid dividends and is convertible at the option of the holder at any time, unless previously redeemed, into Common Stock, \$0.10 par value, of the Company, at an initial conversion price of \$11.55 per share (equivalent to a conversion rate of approximately 4.3 shares of Common Stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. If under certain conditions there occurs a Corporate Change or Ownership Change (as such terms are defined in the underlying documents creating the Series 2 Preferred) with respect to the Company, then, under certain conditions, each holder of Series 2 Preferred shall have the right, at the holder's option, for a period of 45 days after mailing of a notice by the Company that such change has occurred, to convert all, but not less than all, of such holders Series 2 Preferred into the Company's Common Stock or common stock of any corporation that is a successor to the Company at a special conversion rate. The shares of Series 2 Preferred are not entitled to vote except under limited circumstances.

Each share of outstanding Series 2 Preferred is entitled to receive, if, when and as declared by the Board of Directors, an annual dividend of \$3.25 per share payable quarterly in the arrears. See "Dividends" of this Item 5 below.

The Series 2 Preferred is not redeemable prior to June 15, 1996. The Series 2 Preferred will be redeemable at the option of the Company, in whole

or in part, at \$52.28 per share if redeemed on or after June 15, 1996, and thereafter at prices decreasing rateably annually to \$50.00 per share on and after June 15, 2003, plus accrued and unpaid dividends to the redemption date.

Dividends. Holders of the Company's Common Stock are entitled to receive dividends only when, as and if declared by the Board of Directors. No dividends may be paid on the Company's Common Stock until all required dividends are paid on the outstanding shares of the Company's preferred stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. The Company has issued and outstanding as of December 31, 1993, 920,000 shares of Series 2 Preferred, 1,632.5 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of preferred stock is entitled to receive an annual dividend, if, as and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferred at the rate of \$3.25 a share payable quarterly in arrears on June 15, September 15, December 15, and March 15, (ii) Non Cumulative Preferred Stock at the rate of \$10 a share, and (iii) Series B Preferred at the rate of \$12.00 a share. The Company did not pay cash dividends on its Common Stock for many years. During the first part of 1993, the Company's Board of Directors approved the adoption of a policy as to the payment of cash dividends on its outstanding Common Stock pursuant to which an annual cash dividend of \$.06 per share will be declared by the Board of Directors and paid on the Company's outstanding shares of Common Stock payable at \$.03 per share semiannually, subject to change or termination by the Board of Directors at any time. The Company paid a cash dividend of \$.03 a share on its outstanding Common Stock on July 1, 1993, and January 1, 1994; however, there are no assurances that this policy will not be terminated or changed by the Board of Directors. See Notes 9, 11, 12 and 13 to Notes to Consolidated Financial Statements.

Under the terms of a loan agreement between El Dorado Chemical Company ("EDC") and its lenders, EDC cannot transfer funds to the Company in the form of cash dividends or other advances, except (i) for the amount of taxes that EDC would be required to pay if it was not consolidated with the Company and (ii) an amount equal to twenty-five percent (25%) of EDC's cumulative adjusted net income (as reduced by cumulative net losses), as defined, any time EDC has a Total Capitalization Ratio, as defined, greater than .65:1 and after EDC has a Total Capitalization Ratio of .65:1 or less, 50% of EDC's cumulative adjusted net income (as reduced by cumulative net losses). See Note 9 of Notes to Consolidated Financial Statements and "Management's Discussion and Analysis".

The Company is a holding company and, accordingly, its ability to pay dividends on its preferred stock and its common stock is dependent in large part on its ability to obtain funds from its subsidiaries. The ability of EDC, International Environmental Corporation and Equity Bank to pay dividends to the Company, to fund the payment of dividends by the Company or for other purposes, is restricted by certain agreements to which they are parties and, in the case of Equity Bank, subject to the restrictions promulgated by FIRREA. See "Business - Financial Service Business".

On February 17, 1989, the Company's Board of Directors declared a dividend to its stockholders of record on February 27, 1989, of one preferred stock purchase right on each of the Company's outstanding shares of common stock. The rights expire on February 27, 1999. The Company issued the rights, among other reasons, in order to assure that all of the Company's stockholders receive fair and equal treatment in the event of any proposed takeover of the Company and to guard against partial tender abusive tactics to gain control of the Company. The rights will become exercisable only if a person or group acquires beneficial ownership of 30% or more of the Company's common stock or announces a tender or exchange offer the consummation of which

would result in the ownership by a person or group of 30% or more of the common stock, except any acquisition by Jack E. Golsen, Chairman of the Board and President of the Company, and certain other related persons or entities.

Each right (other than the rights, owned by the acquiring person or members of a group that causes the rights to become exercisable, which became void) will entitle the stockholder to buy one-hundredth of a share of a new series of participating preferred stock at an exercise price of \$14.00 per share. Each one one-hundredth of a share of the new preferred stock purchasable upon the exercise of a right has economic terms designed to approximate the value of one share of the Company's common stock. If another person or group acquires the Company in a merger or other business combination transaction, each right will entitle its holder (other than rights owned by that person or group, which become void) to purchase at the right's then current exercise price, a number of the acquiring company's common shares which at the time of such transaction would have a market value two times the exercise price of the right. In addition, if a person or group (with certain exceptions) acquires 30% or more of the Company's outstanding common stock, each right will entitle its holder, (other than the rights owned by the acquiring person or members of the group that results in the rights becoming exercisable, which become void), to purchase at the right's then current exercise price, a number of shares of the Company's common stock having a market value of twice the right's exercise price in lieu of the new preferred stock.

Following the acquisition by a person or group of beneficial ownership of 30% or more of the Company's outstanding common stock (with certain exceptions) and prior to an acquisition of 50% or more of the Company's common stock by the person or group, the Board of Directors may exchange the rights (other than rights owned by the acquiring person or members of the group that results in the rights becoming exercisable, which become void), in whole or in part, for shares of the Company's common stock. That exchange would occur at an exchange ratio of one share of common stock, or one one-hundredth of a share of the new series of participating preferred stock, per right.

Prior to the acquisition by a person or group of beneficial ownership of 30% or more of the Company's common stock (with certain exceptions) the Company may redeem the rights for one cent per right at the option of the Company's Board of Directors. The Company's Board of Directors also has the authority to reduce the 30% thresholds to not less than 10%.

Item 6. SELECTED FINANCIAL DATA

	1993	Years ended December 31,			1989
		1992	1991	1990	
		(Dollars in Thousands, except per share data)			
Selected Statement of Operations Data:					
Net sales	\$232,616	\$198,373	\$177,035	\$196,577	\$212,748
	=====	=====	=====	=====	=====
Interest income on loans and investments	\$ 27,761	\$ 32,205	\$ 40,548	\$ 33,856	\$28,746
	=====	=====	=====	=====	=====
FSLIC interest and yield maintenance	\$ -	\$ 936	\$ 3,441	\$ 7,803	\$ 10,089
	=====	=====	=====	=====	=====
Total Revenues	\$276,594	\$246,783	\$234,191	\$248,226	\$262,590
	=====	=====	=====	=====	=====
Interest expense:					
Deposits	\$ 12,505	\$ 16,445	\$ 23,144	\$ 27,940	\$ 30,580
Long-term debt and other	9,517	13,194	16,142	16,100	13,996
	\$ 22,022	\$ 29,639	\$ 39,286	\$ 44,040	\$ 44,576
	=====	=====	=====	=====	=====
Provision for loan losses	\$ 1,382	\$ 1,224	\$ 1,335	\$ 5,852	\$ 35
	=====	=====	=====	=====	=====
Income (loss) before extraordinary items	\$ 12,399	\$ 9,255	\$ (1,147)	\$ (10,654)	\$ 4,036
	=====	=====	=====	=====	=====
Net income (loss)	\$ 12,399	\$ 9,255	\$ (1,147)	\$ (9,121)	\$ 4,036
	=====	=====	=====	=====	=====
Net income (loss) applicable to common stock	\$ 10,357	\$ 7,428	\$ (3,090)	\$ (11,107)	\$ 1,987
	=====	=====	=====	=====	=====
Primary earnings (loss) per common share:					
Income (loss) before extraordinary items	\$.77	\$.94	\$ (.48)	\$ (2.30)	\$.32
	=====	=====	=====	=====	=====
Net income (loss)	\$.71	\$.66	\$ (.48)	\$ (2.02)	\$.32
	=====	=====	=====	=====	=====

Item 6. SELECTED FINANCIAL DATA (Continued)

	Years ended December 31,				
	1993	1992	1991	1990	1989
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data:					
Total Assets	\$597,512	\$582,248	\$605,513	\$649,730	\$662,424
Deposits	\$332,511	\$336,053	\$359,228	\$364,402	\$386,493
Long-term debt	\$ 30,295	\$ 50,321	\$ 56,330	\$ 57,092	\$43,616
Redeemable preferred stock	\$ 155	\$ 163	\$ 179	\$ 186	\$ 196
Non-redeemable preferred stock, common stock, and other stockholders' equity	\$ 74,871	\$ 18,339	\$ 10,352	\$ 13,481	\$25,144
Selected other Data:					
Cash dividends declared per common share	\$.06	\$ -	\$ -	\$ -	\$ -

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's December 31, 1993 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA," and "BUSINESS" included elsewhere in this report.

Overview

The Company is a diversified holding company which is engaged, through its subsidiaries, in the Chemical Business, the Environmental Control Business, the Automotive Products Business, the Industrial Products Business and the Financial Services Business. The Chemical Business, the Environmental Control Business and the Financial Services Business accounted for approximately 12%, 4% and 77% respectively, of the Company's assets at December 31, 1993, and approximately 42%, 25%, and 15% respectively, of the Company's revenues for the year then ended. The operating income of the Company increased from \$16.5 million in 1991, to \$25.9 million in 1992, to \$30.6 million in 1993. As a result of significantly higher operating income and lower interest expense, the Company's net income was approximately \$12.4 million in 1993, as compared to a net income of \$9.3 million in 1992 and a net loss of \$1.1 million in 1991. As previously discussed in this report, the Company has entered into an agreement to sell Equity Bank (which comprises the Company's Financial Service Business) to Fourth Financial, which agreement has been previously defined as the Acquisition Agreement. See "Liquidity and Capital Resources" of this "Management Discussion and Analysis", "Business - Recent Developments", "Business- Financial Service Business" and Note 1 to Notes to Consolidated Financial Statements for further discussion of the proposed sale of Equity Bank.

Results of Operations

Comparison of 1993 with 1992

Revenues

Total revenues for the years ended December 31, 1993 and 1992 were \$276.6 million and \$246.8 million, respectively (an increase of \$29.8 million). Interest and other income attributable to the operations of the Financial Services Business included in total revenues was \$41.8 million in 1993, compared to \$46.9 million for 1992. The decrease resulted primarily from a net decrease in interest income of \$5.5 million due to decreased interest income from loans receivable and mortgage-backed securities of \$5.4 million due to declining interest rates.

Net Sales

Consolidated net sales for the year 1993 were \$232.6 million, compared to \$198.4 for the year 1992, an increase of \$34.2 million or 17.2%. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of \$8.9 million, primarily due to the acquisition of Total Energy Systems Limited ("TES") in July, 1993, sales by Slurry Explosive Corporation ("Slurry") to an expanded customer base for twelve months in 1993 compared to only eleven months in 1992, and sales of Universal Tech Corporation ("UTC"), which was acquired in September, 1992, offset by reduced sales by El Dorado Chemical Company due to the effects of coal mine strikes in

the eastern United States; (ii) increased sales in the Environmental Control Business of \$14.6 million, primarily due to an expanded customer base in 1993 and the effects in 1992 of a strike at the fan coil manufacturing plant of this business; (iii) increased sales in the Automotive Products Business of \$8.5 million due to an expanded customer base in 1993; and (iv) increase sales in the Industrial Products Business of \$2.2 million, primarily due to increased sales to a foreign customer (see Note 8 to Notes to Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

Gross Profit

Gross profit was 25.0% for 1993, compared to 26.2% for 1992. The decline in the gross profit percentage was due primarily to (i) lower efficiency in the heat pump manufacturing plant of the Environmental Control Business as a result of period costs associated with start up of production requirements related to an agreement entered into with a major United States air conditioning company; (ii) a shift in sales mix in the Industrial Products Business to lower margin items; and (iii) higher cost of the primary raw material (ammonia) in the Chemical Business. During 1993 the average cost of ammonia was approximately 12.2% higher than the average cost of ammonia during 1992. This higher cost was not fully passed on to customers in the form of price increases. These factors were offset in part by gross profits recognized on the foreign sales contract (See Note 8 to Notes to Consolidated Financial Statements) of \$5.3 million in 1993, compared to only \$3.6 million in 1992, and the effects in 1992 of a strike at the fan coil manufacturing plant of the Environmental Control Business.

Selling, General and Administrative Expense

Selling, general and administrative expenses for the non-financial services businesses as a percent of net sales was 18.9% in 1993 and 18.9% in 1992. The Financial Services Business recorded a decrease of \$733,000 in SG&A expenses in 1993 compared to 1992. The decrease included (i) a \$0.2 million reduction in data processing expenses associated with conversion costs due to changing service bureaus in 1992, reduction in advertising expense, and various fees and assessments associated with the credit card operations; (ii) a \$0.7 million reduction in other expenses primarily relating to the potential income sharing provision of the assistance agreement; and (iii) a \$2.5 million increase in profitability related to real estate operations, offset by increased goodwill amortization of \$2.4 million. See "Termination of Assistance Agreement" discussed elsewhere in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 3 of Notes to Consolidated Financial Statements for further discussion of the effects of the termination of the Assistance Agreement between Equity Bank and the RTC.

Interest Expense

Interest expense for the Company was approximately \$22.0 million during 1993 compared to approximately \$29.6 million during 1992. The decrease primarily resulted from lower interest rates and lower average balances of deposits and borrowed funds.

Income Before Taxes

The Company had income before income taxes of \$13.3 million in 1993, compared to \$9.8 million in 1992. The improved profitability of \$3.5 million, after the one time charge to expense of \$1.8 million for settlement of a dispute with Customs, was due to higher sales in the Chemical, Environmental Control, and Automotive Products businesses, an increase of \$1.7 million in estimated earnings on the foreign sales contract, and increased net interest

margin in the financial service business resulting from declining interest rates in 1993 as compared to 1992.

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 10 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1993 and 1992 are for current state income taxes and federal alternative minimum taxes.

Comparison of 1992 with 1991

Revenues

Total revenues for the years ended December 31, 1992 and 1991 were \$246.8 million and \$234.2 million, respectively (an increase of \$12.6 million). Interest and other income attributable to the operations of the Financial Services Business included in total revenues was \$46.9 million in 1992, compared to \$55.0 million for 1991. The decrease resulted primarily from a net decrease in interest income of \$7.3 million due to (i) decreased interest income from loans receivable of \$4.3 million due to declining interest rates and reduced outstanding principal balances; (ii) a decline in yield maintenance assistance of \$2.5 million due to a declining guaranteed yield rate and a reduction in covered asset balances; (iii) lower income from other interest earning assets (principally overnight deposits) of \$1.5 million due to declining rates offered for these types of assets in addition to reduced amounts available to invest. These decreases were offset by an increase in interest income from mortgage-backed securities of \$1.2 million resulting from additional investments of excess cash into mortgage-backed securities to enhance interest rate spreads.

Net Sales

Consolidated net sales for the year 1992 were \$198.4 million, compared to \$177.0 for the year 1991, an increase of \$21.4 million or 12.1%. This increase in sales resulted principally from an increase in sales of \$17.1 million by the Chemical Business from increased demand in the blasting products, fertilizer, and acid products markets (\$6.9 million) and sales due to the acquisition of Slurry in January 1992 (\$10.2 million). Sales increases and decreases by other businesses were: Environmental Control Business - decrease \$3.3 million; Automotive Products Business increase \$2.9 million; and Industrial Products Business - increase \$4.7 million. The low order level in the Environmental Control Business, which began in the second half of 1990 and continued into 1991 and 1992, is a result of a general decline in the construction industry. Additionally, sales reductions in the Environmental Control Business were due to a strike which began on May 20, 1992, at the fan coil manufacturing plant of this business. The plant resumed operations in July, 1992 with new employees that are not members of a union. Productivity is continuing to improve at the plant and reached near normal levels by December 31, 1992. The Sales increases in the Automotive Products Business are due to stronger market conditions and an expanded customer base. Sales in 1992 for the Industrial Products Business include \$6.2 million in earned revenues related to the Foreign Sales Contract discussed in the Liquidity and Capital Resources section and Note 8 of Notes to Consolidated Financial Statements. Sales declines in the remaining sectors of the Industrial Products Business were primarily the result of depressed market conditions.

Gross Profits

Gross profit was 26.2% for 1992, compared to 23.0% for 1991. This increase in gross profit percentage is partially due to improved absorption of manufacturing costs in the Chemical Business and Automotive Products Business commensurate with their increased sales and manufacturing requirements. In

addition, the Chemical Business benefited from a lower cost of its primary raw material (ammonia) in 1992 compared to 1991. Gross profit related to the Foreign Sales Contract for 1992 amounted to \$3.6 million. These gross profit percentage improvements were partially offset by decreases in the Environmental Control Business due to lower sales and inefficiencies in the manufacturing process attributable to the effect of the strike discussed above.

Selling, Gains and Administrative Expenses

Selling, general and administrative ("SGA") expenses for the non-financial services businesses as a percent of net sales were 18.9% in 1992 and 20.7% in 1991. As sales increased, normal SGA costs did not increase proportionately, thus resulting in a lower percentage. Additionally, the Company experienced reductions in 1992 expense levels in the areas of bad debts, insurance and other administrative expenses. The Financial Services Business recorded an increase of \$580,000 in SGA expenses for 1992 compared to 1991. This increase is due primarily to an increase in expenses related to real estate operations.

Interest Expense

Interest expense of the Company in 1992 was approximately \$29.6 million, compared to approximately \$39.3 million in 1991. The decrease resulted from: (i) \$6.7 million decrease in interest on deposits due principally to lower rates, (ii) \$2.3 million reduction in interest expense on borrowed funds of the Financial Services Business due to lower rates on such borrowed funds, and (iii) \$650,000 decrease in interest on long-term debt of the Non-Financial Services Businesses resulting from lower rates and lower average balances of borrowed funds.

Income Before Taxes

The Company had a consolidated income before income taxes of \$9,771,000 in 1992 compared to a loss of \$950,000 for 1991. The increased profitability of \$10.7 million is primarily due to improved sales in the Chemical Business, the acquisition of Slurry, improvement in the results of operations in the Automotive Products Business, \$3.6 million in estimated earnings related to the Foreign Sales Contract and reduced interest rates.

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 10 to Consolidated Financial Statements, the Company's provisions for income taxes for 1992 and 1991 are for current state income taxes and federal alternative minimum taxes.

Liquidity and Capital Resources

The Company is a diversified holding Company and its liquidity is dependent, in large part, on the operations of its subsidiaries and credit agreements with lenders. As a regulated business, Equity Bank is limited in the transactions which it can enter into with the Company, except as specifically approved by the appropriate regulatory agencies. As a result, the Company does not guarantee the obligations of Equity Bank nor does Equity Bank guarantee the obligations of the Company. Accordingly, the Financial Services and Non-Financial Services Businesses are discussed independently. Existing financial arrangements between the Company's Financial and Non-Financial Services Businesses are important elements of the liquidity and capital resources of the Non-Financial Services Businesses.

Substantially all of the capital requirements, other than the equity capital of the Company and its subsidiaries, are funded by three sources:

- (1) Pursuant to approvals by the then appropriate governmental agency in 1988, the Company and its subsidiaries have been selling eligible accounts receivable to Equity Bank with recourse to the particular seller. Under such arrangement, an account receivables sold to Equity Bank at 100% of the unpaid face value of such account receivable. Under the prior approvals, the Company and its subsidiaries were allowed to sell Equity Bank, at any one time, up to \$60 million of eligible accounts receivables. At December 31, 1993, \$33.6 million of such accounts receivable were owned by Equity Bank. The Office of Thrift Supervision ("OTS"), the primary regulator of Equity Bank, has taken the position that the approvals granted in 1988 allowing such accounts receivable transactions between the Company, its subsidiaries and Equity Bank have expired. As a result, Equity Bank and the OTS have agreed that (i) at no one time subsequent to September 28, 1993, but prior to September 1, 1994, shall the total amount of such accounts receivable owned by Equity Bank exceed \$33.6 million; (ii) beginning February 1, 1994, Equity Bank will not purchase any new accounts receivable from the Company and/or its subsidiaries if such would result in Equity Bank owning an amount that would exceed the amount allowed by current regulations for transactions with affiliated companies, which amount is based on a percentage of Equity Bank's capital, and (iii) on and after September 1, 1994, the amount of such accounts receivable owned by Equity Bank at any one time must be in compliance with current regulations for transactions with affiliated companies. Assuming that on December 31, 1993, Equity Bank had been required to meet current regulations regarding the amount of such outstanding accounts receivable owned by Equity Bank, the amount of such accounts receivable would have had to be reduced to approximately \$9.2 million as of such date. The Company has temporarily replaced a substantial portion of the accounts receivable financing previously provided by Equity Bank with Bank IV of Oklahoma, N.A. ("Bank IV") a subsidiary of Fourth Financial which is providing the Company with a \$25 million accounts receivable financing line of credit at 80% of the unpaid face value of such accounts receivable ("Bank IV Line of Credit"). The Bank IV line of Credit is temporary and will expire during 1994 unless extended. . The Company intends to continue to use the accounts receivable financing arrangement with Equity Bank to the extent described above and as allowed by regulations until Equity Bank is sold as discussed elsewhere herein. The Company has begun negotiations for a comprehensive line of credit. Although the Company believes it will be successful in obtaining the comprehensive line of credit to replace most, if not all, of its present credit facilities, there are no assurances that it will be successful in negotiating such.
- (2) The Company and its subsidiaries (other than Equity Bank and the Chemical Business) are parties to a credit agreement ("Agreement"), with an unrelated lender ("Lender"), collateralized by certain inventory and certain other assets of the Company and its subsidiaries (including the capital stock of International Environmental Corporation) other than the assets and capital stock of Equity Bank and the Chemical Business. The Credit Agreement provides for a revolving credit facility ("Revolver") for direct borrowing up to \$8 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory. This Agreement expires on June 30, 1994, but the

Company believes the Agreement can be extended at that time. At December 31, 1993, the availability based on eligible collateral approximated the credit line. Borrowings (including letters of credit) under the Revolver outstanding at December 31, 1993, were \$6 million. The Revolver requires reductions of principal equal to reductions as they occur in the underlying inventory times the advance rate. When the offering of the Series 2 Preferred was completed, the Company repaid \$6.8 million of the Revolver with a portion of the net proceeds from the offering of the Series 2 Preferred. The Company presently intends to keep the Credit Agreement in effect if it can renegotiate certain of its terms.

- (3) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corp., which comprise the Company's Chemical Business, are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended in conjunction with an unscheduled payment of \$7.2 million in the third quarter of 1993, provides for a seven year term loan of \$28.5 million ("Term Loan"), a \$10 million asset based revolving credit facility ("Revolving Facility"), and an additional revolving credit line of \$7.2 million. Available borrowings under this additional revolving credit line at December 31, 1993 was the full \$7.2 million and decreases annually until its termination in March, 1997. The balance of the Term Loan at December 31, 1993 was \$20.6 million. The annual principal payment of the Term Loan for 1993, paid June 30, 1993, was \$4.4 million. Annual principal payments on the Term Loan escalate each year from \$4.8 million in 1994 to a final payment of \$5.5 million on March 31, 1997. In addition to the \$4.4 million principal payment on the Term Loan, a \$1.5 million principal payment was made on June 30, 1993 on a term loan which was subsequently converted into the additional revolving credit line of \$7.2 million discussed above. Borrowings under the Revolving Facility are available up to the lesser of \$10 million or the borrowing base. The borrowing base is determined by deducting 100% of Chemical's accounts receivable sold to Equity Bank from the maximum borrowing availability as defined in the Revolving Facility. The maximum line availability based on eligible collateral under the Revolving Facility at December 31, 1993 was approximately \$8.7 million, net of approximately \$1.1 million reserved for the issuance of a standby letter of credit. At December 31, 1993 there were outstanding borrowings under the Revolving Facility of \$2.1 million. The Revolving Facility requires reductions of principal equal to reductions as they occur in the underlying accounts receivable and inventory times the applicable advance rate, assuming that the outstanding balance under the Revolving Credit Facility is less than the then maximum line availability based on eligible collateral. During 1993 and 1992, borrowings under the Revolving Facility were reduced to zero for forty-five (45) consecutive days as required by its terms. Annual interest at the agreed to interest rates, if calculated on the \$22.7 million outstanding balance at December 31, 1993 would be approximately \$2.7 million. The Term Loan and Revolving Facility are secured by substantially all of the assets and capital stock of Chemical. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, is .65:1 or below and, (iii) borrowings under the additional revolving credit line of \$7.2 million.

Net cash used by operating activities in 1993, after adjustment for non-cash expenses of \$7.1 million, was \$7.9 million. This cash used by operating activities included the following changes in assets and liabilities: (i) accounts receivable increased \$12.3 million; (ii) accounts payable and accrued liabilities decreased \$1.6 million; (iii) increased costs and estimated earnings in excess of billings on the foreign sales contract of \$5.6 million; (iv) inventory reduced \$2.3 million; and (v) increased supplies, prepaid items, and other assets of \$2.0 million. The increase in accounts receivable is due to higher sales in the Chemical, Environmental Control and Automotive Products Businesses. The decrease in accounts payable and accrued liabilities resulted from paydown of approximately \$5 million with the net proceeds from the offering of the Series 2 Preferred, partially offset by increases resulting from higher business activity and expanded customer bases in the Chemical, Environmental Control, and Automotive Products Business. The decrease in inventories is due to reduced inventory levels in the Environmental Control Business, which was increased beyond required levels in 1992. The increase in supplies, prepaid items and other assets is due to increased business activity and prepayments for supplies, insurance, and computer software and services. Financing activities in 1993 included \$43.9 million of net proceeds from issuance of 920,000 shares of the Series 2 Preferred and proceeds of \$3.2 million from issuance of Common Stock, primarily in connection with the redemption of the Company's \$2.20 Series 1 Convertible Exchangeable Class C Preferred Stock during the first quarter of 1993. Such increases have been offset by dividend payments of \$2.7 million and paydown of long term debt of \$24.9 million. Cash flows used in investing activities included capital expenditures for property, plant and equipment of \$5.5 million related to the Chemical Business, \$1.5 million related to plant improvements in the Environmental Control Business, and \$1.7 million related to improvements to the Automotive Products Business' warehouse facilities in Oklahoma City, in addition to tooling and other upgrades made to machinery used in the Automotive Products Business manufacturing facility.

Future cash requirements include working capital requirements for anticipated sales increases in the Environmental Control Business, the Chemical Business and the Automotive Products Business, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the Chemical Business' revolving credit facilities previously discussed and the accounts receivable financing provided by Bank IV. As previously discussed, the accounts receivable financing is temporary and will be replaced with the comprehensive line of credit that the Company is attempting to negotiate. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Environmental Control and Automotive Products Businesses, both of which increased their inventories in 1992 beyond required levels. During November 1993, the Company's Chemical Business acquired an additional concentrated nitric acid plant and related assets for approximately \$1.9 million. The Chemical Business is in the process of moving such plant and assets from Illinois to, and installing such at, its manufacturing plant located in El Dorado, Arkansas. The Company anticipates that the total amount that will be expended to acquire, move and install the plant and assets will be approximately \$12.0 million for which the Company expects to obtain financing secured by such assets. The Company expects the plant and asset installation to be complete and operational by the end of 1994. The Company also has planned capital expenditures for the Environmental Control Business to acquire certain machinery and equipment for approximately \$4 million in 1994. Approximately \$2 million of these expenditures are expected to be financed by the sellers of said machinery and

equipment. The remaining \$2 million is expected to be financed from operations.

Management believes that cash flows from operations and other sources, including the comprehensive line of credit that the Company is presently negotiating will be adequate to meet its presently anticipated capital expenditure, working capital, debt service and dividend requirements. The Company currently has no material commitment for capital expenditures, other than those related to Chemical's acquisition of an additional concentrated nitric acid plant, the Environmental Control Business' acquisition of machinery and equipment as discussed above, and a commitment of a subsidiary of the Company to purchase from Equity Bank in the year 2000 for the then carrying value for regulatory capital purposes certain of the Transferred Assets presently being leased by Equity Bank to the subsidiary. Equity Bank's carrying value for all of the Transferred Assets at December 31, 1993 was approximately \$65.4 million. The Company has agreed under the Acquisition Agreement to repurchase all of the Transferred Assets by purchasing the subsidiaries of Equity Bank that own the Transferred Assets at least one (1) day prior to consummation of the Acquisition Agreement. However, if the sale of Equity Bank does not occur, the Company believes that it will be able to obtain satisfactory financing from non-affiliated parties to fulfill this commitment on or prior to the date that the subsidiary of the Company is required to purchase such assets.

The Company's Board of Directors has approved the adoption of a new policy as to the payment of annual cash dividends of \$.06 per share on its outstanding Common Stock, subject to termination or change by the Board of Directors at any time. The Board of Directors declared a cash dividend of \$.03 per share on the Company's outstanding shares of Common Stock, which was paid July 1, 1993, to the stockholders of record as of the close of business on June 15, 1993.

On November 11, 1993 the Company's Board of Directors declared a (i) \$.03 a share cash dividend on each outstanding share of its Common Stock, payable January 1, 1994, to stockholders of record on December 15, 1993, (ii) \$.03 a share quarterly cash dividend on each outstanding share of its Series B 12% Cumulative Convertible Preferred Stock, \$100 par value, payable January 1, 1994, to stockholders of record on December 1, 1993, (for the fourth quarter of 1993), (iii) \$12.00 a share annual cash dividend on each outstanding share of its Series B 12% Cumulative Convertible Preferred Stock, \$100 par value, payable January 1, 1994 to stockholders of record on December 1, 1993, which is the annual dividend on this series of preferred stock for 1994, and (iv) \$.81 a share quarterly cash dividend on each outstanding share of its Series 2 Preferred, paid December 15, 1993 to shareholders of record on December 1, 1993.

Foreign Sales Contract - A subsidiary of the Company entered into an agreement with a foreign company ("Buyer") to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products. The agreement provides for a total contract amount of approximately \$56 million, with \$12 million of the contract amount to be retained by the Buyer as the Company's subsidiary's equity participation in the Buyer, which will represent a minority interest. Through December 31, 1993, the Company's subsidiary has received \$13.1 million from the buyer under the agreement. During 1993, the Company and the foreign customer agreed to a revised payment schedule which deferred the beginning of payments under the contract from June 30, 1993 to one \$791,000 principal payment on November 1, 1993 and then principal payments of \$791,000 due March 31, 1994 and quarterly, thereafter, until the contract is paid in full.

The customer made the November 1 payment as agreed and the Company expects that the customer will make future payments as they become due,

starting with the payment due March 31, 1994. See "Business - Industrial Products Business" and Note 8 to Notes to Consolidated Financial Statements.

Business Acquisitions - In July, 1993, the Company acquired an Australian explosives business, Total Energy Systems Limited ("TES"). At December 31, 1993 the Company has investments and advances of approximately \$3.4 million related to TES.

In December 1993, IBI, an automotive products distributor, was acquired as a wholly owned subsidiary of the Company operating as a separate entity within the Automotive Products Business, for a cash payment of \$1.8 million and a note payable of \$0.2 million. At December 31, 1993, IBI had assets of \$2.2 million.

In March 1994, a subsidiary of the Company advanced to Deepwater Iodides, Inc. ("Deepwater"), a specialty chemical company, \$450,000 on a demand basis. In connection with the loan, Deepwater and the Company agreed to finalize an option allowing the Company to purchase from Deepwater an amount of stock of Deepwater equal to fifty-one percent of the outstanding shares of Deepwater for \$1.95 million. The Company anticipates exercising this option prior to the end of 1994, subject to the results of due diligence presently being conducted.

See Note 2 to Notes to Consolidated Financial Statements for further discussion of business acquisitions.

Settlement of U.S. Customs Matter - During the third quarter of 1993, the Company paid \$1.8 million to U.S. Customs in settlement of a long standing dispute over a "notice of redelivery" served by U.S. Customs in a prior year.

Settlement of Litigation - In 1993 the Company filed suit against certain transportation companies and certain of the Company's insurers over damage sustained to certain of the Industrial Products Business' machine inventory while in the transportation companies' possession. Subsequent to December 31, 1993, the Company settled its litigation with one of it's insurers for \$2.8 million, net of related costs, which was paid to the Company on March 11, 1994. The Company continues to pursue litigation against two insurers that were not parties to said settlement and against the transportation companies.

Letters of Intent with Foreign Customers - During the second and third quarters of 1993, a subsidiary of the Company signed two separate letters of intent to supply separate customers, one in the former Soviet Union and one in Poland, with equipment to manufacture environmental control products. Upon completion, the agreements are expected to include the sale of licenses, designs, tooling, machinery, equipment, technical information, proprietary know how, and technical services. The total sales price for the two contracts is expected to be approximately \$98 million. The agreements are also expected to include a provision that, in lieu of cash, the Company will accept payment in kind of anhydrous ammonia from the foreign customers at the foreign customers' option. The projects are subject to completion of two separate definitive agreements between each of the foreign customers and the Company's subsidiary. There are no assurances that definitive contracts with either of these two customers will be finalized. See "Business - Environmental Control Business".

Availability of Company's Loss Carryovers - The Company anticipates that its cash flow in future years will benefit to some extent from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with

respect to income generated in such future years. As of December 31, 1993, the Company, excluding amounts applicable to Equity Bank, had available NOL carryovers of approximately \$37 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1992, and on the Company's estimates for 1993. These NOL carryovers will expire beginning in the year 1999.

The amount of these carryovers has not been audited or approved by the Internal Revenue Service and, accordingly, no assurance can be given that such carryovers will not be reduced as a result of audits in the future. In addition, the ability of the Company to utilize these carryovers in the future will be subject to a variety of limitations applicable to corporate taxpayers generally under both the Internal Revenue Code of 1986, as amended, and the Treasury Regulations. These include, in particular, limitations imposed by Code Section 382 and the consolidated return regulations.

Contingencies - As discussed in Item 3 and in Note 14 of Notes to the Consolidated Financial Statements, the Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity it is not possible to determine the outcome.

Financial Services Business

Termination of Assistance Agreement - During the first quarter of 1993, Equity Bank finalized an agreement with the RTC terminating the Assistance Agreement entered into between Equity Bank and the FSLIC in 1988 (the "Assistance Agreement"), in connection with Equity Bank's acquisition of Arrowhead. In connection with such termination, the RTC paid Equity Bank approximately \$14.2 million and all of the obligations of both parties under the Assistance Agreement were terminated. As a result of the termination of the Assistance Agreement, Equity Bank assumed the credit risk with respect to approximately \$30.8 million of assets (as of the date the Assistance Agreement was terminated) that had been acquired from Arrowhead in 1988, with respect to which the FSLIC had previously borne the credit risk. Equity Bank reserved a substantial portion of such \$14.2 million to provide for potential future losses relating to loans and real estate in which Equity Bank assumed the credit risk as a result of the termination. As a result, the Company believes that there are adequate loss reserves relating to the assets for which the credit risk was assumed.

Regulatory Capital Compliance - At December 31, 1993 Equity Bank's regulatory core capital was \$38.6 million or 7.7% of assets compared to the 3% minimum requirement. Tangible Capital was \$34.8 million or 6.9% of assets compared to the 1.5% minimum requirement, and Risk-Based Capital was \$41.4 million or 15.1% compared to the 8% requirement. Management believes that Equity Bank will be able to meet all applicable requirements of law and federal regulation under FIRREA, although there are no assurances that they will be able to do so.

Fully Phased-In Capital - FIRREA requires that Equity Bank meet progressively higher capital requirements each year until they are "fully phased-in" through December 31, 1994, except for certain assets for which the "phase-in" period has been extended through July, 1996. Equity Bank currently does and will, in the judgement of the Company, be able to meet applicable requirements of law and regulations relating to capital requirements as presently in effect and as the same become effective during the phase-in period under current law and regulations, although there are no assurances that Equity Bank will be able to so comply. At December 31, 1993, Equity Bank exceeded the current regulatory capital requirements and under the technical

definition and calculation of fully phased-in capital as prescribed by FIRREA, Equity Bank believes that it meets future capital standards as presently mandated by FIRREA.

The OTS has issued a final rule adding an interest rate risk component (IRR Component) to its risk-based capital rule. The final rule is effective January 1, 1994. The IRR component is a dollar amount that will be deducted from total capital for the purpose of calculating an institution's risk-based capital requirements. The IRR component is equal to one-half the difference between an institutions' "measured exposure" and a "normal" level of exposure.

An institution's interest rate risk exposure will be measured in terms of the sensitivity of its net portfolio value (NPV) to changes in interest rates. The OTS will calculate changes in an institution's NPV based on financial data submitted by the institution in its quarterly reports.

An institution's "Measured Interest Rate Risk" (Measured IRR) will be expressed as the change that occurs in its NPV as a result of a hypothetical 200 basis point increase or decrease in interest rates (whichever leads to the lower NPV) divided by the estimated economic value (Present value) of its assets. An institution with a "normal" level of interest rate risk is defined as one whose Measured IRR is less than 2 percent, as estimated by the OTS Model. Only institutions whose Measured IRR exceed 2 percent will be required to maintain an IRR component. Based on Equity Bank's current levels of liquid assets and regulatory capital, management does not expect Equity Bank's interest rate risk component to have a material adverse effect on Equity Bank's regulatory capital level or its compliance with regulatory capital requirements, although there can be no assurance to this effect.

Liquidity - The liquidity of Equity Bank has consistently been significantly in excess of regulatory liquidity requirements. Cash is normally invested in Federal Home Loan Bank ("FHLB") overnight deposits that earn a floating rate of interest. Equity Bank's cash and liquidity are monitored on a daily basis. A comparison of the required liquidity and actual liquidity is also performed on a daily basis.

Additionally, Equity Bank, as an insured institution, is required to maintain cash and eligible liquid investments equal to at least 5% of net withdrawable deposits accounts and short term borrowings. Equity Bank's liquidity ratio, so calculated was 8.04% at December 31, 1993. For liquidity purposes, Equity Bank's mortgage-backed securities portfolio and FHLB stock are considered ineligible liquid investments. Based on a calculation considering these types of investments as eligible, Equity Bank's liquidity ratio would be approximately 49%. The primary liquid assets of Equity Bank consist of overnight and demand deposits and short-term investment securities.

Funding Sources - Equity Bank has several significant sources of funding. The primary sources of funding are: internal operating revenues, including receipts of FSLIC assistance; loan repayments of interest and principal; new and current depositor activity; maturities of investments and sales of mortgage loans; FHLB advances based on the collateral value of Equity Bank's assets; and reverse repurchase debt based on the collateral value of new investments or mortgage-backed securities to be purchased.

At December 31, 1993, deposits totaled approximately \$332.5 million and had a weighted average interest rate of 3.50%; FHLB advances totaled approximately \$87.7 million, had a weighted average interest rate of 3.59% and have maturities through 1998.

The primary uses of cash and liquidity include the funding of loans, payments of interest on savings deposits, payments for savings withdrawals, payment of operating expenses and investing activity.

During 1993, Equity Bank used approximately \$14.6 million in operating activities, used \$0.9 million in investing activities and used \$7.8 million in financing activities, resulting in a net decrease in cash of \$23.3 million. Net cash used in operating activities included \$24.4 million net increase in loans and mortgage-backed securities held for sale offset by net income of \$8.2 million (on a stand-alone basis). The net cash used by investing activities included purchases of mortgage-backed securities of \$85.7 million offset by principle payments on loans and mortgage-backed securities, net of loan originations of \$63.2 million and payment received for termination of the

FSLIC Assistance Agreement of \$14.2 million. The net cash used by financing activities included reductions in deposits of \$3.5 million and a net reduction in borrowings of \$4.1 million.

At December 31, 1993, Equity Bank held \$201.6 million of mortgage-backed securities held for investment. These investments were primarily financed with FHLB advances and reverse repurchase agreements.

Risk Management - Equity Bank's management is dedicated to operating within prudent risk management policies and procedures. This includes the extension of credit to borrowers, investment purchases and liability funding.

Equity Bank currently adheres to stringent loan underwriting procedures. Loans are made primarily within Equity Bank's geographical presence. All loans other than credit card loans currently generated for portfolio purposes are adjustable rate loans. A significant number of fixed-rate mortgage loans are made each month, but are sold to the secondary market normally within 90 to 120 days after origination. The total dollar amount of unsold fixed-rate mortgage loans is dictated and monitored by the Board of Directors.

Investment purchases are approved by the Investment Committee of the Board of Directors based on the recommendations of management. Management utilizes an internal asset/liability modeling software system to analyze the current condition and matching of the balance sheet and potential investment purchases. The interest rate sensitivity of the balance sheet is monitored monthly. An upward or downward movement of interest rates of 400 basis points is projected each month to determine whether the sensitivity of assets and liabilities and the market valuation of portfolio equity is within the guidelines set forth by the Board of Directors. Equity Bank consistently operates within the approved risk limitations.

Equity Bank's Asset/Liability Committee ("ALCO") is dedicated to maintaining the deposit base at the lowest cost of funds without significantly disturbing customer service. All sources and costs of funding are reviewed on a weekly basis.

Proposed Sale of Equity Bank - As previously discussed, the Company and Fourth Financial have entered into the Acquisition Agreement, whereby the Company has agreed to the sale of Equity Bank, which constitutes the Financial Services Business of the Company, to Fourth Financial. Fourth Financial is to acquire all of the outstanding shares of capital stock of Equity Bank. Under the Acquisition Agreement, the Company is to acquire from Equity Bank (i) prior to the completion of the sale of Equity Bank under the Acquisition Agreement certain subsidiaries of Equity Bank ("Retained Corporations") that own the Transferred Assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying values of such Retained Corporations at the time of the acquisition of the Retained Corporations from Equity Bank, and (ii) at the time of the closing of the sale of Equity Bank under the Acquisition Agreement, the Equity Tower Loan and other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure ("OREO"),

which have collectively been previously defined as the "Retained Assets". The Retained Assets are to be acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank. In addition, the Company has the option, but not the obligation, to acquire any loan owned by Equity Bank at book value or \$1.00 in the case of a loan that has been charged off ("Other Loans").

The Company currently expects that the Purchase Price to be paid by Fourth Financial for Equity Bank will be approximately \$92 million, subject to determination and adjustment in accordance with the Acquisition Agreement. . . The Purchase Price is based on a number of estimates, and the amount of the Purchase Price will not be determined exactly until the closing of the sale of Equity Bank. See "Business - Recent Developments " for a discussion of the formula to determine the Purchase Price. Of the approximately \$92 million, the Company will use approximately \$65.4 million, plus interest, to repay a certain indebtedness the Company intends to incur to finance the purchase from Equity Bank of the Retained Corporations. In addition, the Company will use approximately \$18.9 million (Equity Bank's carrying value at February 28, 1994) to purchase the Retained Assets. As of this date, the company has made no decision if it will acquire any of the Other Loans. The Company is further required under the Acquisition Agreement to purchase from Equity Bank at the closing of the proposed sale the outstanding amount of Receivables. As of March 31, 1994, Equity Bank owned \$13.5 million of such Receivables. The Company plans to use borrowings from the Bank IV Line of Credit to purchase such Receivables from Equity Bank. Further, the Company will use the net balance of the Purchase Price, if any (after repaying the indebtedness incurred to purchase the Retained Corporations and paying for the Retained Assets and transactional costs relating to the sale of Equity Bank) for general working capital purposes.

The sale of Equity Bank pursuant to the Acquisition Agreement is currently estimated to result in a pre-tax gain for financial reporting purposes for the Company of approximately \$25.0 million, based upon the currently-expected Purchase Price of approximately \$92 million. The exact amount of the Purchase Price will depend on certain factors at the time of closing, and, as a result, the pre-tax gain for financial reporting purposes could be higher or lower depending upon the ultimate amount of the Purchase Price. The Company's tax basis in Equity Bank is higher than its basis for financial reporting purposes. Under current federal income tax laws, the consummation of the Acquisition Agreement and the sale of Equity Bank will not have any federal income tax consequences to either the Company or to the shareholders of the Company. There are, however, certain proposed regulations which, if adopted by the Internal Revenue Service ("IRS") before the consummation of the sale of Equity Bank, could result in the Company having a gain for federal income tax purposes in connection with the sale of Equity Bank, but will not have any federal income tax effect on the shareholders of the Company. If the proposed regulations become effective prior to completion of the sale of Equity Bank, the Company has the right to terminate the Acquisition Agreement.

As a federally chartered savings institution, the acquisition of Equity Bank by Fourth Financial is subject to regulatory approvals. The proposed sale of Equity Bank is also conditioned on, among other things, the affirmative vote of the holders of a majority of the outstanding voting stock, voting as a single class, of the Company. It is anticipated that the sale of Equity Bank will occur on or before June 30, 1994. See "Business - Recent Developments", "Business - Financial Service Business" and Note 1 to Notes to Consolidated Financial Statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company has included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporates by reference the relevant portions of those statements and information into this Item 8.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

No disagreements between the Company and its accountants have occurred within the 24-month period prior to the date of the Company's most recent financial statements.

PART III

Item 10. Directors and Executive Officers of the Company

Directors. The Company's Certificate of Incorporation and Bylaws provide for the division of the Board of Directors into three classes, each class consisting (as nearly as possible) of one-third of the whole. The terms of office of one class of directors expires each year, with each class of directors being elected for a term of three years and until the shareholders or directors have elected or appointed their qualified successors. The Company's bylaws presently provide that the number of directors may consist of not less than three nor more than nine, and the Board of Directors presently has set the number of directors at nine.

The following table sets forth the name, principal occupation, age, year in which the individual first became director, and year in which the director's term will expire.

Name and Principal Occupation	First Became a Director	Term Expires	Age
Raymond B. Ackerman (1) Chairman Emeritus of Ackerman McQueen, Inc.	1993	1996	71
Robert C. Brown, M.D. (2) President of Northwest Internal Medicine Associates, Inc.	1969	1995	63
Barry H. Golsen (3) President of the Environmental Control Business of the Company	1981	1994	43
Jack E. Golsen (4) President and Chairman of the Board of Directors of the Company	1969	1995	65
David R. Goss (5) Senior Vice President - Operations of the Company	1971	1994	53
Bernard G. Ille (6) Investments	1971	1996	67

Jerome D. Shaffer, M.D. (7) Investments	1969	1994	77
Tony M. Shelby (8) Senior Vice President - Finance of the Company	1971 (8)	1996	52
C.L. Thurman (9) Investments	1969	1995	75

(1) Mr. Ackerman is retired. Prior to his retirement, he served for more than five years as President of Ackerman McQueen, Inc., which is a public relations and advertising firm, located in Oklahoma.

(2) Dr. Brown has practiced medicine in Oklahoma City, Oklahoma for the past five years.

(3) For the past five years, Barry H. Golsen has served as the President of the Company's Environmental Control Business.

(4) Mr. Golsen has served in the same capacity with the Company for the past five years.

(5) Mr. Goss, a certified public accountant, has served in substantially the same capacity with the Company for the past five years.

(6) Mr. Ille has served as President and Chief Executive Officer of First Life Assurance Company ("First Life") since May, 1988, and on March 31, 1994, he retired from that position. In 1991, First Life was placed in conservatorship under the Oklahoma Department of Insurance and was sold on March 31, 1994. For more than five (5) years prior to that time, Mr. Ille also served as President of United Founders Life Insurance Company. Mr. Ille also serves as a director of Landmark Land Company Inc. ("Landmark") and served as a director of Landmark's wholly-owned savings and loan subsidiary. Such savings and loan subsidiary was placed in receivership in 1991 by the Federal Deposit Insurance Corporation while Mr. Ille served as a director. First Life was a subsidiary of Landmark until such was placed in conservatorship.

(7) Dr. Shaffer retired from the practice of medicine in 1987. Prior to that time, Dr. Shaffer practiced medicine in Oklahoma City, Oklahoma, for more than five years.

(8) Mr. Shelby, a certified public accountant, has served in substantially the same capacity with the Company during the past five years.

(9) Prior to his retirement in September of 1987, Mr. Thurman served as President of the industrial supply operations of the Company's Industrial Products Business for more than five years.

Family Relationships. Jack E. Golsen is the father of Barry H. Golsen; Jack E. Golsen and Robert C. Brown, M.D., are brothers-in-law; and Robert C. Brown, M.D. is the uncle of Barry H. Golsen.

Compliance with section 16(a) of the Exchange Act. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 1993, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 1993 all directors and officers of the Company and beneficial owners of more than ten percent (10%) of any class of

equity securities of the Company registered pursuant to Section 12 of the Exchange Act filed their required Forms 3, 4, or 5, as required by Section 16(a) of the Exchange Act on a timely basis, except that each of Sylvia H. Golsen and Raymond B. Ackerman filed late their respective Forms 3 relating to when Mrs. Golsen became the beneficial owner of more than 10% of the Company's common stock and when Mr. Ackerman was elected as a director of the Company; C.L. Thurman timely filed one Form 5 representing one late Form 4 relating to the exercise of three stock options; and, Michael D. Tepper timely filed one Form 5 representing one late Form 4 relating to three different transactions on the same day.

Item 11. Executive Compensation

The following table shows the aggregate cash compensation which the Company and its subsidiaries paid or accrued to the Chief Executive Officer and each of the other four (4) most highly-paid executive officers of the Company (which includes the President of the Company's Environmental Control Business, who also serves as a director of the Company and who performs key policy making functions for the Company). The table includes cash distributed for services rendered during 1993, plus any cash distributed during 1993 for services rendered in a prior year, less any amount relating to those services previously included in the cash compensation table for a prior year.

Summary Compensation Table

Name and Position	Year	Annual Compensation		Other Annual Compensation (\$)(2)	Long-term Compensation Awards	
		Salary (\$)	Bonus (\$)		Securities Underlying Stock Options	All Other Compensation (\$)
[S]	[C]	[C]	[C]	[C]	[C]	[C]
Jack E. Golsen Chairman of the Board and Chief Executive Officer	1993	379,615	100,000	-	-	-
	1992	359,395	160,000(1)	-	50,000	-
	1991	353,779	-	-	-	-
Barry H. Golsen President of the Environmental Control Business	1993	165,000	60,000	-	-	-
	1992	168,671	100,000(1)	-	10,000	-
	1991	165,000	25,000	-	-	-
David R. Goss Senior Vice President - Operations	1993	142,000	60,000	-	-	-
	1992	145,099	100,000(1)	-	10,000	-
	1991	142,000	25,000	-	-	17,000(3)
Tony M. Shelby Senior Vice President/Chief Financial Officer	1993	142,000	60,000	-	-	-
	1992	144,975	100,000(1)	-	10,000	20,000(3)
	1991	142,000	25,000	-	-	-
David M. Shear Vice President/General Council	1993	111,846	30,000	-	-	-
	1992	98,032	20,000	-	25,000	-
	1991	86,688	15,000	-	-	-

[/TABLE]

(1) Includes the following amounts paid in 1992 as bonuses for 1991: Jack E. Golsen - \$60,000; Barry H. Golsen - \$40,000; David R. Goss - \$40,000; and Tony M. Shelby - \$40,000.

(2) Does not include perquisites and other personal benefits, securities or property for the named executive officer in any year if the aggregate amount of such compensation for such year does not exceed the lesser of either \$50,000 or 10% of the total of annual salary and bonus reported for the named executive officer for such year.

(3) In 1991, the Company paid to Messrs. Goss and Shelby an additional bonus of \$17,000 and \$20,000, respectively, which they returned to the Company in payment of a debt each owed to the Company.

Option Grants in 1993. No stock options were granted by the Company to any named executive officer in 1993.

Aggregated Option Exercises in 1993
and Fiscal Year End Option Values

The following table sets forth information concerning each exercise of stock options by each of the named executive officers during the last fiscal year and the year-end value of unexercised options:

Name	Shares Acquired on Exercise (#)(1)	Value Realized (\$)(2)	Number of Securities Underlying Unexercised Options at FY End (#)(3)		Value of Unexercised In-the-Money Options at FY End (\$)(3)(4)
			Exercisable/Unexercisable	Exercisable Unexercisable	
Jack E. Golsen	35,800	\$ 290,201	175,000/ 30,000	(5)	\$1,238,750/ 189,360
Barry H. Golsen	39,170	339,372	14,000/ 6,000		111,475/ 37,872
David R. Goss	184,500	1,654,687	5,000/ 6,000		38,375/ 39,750
Tony M. Shelby	196,650	1,777,706	5,000/ 6,000		38,375/ 39,750
David M. Shear	8,000	75,250	8,000/ 15,000		58,250/ 99,375

(1) Each number represents the number of shares received by the named individual upon exercise.

(2) The values set forth in the columns below are between the market value of the Company's common stock on the date the particular option was exercised and the exercise price of such option.

(3) The options granted under the Company's Plans become exercisable 20% after one year from date of grant, an additional 20% after two years, an additional 30% after three years, and the remaining 30% after four years.

(4) The values are based on the price of the Company's common stock on the American Stock Exchange at the close of trading on December 31, 1993 of

\$9.75 per share. The actual value realized by a named executive on the exercise of these options depends on the market value of the Company's common stock on the date of exercise.

(5) The amount shown includes 165,000 non-qualified stock options which vest and are exercisable on the date of grant.

Other Plans. The Board of Directors has adopted an LSB Industries, Inc. Employee Savings Plan (the "401(k) Plan") for the employees (including executive officers) of the Company and its subsidiaries, excluding certain (but not all) employees covered under union agreements. The 401(k) Plan is an employee contribution plan, and the Company and its subsidiaries make no contributions to the 401(k) Plan. The amount that an employee may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the employee's income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the employee's compensation each pay period, in accordance with the employee's instructions, and pays the amount into the 401(k) Plan for the employee's benefit. The Summary Compensation Table set forth above includes any amount contributed and deferred during the 1993 fiscal year pursuant to the 401(k) Plan by the named executive officers of the Company.

The Company has a death benefit plan for certain key employees. Under the plan, the designated beneficiary of an employee covered by the plan will receive a monthly benefit for a period of ten (10) years if the employee dies while in the employment of the Company or a wholly-owned subsidiary of the Company. The agreement with each employee provides, in addition to being subject to other terms and conditions set forth in the agreement, that the Company may terminate the agreement as to any employee at anytime prior to the employee's death. The Company has purchased life insurance on the life of each employee covered under the plan to provide, in large part, a source of funds for the Company's obligations under the Plan. The Company also will fund a portion of the benefits by investing the proceeds of a policy received by the Company upon the employee's death. The Company is the owner and sole beneficiary of the insurance policy, with the proceeds payable to the Company upon the death of the employee. The following table sets forth the amounts of annual benefits payable to the designated beneficiary or beneficiaries of the executive officers named in the Summary Compensation Table set forth above under the above-described death benefits plan.

Name of Individual	Amount of Annual Payment
Jack E. Golsen	\$175,000
Barry H. Golsen	\$ 30,000
David R. Goss	\$ 35,000
Tony M. Shelby	\$ 35,000
David M. Shear	\$ 0

In addition to the above-described plans, during 1991 the Company entered into a non-qualified arrangement with certain key employees of the Company and its subsidiaries to provide compensation to such individuals in the event that they are employed by the Company or a subsidiary of the Company at age 65. Under the plan, the employee will be eligible to receive for the life of such employee, a designated benefit as set forth in the plan. In addition, if prior to attaining the age 65 the employee dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the employee will receive a monthly benefit for a period of ten (10) years. The agreement with each employee provides, in addition to being subject to other terms and conditions set forth in the agreement, that the Company may terminate the agreement as to any employee at any time prior to

the employee's death. The Company has purchased insurance on the life of each employee covered under the plan where the Company is the owner and sole beneficiary of the insurance policy, with the proceeds payable to the Company to provide a source of funds for the Company's obligations under the plan. The Company may also fund a portion of the benefits by investing the proceeds of such insurance policies. Under the terms of the plan, if the employee becomes disabled while in the employment of the company or a wholly-owned subsidiary of the Company, the employee may request the Company to cash-in any life insurance on the life of such employee purchased to fund the Company's obligations under the plan. Jack E. Golsen does not participate in the plan. The following table sets forth the amounts of annual benefits payable to the executive officers named in the Summary Compensation Table set forth above under such retirement plan.

Name of Individual	Amount of Annual Payment
Barry H. Golsen	\$17,480
David R. Goss	\$17,403
Tony M. Shelby	\$15,605
David M. Shear	\$17,822

Compensation of Directors. In 1993, the Company compensated each non-management director of the Company (with the exception of Raymond B. Ackerman) for his services in the amount of \$4,500. The non-management directors of the Company also received \$500 for every meeting of the Board of Directors attended during 1993. Each member of the Audit Committee, consisting of Messrs. Ille, Brown and Shaffer, also received an additional \$20,000 for their services in 1993. The Company did not compensate the directors that also served as officers or employees of the Company or its subsidiaries for their services as directors. In addition, the Company paid C.L. Thurman \$20,000 as compensation for his services as Chairperson of the Special Projects Committee of the Board of Directors for 1993.

In September 1993, the company adopted the 1993 Non-Employee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum shares for which options may be issued under the Outside Director Plan will be 150,000 shares (subject to adjustment as provided in the Outside Director Plan). The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of \$9.2 million or more for such fiscal year. The exercise price for an option granted under the Outside Director Plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under the Outside Director Plan, to the extent not exercised, shall terminate upon the earlier of the termination of the outside director as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. No options are currently outstanding under the Outside Director Plan.

Termination of Employment and Change in Control Arrangements. In 1989 and 1991, the Company entered into severance agreements with Jack E. Golsen, Barry H. Golsen, Tony M. Shelby, David R. Goss, David Shear and certain other executive officers of the Company and subsidiaries of the Company.

Each severance agreement provides (among other things) that if, within twenty-four (24) months after the occurrence of a change in control (as defined) of the Company, the Company terminates the officer's employment other than for cause (as defined) or the officer terminates his employment for good reason (as defined) the Company must pay the officer an amount equal to 2.9 times the officer's base amount (as defined). The phrase "base amount" means

the average annual gross compensation paid by the Company to the officer and includable in the officer's gross income during the period consisting of the most recent five (5) year period immediately preceding the change in control. If the officer has been employed by the Company for less than 5 years, the base amount is calculated with respect to the most recent number of taxable years ending before the change in control that the officer worked for the Company.

The severance agreements provide that a "change in control" means a change in control of the Company of a nature that would require the filing of a Form 8-K with the Securities and Exchange Commission and, in any event, would mean when: (1) any individual, firm, corporation, entity or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of thirty percent (30%) or more of the combined voting power of the Company's outstanding voting securities having the right to vote for the election of directors, except acquisitions by: (a) any person, firm, corporation, entity or group which, as of the date of the severance agreement, has that ownership, or (b) Jack E. Golsen, his wife; his children and the spouses of his children; his estate; executor or administrator of any estate, guardian or custodian for Jack E. Golsen, his wife, his children, or the spouses of his children, any corporation, trust, partnership or other entity of which Jack E. Golsen, his wife, children, or the spouses of his children own at least eighty percent (80%) of the outstanding beneficial voting or equity interests, directly or indirectly, either by any one or more of the above-described persons, entities or estates; and certain affiliates and associates of any of the above-described persons, entities or estates; (2) individuals who, as of the date of the severance agreement, constitute the Board of Directors of the Company (the "Incumbent Board") and who cease for any reason to constitute a majority of the Board of Directors except that any person becoming a director subsequent to the date of the severance agreement, whose election or nomination for election is approved by a majority of the Incumbent Board (with certain limited exceptions), will constitute a member of the Incumbent Board; or (3) the sale by the Company of all or substantially all of its assets.

The termination of an officer's employment with the Company "for cause" means termination because of: (a) the mental or physical disability from performing the officer's duties for a period of one hundred twenty (120) consecutive days or one hundred eighty days (even though not consecutive) within a three hundred sixty (360) day period; (b) the conviction of a felony; (c) the embezzlement by the officer of Company assets resulting in substantial personal enrichment of the officer at the expense of the Company; or (d) the willful failure (when not mentally or physically disabled) to follow a direct written order from the Company's Board of Directors within the reasonable scope of the officer's duties performed during the sixty (60) day period prior to the change of control.

The termination of an officer's employment with the Company for "good reason" means termination because of (a) the assignment to the officer of duties inconsistent with the officer's position, authority, duties or responsibilities during the sixty (60) day period immediately preceding the change in control of the Company or any other action which results in the diminishment of those duties, position, authority, or responsibilities; (b) the relocation of the officer; (c) any purported termination by the Company of the officer's employment with the Company otherwise than as permitted by the severance agreement; or (d) in the event of a change in control of the Company, the failure of the successor or parent company to agree, in form and substance satisfactory to the officer, to assume (as to a successor) or guarantee (as to a parent) the severance agreement as if no change in control had occurred.

Each severance agreement runs until the earlier of: (a) three years after the date of the severance agreement, or (b) the officer's normal retirement date from the Company. However, beginning on the first anniversary of the severance agreement and on each anniversary thereafter, the term of the severance agreement automatically extends for an additional one-year period, unless the Company gives notice otherwise at least sixty (60) days prior to the anniversary date.

Compensation Committee Interlocks and Insider Participation. The Company's Executive Salary Review Committee has the authority to set the compensation of all officers of the Company, except the President, which the Board of Directors sets. This Committee generally considers and approves the recommendations of the President. The members of the Executive Salary Review Committee are the following non-management directors: Robert C. Brown, M.D., Jerome D. Shaffer, M.D., and Bernard G. Ille. During 1993, the Executive Salary Review Committee had one meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Security Ownership of certain Beneficial Owners. The following table shows the total number and percentage of the outstanding shares of the Company's voting common stock and voting preferred stock beneficially owned as of April 15, 1994, with respect to each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that the Company knows to have beneficial ownership of more than five percent (5%) of the Company's voting common stock and voting preferred stock. A person is deemed to be the beneficial owner of voting shares of Common Stock of the Company which he or she could acquire within sixty (60) days of April 1, 1994, such as upon the exercise of options.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may beneficially own, the amounts shown below for an individual or entity may include shares also considered beneficially owned by others.

Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned(1)	Percent of Class
Jack E. Golsen and members of his family(2)	Common Voting Preferred	4,038,645 (3)(5)(6) 20,000 (4)(6)	27.8%

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

(2) Includes Jack E. Golsen and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen (a director of the Company and President of several subsidiaries of the Company); son, Steven J. Golsen (Executive officer of several subsidiaries of the Company), and daughter, Linda F. Rappaport. The address of Jack E. Golsen, Sylvia H. Golsen and Linda F. Rappaport is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; Barry H. Golsen's address is 5000 S.W. Seventh Street, Oklahoma City, Oklahoma 73125; and Steven J. Golsen's address is 518 North Indiana Avenue, Oklahoma City, Oklahoma 73107.

(3) Includes (a) the following shares that Jack E. Golsen ("J. Golsen") has the sole voting and investment power: (i) 89,028 shares that he owns of record, (ii) 165,000 shares that he has the right to acquire under a non-qualified stock option, (iii) 4,000 shares that he has the right to acquire upon conversion of a promissory note, (iv) 133,333 shares that he has the right to acquire upon the conversion of 4,000 shares of the Company's Series B 12% Cumulative Convertible Preferred Stock (the "Series B Preferred") owned of record by him, and (v) 10,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (b) 1,295,184 shares owned of record by Sylvia H. Golsen, in which she and her husband, J. Golsen share voting and investment power; (c) 264,526 shares that Barry H. Golsen ("B Golsen") has the sole voting and investment power, 533 shares that he shares the voting and investment power with his wife that are owned of record by his wife, and 14,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (d) 225,897 shares that Steven J. Golsen ("S. Golsen") has the sole voting and investment power and 14,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (e) 145,460 shares held in trust for the grandchildren of Jack E. and Sylvia H. Golsen of which B. Golsen, S. Golsen and Linda F. Rappaport jointly or individually are trustees; (f) 82,552 shares owned of record by Linda F. Rappaport, which Mrs. Rappaport has the sole voting and investment power, and (g) 1,061,799 shares owned of record by Golsen Petroleum Corporation ("GPC") and 533,333 shares that GPC has the right to acquire upon conversion of 16,000 shares of Series B Preferred owned of record by GPC. GPC is wholly-owned by J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen and Linda F. Rappaport, with each owning twenty percent (20%) of the outstanding stock of GPC, and as a result, GPC, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen, and Linda F. Rappaport share the voting and investment power of the shares beneficially owned by GPC. GPC's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.

(4) Includes: (a) 4,000 shares of series B Preferred owned of record by J. Golsen, which he has the sole voting and investment power; and (b) 16,000 shares of Series B Preferred owned of record by GPC, in which GPC, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen and Linda F. Rappaport share the voting and investment power.

(5) Does not include 144,260 shares of Common stock that Linda F. Rappaport's husband owns of record and 14,000 shares which he has the right to acquire within the next sixty (60) days under the Company's stock option plans, all of which Linda F. Rappaport disclaims beneficial ownership.

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

Security Ownership of Management. The following table sets forth information obtained from the directors of the Company and the directors and executive officers of the Company as a group as to their beneficial ownership of the Company's voting common stock and voting preferred stock as of April 1, 1994.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown below for an individual may include shares also considered beneficially owned by others. Any shares of stock which a

person does not own, but which he or she has the right to acquire within sixty (60) days of April 1, 1994 are deemed to be outstanding for the purpose of computing the percentage of outstanding stock of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

Name of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned	Percent of Class
Raymond B. Ackerman	Common	680 (2)	*
Robert C. Brown, M.D.	Common	253,329 (3)	1.8%
Barry H. Golsen	Common	2,019,651 (4)	14.8%
	Voting Preferred	16,000 (4)	74.0%
Jack E. Golsen	Common	3,291,677 (5)	23.8%
	Voting Preferred	20,000 (5)	92.5%
David R. Goss	Common	266,477 (6)	1.9%
Bernard G. Ille	Common	125,000 (7)	*
Jerome D. Shaffer, M.D.	Common	135,374 (8)	1.0%
Tony M. Shelby	Common	262,882 (9)	1.9%
C.L. Thurman	Common	66,833 (10)	*
Directors and Executive Officers as a group (12 persons)	Common	5,075,499 (11)	36.8%
	Voting Preferred	20,000 (11)	92.5%

* Less than 1%.

(1) The Company based the information with respect to beneficial ownership on information furnished by each director or officer, contained in filings made with the Securities and Exchange Commission, or contained in the Company records.

(2) Mr. Ackerman has sole voting and investment power of these shares, which shares are held in a trust in which Mr. Ackerman is both the settlor and the trustee and in which he has the vested interest in both the corpus and income.

(3) The amount shown includes 65,000 shares of common stock that Dr. Brown may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company. The shares with respect to which Dr. Brown shares the voting and investment power consist of 117,516 shares owned by Dr. Brown's wife, 50,727 shares owned by Robert C. Brown, M.D., Inc., a corporation wholly-owned by Dr. Brown, and 20,086 shares held by the Robert C. Brown M.D., Inc. Employee Profit Sharing Plan, of which Dr. Brown serves as the trustee. The amount shown does not include 56,090 shares directly owned by the children of Dr. Brown, all of which Dr. Brown disclaims beneficial ownership.

(4) See footnotes (3), (4), and (6) of the table under "Security Ownership of Certain Beneficial Owners and Management" of this Item for a description of the amount and nature of the shares beneficially owned by B. Golsen, including 14,000 shares B. Golsen has the right to acquire within sixty (60) days.

(5) See footnotes (3), (4), and (6) of the table under "Security Ownership of Certain Beneficial Owners and Management" of this Item for a description of the amount and nature of the shares beneficially owned by J. Golsen, including the 10,000 shares J. Golsen has the right to acquire within sixty (60) days.

(6) The amount shown includes 5,000 shares that he has the right to acquire within sixty (60) days pursuant to options granted under the Company's Incentive Stock Option Plans ("ISOs"), all of Mr. Goss has the sole voting and investment power. Mr. Goss shares voting and investment power over 2,429 shares owned by Mr. Goss's wife, individually and/or as custodian for Mr. Goss's children and has sole voting and investment power over the balance of the shares.

(7) The amount includes 65,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, all of which Mr. Ille has the sole voting and investment power. Mr. Ille disclaims beneficial ownership of 60,000 shares owned by Mr. Ille's wife.

(8) Dr. Shaffer has the sole voting and investment power over these shares, which includes 65,000 shares that Dr. Shaffer may purchase pursuant to currently exercisable non-qualified stock options.

(9) Mr. Shelby has the sole voting and investment power over these shares, which include 5,000 shares that he has the right to acquire within sixty (60) days pursuant to options granted under the Company's ISOs.

(10) Mr. Thurman has the sole voting and investment power over these shares.

(11) The amount shown includes 489,380 shares of common stock that officers and directors, or entities controlled by officers and directors of the Company, have the right to acquire within sixty (60) days.

Item 13. Certain Relationships and Related Transactions.

A subsidiary of the Company, Hercules Energy Mfg. Corporation ("Hercules"), leases land and a building in Oklahoma City, Oklahoma from Mac Venture, Ltd. ("Mac Venture"), a limited partnership. GPC serves as the general partner of Mac Venture. The limited partners of Mac Venture include GPC and the three children of Jack E. Golsen. See "Security Ownership of Certain Beneficial Owners and Management", above, for a discussion of the stock ownership of GPC. The land leased by Hercules from Mac Venture consists of a total of 341,000 square feet, with 44,000 square feet in the building. Hercules leases the property from Mac Venture for \$7,500 per month under a triple net lease which began as of January 1, 1982, and expires on December 31, 1998. Also, at January 1, 1991, GPC owed Hercules approximately \$62,000 for purchases of oilfield equipment in prior years. Beginning in 1991, the balance of \$62,000 was payable at the rate of \$1,000 per month, and at March 31, 1994, \$51,000 was owing by GPC to Hercules.

At January 1, 1992, there were outstanding loans and advances to Tony M. Shelby of \$105,000. \$5,000 of such loans and advances were non-interest bearing. \$100,000 of such loans and advances bears an annual rate of interest of 7.0%. During 1993, Mr. Shelby sold to the Company 9782 shares of the

Company's common stock at market value at that time and used the proceeds in payment of such loan plus accrued interest. The market value of the shares transferred on the date transferred was \$11.25 per share (aggregate \$110,000).

Prior to 1993 Equity made a loan to Douglas Barton which loan bears an annual rate of interest equal to the Citibank, N.A.'s prime rate plus 1.5%. As of June 30, 1993, Mr. Barton owed Equity the sum of \$358,158 on this loan. This loan was secured by Mr. Barton's home in Carmel, California and 155,000 shares of Landmark Land Company common stock. This loan was paid in full in January 1994. The loan made by Equity to Mr. Barton was made in Equity's ordinary course of business and made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons. Mr. Barton is the son of Gerald G. Barton, who the Company believed owned more than five percent of the Company's common stock from January 1, 1992 until March 1993, when he ceased, to the Company's knowledge, being an owner of record of more than five percent of any class of the Company's voting securities.

Northwest Internal Medicine Associates, ("Northwest") a division of Plaza Medical Group., P.C., has an agreement with the Company to perform medical examinations of the management and supervisory personnel of the Company and its subsidiaries. Under such agreement, Northwest is paid \$4,000 a month to perform all such examinations. Dr. Robert C. Brown (a director of the Company) is a co-owner of Plaza Medical Group., P.C.

In 1983, LSB Chemical Corp. ("LSB Chemical"), a subsidiary of the Company, acquired all of the outstanding stock of El Dorado Chemical Company ("EDC") from its then four stockholders ("Ex-Stockholders"). A substantial portion of the purchase price consisted of an earnout based primarily on the annual after-tax earnings of EDC for a ten-year period. During 1989, two of the Ex-Stockholders received LSB Chemical promissory notes for a portion of their earnout, in lieu of cash, totaling approximately \$896,000, payable \$496,000 in January, 1990, and \$400,000 in May, 1994. LSB Chemical agreed to a buyout of the balance of the earnout from the four Ex-Stockholders for an aggregate purchase amount of \$1,231,000. LSB Chemical purchased for cash the earnout from two of the Ex-Stockholders and issued multi-year promissory notes totaling \$676,000 to the other two Ex-Stockholders. Jack E. Golsen guaranteed LSB Chemical's payment obligation under the promissory notes, which is \$400,000 at March 31, 1994.

At the request of a lender to the Company and several of its subsidiaries, during the first half of 1992, Jack E. Golsen guaranteed the repayment of a term loan in the original principal amount of \$2,000,000 made by such lender to several subsidiaries of the Company. This loan was repaid by the Company in May, 1993.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements. The following consolidated financial statements of the Company appear immediately following this Part IV:

	Pages
Report of Independent Auditors	F-1
Consolidated Balance Sheets at December 31, 1993 and 1992	F-2 to F-3
Consolidated Statements of Operations for each of the three years in the period ended December 31, 1993	F-4
Consolidated Statements of Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity for each of the three years in the period ended December 31, 1993	F-5 to F-6
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1993	F-7 to F-8
Notes to Consolidated Financial Statements	F-9 to F-51
Quarterly Financial Data (Unaudited)	F-52 to F-53

(a)(2) Financial Statement Schedules. The Company has included the following schedules in this report:

	Pages
II - Amounts Receivable from Employees	F-54
III - Condensed Financial Information of Registrant	F-55 to F-58
VIII - Valuation and Qualifying Accounts	F-59
X - Supplementary Statement of Operations Information	F-60

The Company has omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in the Company's Consolidated Financial Statements, including the notes to those statements.

(a)(3) Exhibits. The Company has filed the following exhibits with this report:

2.1 Stock Purchase Agreement dated as of February 9, 1994, between Fourth Financial Corporation, the Company and Prime Financial Corporation ("Stock Purchase Agreement"), which the Company hereby incorporates by reference from Exhibit A to the Company's Proxy Statement, dated March 22, 1994 and filed with the Commission on March 23, 1994. A copy of the schedules and exhibits to the Stock Purchase Agreement will be furnished supplementally to the Commission upon request.

3.1. Restated Certificate of Incorporation, and the Certificate of Designation dated February 17, 1989, which the Company hereby incorporates by reference from Exhibit 3.01 to the Company's Form 10-K for fiscal year ended December 31, 1989.

3.2. Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3.02 to the Company's form 10-K for fiscal year ended December 31, 1990.

4.1. Loan Agreement and Accounts Receivable Security Agreement, Security Agreement, General Security Agreement, Guarantee and Waivers, Letter of Credit Purchase Guarantee Supplement, Pledge and Security Agreement, Trademark and Patent Security Agreement and Subordination Agreement, dated March 29, 1984, among the Company, certain subsidiaries of the Company, and Congress Financial Corporation ("Congress"), which the Company hereby incorporates by reference from Exhibits 10(e), 10(f), 10(h), 10(i), 10(j), 10(k) and 10(l) to the Company's Form 10-K for the fiscal year ended December 31, 1983.

4.2. Amendment to Loan Agreement and Pledge and Security Agreement, dated August 16, 1985, among the Company, Friedrich Climate Master, Inc. ("FCM"), certain other subsidiaries of the Company, and Congress, which the Company hereby incorporates by reference from Exhibits 4.1 and 4.2 to the Company's Form 8-K, dated August 16, 1985.

4.3. Letter Agreement, Trademark and Patent Security Agreement and Guarantee and Waiver, dated August 16, 1985, between FCM and Congress, which the Company hereby incorporates by reference from Exhibits 4.2, 4.3, 4.4 and 4.5 to the Company's Form 8-K, dated August 16, 1985.

4.4. Modification, dated March 14, 1986, to Loan Agreement among Congress, the Company, and certain of the Company's subsidiaries, which the Company hereby incorporates by reference from Exhibit 4.5 to the Company's Form 10-K for the fiscal year ended December 31, 1985.

4.5. Second Amendment to Loan Agreement, dated April 3, 1986, among Congress, the Company, and certain subsidiaries of the Company, which the Company hereby incorporates by reference from Exhibit 19.1 to the Company's Form 10-Q for the quarter ended March 31, 1986.

4.6. Third and Fourth Amendments to Loan Agreement, dated October 26, 1986, and December 17, 1986, among Congress, the Company, and certain subsidiaries of the Company, which the Company hereby incorporates by reference from Exhibits 4.31 and 4.32 to the Company's Registration Statement No. 33-9848.

4.7. Specimen Certificate for the Company's Non-cumulative Preferred Stock, having a par value of \$100 per share, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 1983.

4.8. Specimen Certificate for the Company's Series B Preferred Stock, having a par value of \$100 per share, which the Company hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848.

4.9. Specimen Certificate for the Company's Series 2 Preferred Stock, which the Company hereby incorporates by reference from Exhibit 4.5 to the Company's Registration Statement No. 33-61640

4.10. Rights Agreement, dated as of February 17, 1989, between the Company and The Liberty National Bank and Trust Company of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8-A Registration Statement dated February 22, 1989.

4.11. Fifth Amendment to Loan Agreement, dated May 7, 1988, among Congress, the Company, and certain subsidiaries of the Company which the Company hereby incorporates by reference from Exhibit 4.16 to the Company's Form 10-K for the year ended December 31, 1987.

4.12. Sixth Amendment to Loan Agreement, dated March 31, 1989, among Congress, the Company, and certain subsidiaries of the Company which the Company hereby incorporates by reference from Exhibit 4.17 to the Company's Form 10-K for the year ended December 31, 1988.

4.13. Amended and Restated Secured Credit Agreement, dated as of January 21, 1992, between El Dorado Chemical Company ("EDC"), Slurry Explosive Corporation ("Slurry"), Household Commercial Financial Services, Inc. ("Household"), Connecticut Mutual Life Insurance Company ("CML") and CM Life Insurance Company which the Company hereby incorporates by reference from Exhibit 4.15 to the Company's form 10K for the year ended December 31, 1991. The agreement contains a list of schedules and exhibits omitted from the filed copy and the Company agrees to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

4.14. Second Amended and Restated Working Capital Loan Agreement, dated as of January 21, 1992, between EDC, Slurry and Household which the Company hereby incorporates by reference from Exhibit 4.16 to the Company's Form 10K for the year ended December 31, 1991. The agreement contains a list of schedules and exhibits omitted from the filed copy and the Company agrees to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

4.15. Seventh Amendment to Loan Agreement, dated May 18, 1990, between Congress Financial Corporation ("Congress"), LSB Industries, Inc. ("LSB") and other subsidiaries of LSB, which the Company hereby incorporates by reference from Exhibit 28.14 to the Company's Form 10-Q for the quarter ended June 30, 1990.

4.16. Eighth and Ninth Amendments to Loan Agreement, dated May 1, 1991, and February 25, 1992, respectively between Congress, LSB and other subsidiaries of LSB which the Company hereby incorporates by reference from Exhibit 4.18 to the Company's Form 10K for the year ended December 31, 1991.

4.17. Tenth Amendment to Loan Agreement, dated March 31, 1992 and Eleventh Amendment to Loan Agreement, dated December 10, 1992 between Congress, the Company and certain subsidiaries of the Company which the Company hereby incorporates by reference from Exhibit 4.18 to the Company's Registration Statement No. 33-55608.

4.18. First Amendment to the Second Amended and Restated Working Capital Loan Agreement, dated December 9, 1992, between El Dorado Chemical Company and Household Commercial Financial Services, Inc., which the Company hereby incorporates by reference from Exhibit 4.21 to the Company's Registration Statement No. 33-55608.

4.19 First Amendment to the Amended and Restated Secured Credit Agreement, dated December 9, 1992, between El Dorado Chemical Company, Slurry Explosive Corporation, Household Commercial Financial Services Inc., Connecticut Mutual Insurance Company and C.M. Life Insurance Company, which the Company hereby incorporates by reference from Exhibit 4.22 to the Company's Registration Statement No. 33-55608.

4.20 Consent Agreement, dated December 9, 1992, between El Dorado Chemical Company and Household Commercial Financial Services, Inc., which the Company hereby incorporates by reference from Exhibit 4.23 to the Company's Registration Statement No. 33-55608.

4.21 First Amendment to Lease Agreements, made and entered into effective December 10, 1992 between Chemical Plant Venture, Chemical Plant Venture II and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 28.15 to the Company's Registration Statement No. 33-55608.

4.22. Twelfth Amendment to Loan Agreement, dated April 23, 1993, Thirteenth Amendment to Loan Agreement, dated June 24, 1993; Fourteenth Amendment to Loan Agreement, dated September 23, 1993; Fifteenth Amendment to Loan Agreement, date November 29, 1993; Sixteenth Amendment to Loan Agreement, dated January 25, 1994; and Seventeenth Amendment to Loan Agreement dated March 30, 1994 between Congress, the Company and certain subsidiaries of the Company.

4.23 Amendment Agreement, dated as of March 30, 1994, among El Dorado Chemical Company, Slurry Explosive Corporation, Household Commercial Financial Services, Inc., and Prime Financial Corporation.

10.1. Form of Death Benefit Plan Agreement between the Company and the employees covered under the plan, which the Company hereby incorporates by reference from Exhibit 10(c)(1) to the Company's Form 10-K for the year ended December 31, 1980.

10.2. The Company's 1981 Incentive Stock Option Plan, as amended, and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibits 10.1 and 10.2 to the Company's Registration Statement No. 33-8302.

10.3. Form of Incentive Stock Option Agreement between the Company and employees as to the Company's 1981 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 1984.

10.4. Form of Incentive Stock Option Agreement between the Company and employees as to the Company's 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Registration Statement No. 33-9848.

10.5. The 1987 Amendments to the Company's 1981 Incentive Stock Option Plan and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1986.

10.6 1993 Stock Option and Incentive Plan.

10.7 1993 Non-employee Director Stock Option Plan.

10.8. Union Contracts, dated August 1, 1992, between EDC and the Oil, Chemical and Atomic Workers, United Steel Workers of America, United Mine Workers and the International Association of Machinists and Aerospace Workers.

10.9. Lease Agreement, dated March 26, 1982, between Mac Venture, Ltd. and HEC, which the Company hereby incorporates by reference from Exhibit 10.32 to the Company's Form 10-K for the fiscal year ended December 31, 1981.

10.10. Agreement, dated March 1, 1991, between El Dorado Chemical Company and Farmland Industries, Inc., which the Company hereby incorporates by reference from Exhibit 10.09 to the Company's Form 10-K for the fiscal year ended December 31, 1990.

10.11. Non-qualified Stock Option Agreement, dated April 26, 1990, between the Company and Robert C. Brown, M.D., which the Company hereby incorporates by reference from Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 1990. The Company entered into substantially identical agreements with Bernard G. Ille, Jerome Shaffer and C.L. Thurman, and the Company will provide copies thereof to the Commission upon request.

10.12. Non-qualified Stock Option Agreement, dated November 19, 1987, between the Company and C.L. Thurman, which the Company hereby incorporates by reference from Exhibit 10.25 to the Company's Form 10-K for the fiscal year ended December 31, 1987. The Company entered into substantially identical agreements with Jerome D. Shaffer, Bernard G. Ille, and Robert C. Brown and the Company will provide copies thereof to the Commission upon request.

10.13. Undertaking, dated March 7, 1988, executed by Northwest Federal and Northwest Financial in favor of the Company, Prime, and the Company's other subsidiaries and affiliates, which the Company hereby incorporates by reference from Exhibit 28.01 to the Company's Form 8-K, dated March 7, 1988.

10.14. Agreement, dated March 7, 1988, between the Company and Northwest Federal, which the Company hereby incorporates by reference from Exhibit 28.03 to the Company's Form 8-K, dated March 7, 1988.

10.15. Lease Agreement, dated March 7, 1988, between Northwest Financial and the Company, which the Company hereby incorporates by reference from Exhibit 28.04 to the Company's Form 8-K, dated March 7, 1988. Rotex, Summit and Tribonetics entered into substantially identical agreements, with the only differences being the parties to the agreements, the property covered by the agreement, and the amount of the annual rental set forth in the agreement and the Company will provide copies thereof to the Commission upon request.

10.16. Lease Agreement, dated March 7, 1988, between Northwest Financial and IEC, which the Company hereby incorporates by reference from Exhibit 28.05 to the Company's Form 8-K, dated March 7, 1988. The filed copy omits Exhibit B to the Lease Agreement, which the Company undertakes to furnish supplementally to the Commission upon request.

10.17. Assignment of Lease, dated March 7, 1988, executed by IEC in favor of Northwest Federal, which the Company hereby incorporates by reference from Exhibit 28.06 to the Company's Form 8-K, dated March 7, 1988.

10.18. Lease Agreement, dated March 7, 1988, between Northwest Financial and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 28.07 to the Company's Form 8-K, dated March 7, 1988. Northwest Financial and EDC entered into 15 substantially identical lease agreements covering the real properties discussed under Item 2 of this report, with the only differences being the specific real property covered and the amount of the annual rental specified in the agreement and the Company will provide copies thereof to the Commission upon request.

10.19. Assignment and Agreement to Sublease, dated March 7, 1988, between EDC and Northwest Financial, which the Company hereby incorporates by reference from Exhibit 28.08 to the Company's Form 8-K, dated March 7, 1988.

10.20. Dividend Limitation Stipulation, dated January 6, 1989, executed by the Company, Northwest Federal Savings and Loan Association, and Prime Financial Corporation, which the Company hereby incorporates by reference from Exhibit 28.02 to the Company's Form 8-K, dated December 30, 1988.

10.21. Lease Agreement dated November 12, 1987, between Climate Master, Inc. and West Point Company and amendments thereto, which the Company hereby incorporates by reference from Exhibits 10.32, 10.36, and 10.37, to the Company's Form 10-K for fiscal year ended December 31, 1988.

10.22. Severance Agreement, dated January 17, 1989, between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.48 from Form 10-K for fiscal year ended December 31, 1988. The Company also entered into identical agreements with Tony M. Shelby, David R. Goss, Michael Tepper, and Barr H. Golsen and the Company will provide copies thereof to the Commission upon request.

10.23. Third Amendment to Lease Agreement, dated as of December 31, 1987, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Form 10-K for fiscal year ended December 31, 1988.

10.24. Option to Purchase Real Estate, dated January 4, 1989, between Northwest Financial Corporation and Northwest Tower Limited Partnership, which the Company hereby incorporates by reference from Exhibit 10.50 to the Company's Form 10-K for fiscal year ended December 31, 1988.

10.25. Agreement for Purchase of Receivables, dated March 31, 1989, between Equity Bank and Summit Machine Tool Manufacturing Corp, which the Company hereby incorporates by reference from Exhibit 10.54 to the Company's Form 10-K for fiscal year end December 31, 1988. The following subsidiaries of the Company entered into identical agreements with Northwest Federal: Climate Master, Inc.; El Dorado Chemical Company; Hercules Energy Mfg. Corporation; International Environmental Corporation; and L & S Bearing Co. and the Company will provide copies thereof to the Commission upon request.

10.26. Chemical Plant Venture Agreement between Northwest Financial Corporation and LSB Chemical Corp., dated April 1, 1989, which the Company hereby incorporates by reference from Exhibit 10.26 to the Company's Form 10-K for fiscal year ended December 31, 1990. This Agreement contains a list of exhibits and schedules omitted from the

filed copy, and the Company undertakes to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

10.27. Chemical Plant Venture II Agreement between Northwest Capital Corporation and LSB Chemical Corp., dated as of December 31, 1991 which the Company hereby incorporates by reference from Exhibit 10.28 to the Company's Form 10K for fiscal year ended December 31, 1991. This agreement contains a list of exhibits and schedules omitted from the filed copy, and the Company undertakes to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

10.28 Technical License, Technology Assistance, Engineering and Manufacturing Plant sales Agreement between L&S Automotive Products Company, Inc. and ZVL-ZKL A.S., dated July 6, 1992, as amended by Addendums, which the Company hereby incorporates by reference from Exhibit 28.1 to the Company's Form 10-Q for the quarter ended September 30, 1992.

10.29 Letter, dated November 9, 1992, amending the agreement between L&S Automotive Products Co. and ZVL-ZKL A.S., which the Company hereby incorporates by reference from Exhibit 28.2 to the Company's Registration Statement No. 33-55608.

10.30 Supply Agreement, dated November 4, 1992, between Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.3 to the Company's Registration Statement No. 33-55608.

10.31 Right of First Refusal, dated November 4, 1992, between the Company, Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.4 to the Company's Registration Statement No. 33-55608.

10.32 Fixed Assets Purchase Parts Purchase and Asset Consignment Agreement, dated November 4, 1992, between Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.5 to the Company's Registration Statement No. 33-55608.

10.33 Amendment to Lease Agreements, made and entered into effective December 10, 1992, between Chemical Plant Venture, Chemical Plant Venture II and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 28.9 to the Company's Registration Statement No. 33-55608.

10.34 Agreement for Purchase and Sale of Property, made and entered into effective December 10, 1992, between Chemical Plant Venture, Chemical Plant Venture II and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 28.10 to the Company's Registration Statement No. 33-55608.

10.35 Letter, dated November 20, 1992, from the Office of Thrift Supervision to Equity Bank for Savings, F.A., which the Company hereby incorporates by reference from Exhibit 28.11 to the Company's Registration Statement No. 33-55608.

10.36 Agreement between Monsanto Company and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 28.12 to the Company's Registration Statement No. 33-55608.

10.37 Non-Qualified Stock Option Agreement, dated June 1, 1992, between the Company and Robert C. Brown, M.D. The Company entered into substantially identical agreements with Bernard G. Ille, Jerome D. Shaffer and C.L.Thurman, and the Company will provide copies thereof to the Commission upon request.

10.38 Loan Agreement, dated as of March 30, 1994, by and between Prime Financial Corporation, an Oklahoma corporation and Bank IV Oklahoma, N.A., a national banking association.

10.38 Guaranty Agreement, dated as of March 30, 1994, by and between LSB Industries, Inc. as Guarantor and Bank IV Oklahoma, N.A. as Lender.

11.1. Statement re: Computation of Per Share Earnings.

22.1. Subsidiaries of the Company

24.1. Consent of Independent Auditors

(b) Reports on Form 8-K. The Company filed a report on Form 8-K during the fourth quarter of 1993 concerning the proposed sale of Equity Bank.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 13th day of April, 1994.

LSB INDUSTRIES, INC.

By: /s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board and
President
(Principal Executive Officer)

By: /s/ Tony M. Shelby

Tony M. Shelby
Senior Vice President of Finance
(Principal Financial Officer)

By: /s/ Jim D. Jones

Jim D. Jones
Vice President, Controller and
Treasurer (Principal Accounting
Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the undersigned have signed this report on behalf of the Company, in the capacities and on the dates indicated.

Dated: April 13, 1994

By: /s/ Jack E. Golsen

Jack E. Golsen, Director

Dated: April 13, 1994

By: /s/ Tony M. Shelby

Tony M. Shelby, Director

Dated: April 13, 1994

By:

David R. Goss, Director

Dated: April 13, 1994

By: /s/ Barry H. Golsen

Barry H. Golsen, Director

Dated: April 13, 1994

By:

C. L. Thurman, Director

Dated: April 13, 1994

By:/s/ Robert C. Brown

Robert C. Brown, Director

Dated: April 13, 1994

By:/s/ Bernard G. Ille

Bernard G. Ille, Director

Dated: April 13, 1994

By:/s/ Jerome D. Shaffer

Jerome D. Shaffer, Director

Dated: April 13, 1994

By:/s/ Raymond B. Ackerman

Raymond B. Ackerman, Director

Report of Independent Auditors

The Board of Directors and Stockholders
LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 1993 and 1992, and the related consolidated statements of operations, non-redeemable preferred stock, common stock and other stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. Our audits also included the financial statement schedules listed in the Index at Item 14(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG

Oklahoma City, Oklahoma
March 15, 1994

LSB Industries, Inc.
Consolidated Balance Sheets

	December 31,	
	1993	1992

	(In Thousands)	
Assets		
Cash and cash equivalents	\$ 11,687	\$ 33,271
Trade accounts receivable, less allowance for doubtful accounts of \$2,583,000 in 1993 and \$3,082,000 in 1992	49,533	36,050
Loans held for sale	18,574	6,358
Mortgage-backed securities held for sale	13,946	
Loans receivable, including related accrued interest receivable, net (Note 5)	124,060	119,278
Mortgage-backed securities held for investment, including related accrued interest receivable (Note 5)	202,723	175,427
Other securities held for investment	7,806	7,010
Inventories	48,384	48,373
FSLIC receivables and assets covered by assistance (Note 4)		52,004
Supplies and prepaid items	5,459	4,134
Foreclosed real estate (Note 5)	19,262	15,151
Property, plant and equipment, net	65,670	58,049
Excess of purchase price over net assets acquired, net of accumulated amortization of \$15,470,000 in 1993 and \$10,777,000 in 1992 (Notes 3 and 4)	22,184	19,866
Other assets	8,224	7,277
	-----	-----
	\$597,512	\$582,248
	=====	=====

December 31,
1993 1992

(In Thousands)

Liabilities, preferred and common stocks and other stockholders equity		
Liabilities:		
Deposits (Note 5)	\$332,511	\$336,053
Accounts payable	22,645	18,906
Drafts payable	1,220	4,549
Securities sold under agreements to repurchase	38,721	50,344
Payable to FSLIC (Note 4)	-	9,107
Billings in excess of costs and estimated earnings	-	4,858
Accrued liabilities	9,444	9,458
Federal Home Loan Bank advances (Note 5)	87,650	80,150
Long-term debt (Note 9)	30,295	50,321
	-----	-----
Total liabilities	522,486	563,746
Commitments and contingencies (Note 14)		
Redeemable, noncumulative, convertible preferred stock, \$100 par value; 1,660 shares issued and outstanding (1,772 in 1992) (Note 12)	155	163
Non-redeemable preferred stock, common stock and other stockholders equity (Notes 9, 11 and 12):		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 1 \$2.20 convertible, exchangeable Class C preferred stock, \$20 stated value; 767,832 shares issued in 1992	-	15,357
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 920,000 shares issued in 1993	46,000	-
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,514,056 shares issued (8,097,532 in 1992)	1,451	810
Capital in excess of par value	37,120	21,978
Accumulated deficit	(7,541)	(17,227)
	-----	-----
	79,030	22,918
Less treasury stock, at cost:		
Common stock, 840,085 shares (703,855 in 1992)	4,159	2,699
Series 1 \$2.20 convertible, exchangeable Class C preferred stock, 104,682 shares in 1992	-	1,880
	-----	-----
Total non-redeemable preferred stock, common stock and other stockholders equity	74,871	18,339
	-----	-----
	\$597,512	\$582,248
	=====	=====

See accompanying notes.

Consolidated Statements of Operations

	Year ended December 31,		
	1993	1992	1991

	(In Thousands, Except Per Share Amounts)		
Revenues:			
Net sales	\$232,616	\$198,373	\$177,035
Interest on loans and investments	27,761	32,205	40,548
Credit card and other	16,217	15,269	13,167
FSLIC interest and yield maintenance	-	936	3,441
	-----	-----	-----
	276,594	246,783	234,191
Costs and expenses:			
Cost of sales	174,504	146,391	136,258
Selling, general and administrative:			
Financial services	21,549	22,282	21,702
Nonfinancial services	43,864	37,476	36,560
Interest:			
Deposits	12,505	16,445	23,144
Long-term debt and other	9,517	13,194	16,142
Provision for loan losses (Note 5)	1,382	1,224	1,335
	-----	-----	-----
	263,321	237,012	235,141
Income (loss) before provision for income taxes	-----	-----	-----
	13,273	9,771	(950)
Provision for income taxes (Note 10)	874	516	197
	-----	-----	-----
Net income (loss)	\$ 12,399	\$ 9,255	\$ (1,147)
	=====	=====	=====
Net income (loss) applicable to common stock	\$ 10,357	\$ 7,428	\$ (3,090)
	=====	=====	=====
Net income (loss) per common share:			
Primary	\$.77	\$.94	\$ (.48)
	=====	=====	=====
Fully diluted	\$.71	\$.66	\$ (.48)
	=====	=====	=====

See accompanying notes.

Consolidated Statements of Non-redeemable Preferred Stock, Common Stock and Other Stockholders' Equity

	Common Stock Shares	par Value	redeemable Preferred Stock	Non- Capital in Excess of Par Value	Accu- mulated Deficit	Treasury Stock	Total	
----- (In Thousands)								
Balance at December 31, 1990	5,823	\$	582	\$19,206	\$17,847	\$(21,565)	\$(2,589)	\$13,481
Net loss	-		-	-	-	(1,147)	-	(1,147)
Conversion of 67.5 shares of redeemable preferred stock to common stock	2		1	-	6	-	-	7
Dividends declared:								
Series 1 Class C preferred stock (\$2.20 per share)	-		-	-	-	(1,684)	-	(1,684)
Series B 12% preferred stock (\$12.00 per share)	-		-	-	-	(240)	-	(240)
Redeemable preferred stock (\$10.00 per share)	-		-	-	-	(19)	-	(19)
Purchase of treasury stock	-		-	-	-	-	(46)	(46)

Balance at December 31, 1991	5,825		583	19,206	17,853	(24,655)	(2,635)	10,352
Net income	-		-	-	-	9,255	-	9,255
Conversion of 158 shares of redeemable preferred stock to common stock	6		1	-	15	-	-	16
Conversion of 92,468 shares of Series 1 Class C preferred stock to common stock	705		70	(1,849)	1,779	-	-	-
Exercise of stock options:								
Cash	450		45	-	642	-	-	687
Stock tendered and added to treasury at market value	1,112		111	-	1,689	-	(1,800)	-
Dividends declared:								
Series 1 Class C preferred stock (\$2.20 per share)	-		-	-	-	(1,568)	-	(1,568)

(Continued on following page)

LSB Industries, Inc.
 Consolidated Statements of Non-redeemable Preferred Stock, Common Stock and
 other Stockholders' Equity (continued)

	Common Stock Shares	Par Value	Non- redeemable Preferred Stock	Capital in Excess of Par Value	Accu- mulated Deficit	Treasury Stock	Total
Series B 12% preferred stock (\$12.00 per share)	-	-	-	-	(240)	-	(240)
Redeemable preferred stock (\$10.00 per share)	-	-	-	-	(19)	-	(19)
Purchase of treasury stock	-	-	-	-	-	(144)	(144)
Balance at December 31, 1992	8,098	810	17,357	21,978	(17,227)	(4,579)	18,339
Net income	-	-	-	-	12,399	-	12,399
Conversion of 85 shares of redeemable preferred stock to common stock	3	-	-	5	-	-	5
Conversion of 657,390 shares of Series 1 preferred to common stock	5,008	501	(13,148)	12,647	-	-	-
Redemption of Series 1 preferred	-	-	(115)	(8)	-	-	(123)
Retirement of Series 1 preferred held in treasury	-	-	(2,094)	214	-	1,880	-
Sale of common stock	263	26	-	1,914	-	-	1,940
Sale of Series 2 preferred	-	-	46,000	(2,129)	-	-	43,871
Exercise of stock options:							
Cash received	640	64	-	1,501	-	-	1,565
Stock tendered and added to treasury at market value	502	50	-	998	-	(1,048)	-
Dividends declared:							
Series B 12% preferred stock (\$12.00 per share)	-	-	-	-	(240)	-	(240)
Redeemable preferred stock (\$10.00 per share)	-	-	-	-	(16)	-	(16)
Common stock (\$.06 per share)	-	-	-	-	(797)	-	(797)
Series 2 preferred stock (\$1.80 per share)	-	-	-	-	(1,660)	-	(1,660)
Purchase of treasury stock	-	-	-	-	-	(412)	(412)
Balance at December 31, 1993	14,514	\$1,451	\$48,000	\$37,120	\$(7,541)	\$(4,159)	\$74,871

See accompanying notes.

Consolidated Statements of Cash Flows

	Year ended December 31,		
	1993	1992	1991

	(In Thousands)		
Cash flows from operations			
Net income (loss)	\$12,399	\$ 9,255	\$ (1,147)
Adjustments to reconcile net income (loss) to cash flows provided (absorbed) by operations:			
Depreciation, depletion and amortization:			
Property, plant and equipment	6,549	6,588	6,284
Goodwill	4,693	2,318	2,355
Other, primarily premiums on loans and mortgage-backed securities	2,895	2,971	890
Provisions for losses:			
Trade accounts receivable	439	972	1,567
Loans and real estate	1,382	1,374	1,335
Accretion of interest expense on payable to FSLIC	-	829	745
Net decrease (increase) in loans and mortgage-backed securities held for sale	(24,547)	2,511	1,784
Net gain on sales of assets	(3,574)	(2,524)	(3,295)
FHLB stock dividends	-	(263)	(578)
Cash provided (used) by changes in assets and liabilities, before acquisitions:			
Trade accounts receivable	(12,304)	(3,980)	17,844
Inventories	2,348	(6,332)	3,329
FSLIC receivables	-	5,510	8,039
Supplies and prepaid items	(1,282)	414	(4,093)
Other assets	(1,237)	927	1,032
Accounts payable	(718)	(277)	1,193
Billings in excess of costs and estimated earnings	(4,858)	4,858	-
Accrued liabilities	(759)	(785)	(134)
Cash flows provided (absorbed) by operations	----- (18,574)	----- 24,366	----- 37,150
Cash flows from investing activities			
Net loan originations and principal payments on loans	6,901	8,052	9,682
Principal payments on mortgage-backed securities	56,556	61,984	23,049
Purchases of mortgage-backed securities	(85,718)	(56,909)	(114,224)
Proceeds from covered asset reductions	-	14,401	15,450
Proceeds from sales and maturities of investment securities	325	2,647	1,295
Purchases of investment securities	(1,168)	(300)	(668)
Capital expenditures	(10,541)	(5,345)	(3,919)
Sales of properties, equipment and real estate owned	6,656	1,176	1,975
Proceeds from termination of Assistance Agreement	14,169	-	-
Cash and cash equivalents acquired in connection with acquisitions	1,228	55	-
Payments for acquisitions	(1,747)	(140)	-
Cash flows provided by (used in) investing activities	----- (13,339)	----- 25,621	----- (67,360)

(Continued on following page)

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Consolidated Statements of Cash Flows (continued)

	Year ended December 31,		
	1993	1992	1991

(In Thousands)			
Cash flows from financing activities			
Net decrease in deposits	\$ (3,542)	\$(23,175)	\$ (5,174)
Collection of FSLIC note receivable	-	-	40,390
Payments on long-term and other debt	(60,352)	(28,903)	(86,526)
Payments for securities repurchased	(11,623)	-	-
Long-term and other borrowings	50,000	13,501	57,894
Net change in revolving loans	(4,950)	(1,108)	145
Net change in drafts payable	(3,329)	919	114
Dividends paid on common and preferred stocks	(2,713)	(1,827)	(1,943)
Purchases of treasury stock	(302)	(144)	(46)
Net proceeds from issuance of common and preferred stock	47,140	687	-

Cash flows provided by (used in) financing activities	10,329	(40,050)	4,854

Net increase (decrease) in cash and cash equivalents	(21,584)	9,937	(25,356)
Cash and cash equivalents at beginning of year	33,271	23,334	48,690

Cash and cash equivalents at end of year	\$11,687	\$ 33,271	\$ 23,334
=====			
Noncash financing and investing activities			
Exercise of stock options - stock tendered and added to treasury Shares at market value	\$ 1,048	\$ 1,800	\$ -
=====			
Patents purchased by reduction of note receivable (Note 3)	\$ -	\$ 2,344	\$ -
=====			
Long-term debt issued for property, plant and equipment	\$ 1,500	\$ -	\$1,700
=====			

See Note 3 for noncash assets and liabilities related to acquisitions in 1993 and 1992. See Note 4 for noncash assets and liabilities related to the terminated Assistance Agreement in 1993.

See accompanying notes.

Notes to Consolidated Financial Statements
December 31, 1993, 1992 and 1991

1. Basis of Presentation

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the Company) and its subsidiaries, including its financial services subsidiaries. Since the Company's financial services subsidiaries do not typically distinguish between current and noncurrent assets and liabilities, the accompanying balance sheets are presented on an unclassified basis. Condensed classified balance sheet and other information is provided in Note 15.

Proposed Disposition of Assets

On February 9, 1994, the Company signed a Stock Purchase Agreement (the Acquisition Agreement) for the sale of its wholly-owned subsidiary, Equity Bank for Savings, F.A. (Equity Bank), which constitutes the Financial Services Business of the Company. The Purchaser is to acquire all of the outstanding shares of capital stock of Equity Bank. The closing of this transaction is contingent upon several factors including regulatory approvals, minimum tangible book value (as defined), acceptance by the Company of the selling price determined under the terms of the Acquisition Agreement and stockholders' approval. If the appropriate approvals are not received or an acceptable selling price is not received, the Company can terminate the Acquisition Agreement and, accordingly, the Financial Services Business has not been reported as a discontinued operation.

Under the Acquisition Agreement, the Company is to acquire from Equity Bank, prior to closing, certain subsidiaries of Equity Bank (Retained Corporations) that own the real and personal property and other assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying value of the assets contributed. At the time of closing of the sale of Equity Bank, the Company is required under the Acquisition Agreement to acquire: (A) the loan and mortgage on and an option to purchase Equity Tower located in Oklahoma City, Oklahoma (Equity Tower Loan), which Equity Bank previously classified as an in-substance foreclosure on its books, (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure (the Equity Tower Loan and other real estate owned are collectively called the Retained Assets), and (C) the outstanding accounts receivable sold to Equity Bank by the Company and its subsidiaries under various purchase agreements, dated March 8, 1988 (the Receivables). These assets are to be acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank. In addition, the Company has the option, but not the obligation, to acquire any loan owned by Equity Bank that has been charged off or written down for a price equal to the net book value of such loan that has been written down and for a price of \$1.00 in the case of each loan that has been charged off (Other Loans).

The Company currently expects that the purchase price to be paid by the Purchaser for Equity Bank will be approximately \$92 million, subject to determination and adjustment in accordance with the Acquisition Agreement (the Purchase Price). The Purchase Price is based on a number of estimates, and the amount of the Purchase Price cannot be determined exactly until the closing of the sale of Equity Bank. The Company will use approximately \$65.4 million, plus interest, of the Purchase Price to repay certain indebtedness the Company intends to incur to finance the purchase from Equity Bank of the Retained Corporations. In addition, it is anticipated that the Company will use approximately \$19.2 million of the Purchase Price to purchase from Equity

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation (continued)

Bank the Retained Assets, which is the carrying value of the Retained Assets on the books of Equity Bank as of December 31, 1993. As of this date, the Company has made no decision if it will acquire any of the Other Loans.

As of December 31, 1993, Equity Bank owned approximately \$33.6 million of the Receivables, which if the closing occurs on or about June 30, 1994, the Company expects such to be less than \$10 million as of the closing. On or prior to the closing, the Company expects to have secured an accounts receivable line of credit to replace, in whole or in part, the accounts receivable financing provided by Equity Bank. The Company expects to use the proceeds to be received from the new accounts receivable line of credit to finance the repurchase of the Receivables from Equity Bank at the closing.

The balance of the Purchase Price, if any, remaining after (i) repayment of the indebtedness incurred by the Company to purchase the Retained Corporations, (ii) purchase from Equity Bank of the Retained Assets, and (iii) payment of the transactional costs relating to the sale of Equity Bank under the Acquisition Agreement will be used by the Company for general working capital.

The following unaudited Pro Forma Condensed Consolidated Balance Sheet as of December 31, 1993, and the Pro Forma Condensed Consolidated Statement of Income for the fiscal year ended December 31, 1993, are presented to give effect to the proposed sale of Equity Bank.

The pro forma adjustments reflected herein are based on available information and certain assumptions that the Company's management believes are reasonable. Pro forma adjustments made in the Pro Forma Condensed Consolidated Balance Sheet assume that the sale of Equity Bank was consummated on December 31, 1993, and do not reflect the impact of Equity Bank's historical operating results or changes in other balance sheet amounts subsequent to December 31, 1993. The pro forma adjustments related to the Pro Forma Condensed Consolidated Statement of Income assume that the sale of Equity Bank was consummated on January 1, 1993.

The Pro Forma Condensed Consolidated Balance Sheet and Pro Forma Condensed Consolidated Statement of Income are based on assumptions and approximations and, therefore, do not reflect in precise numerical terms the impact of the transaction on the historical financial statements. In addition, such pro forma financial statements should not be used as a basis for forecasting the future operations of the Company.

Pro Forma Condensed Consolidated Balance Sheet
(Unaudited)

1. Basis of Presentation (continued)

	December 31, 1993			
	Pro Forma Adjustments			As Adjusted
	Actual	(Note A)	(Note B)	
	(Amounts in Thousands)			
Assets				
Cash and cash equivalents	\$ 11,687	\$65,416	\$ (76,048)	\$ 1,055
Trade accounts receivable	49,533			49,533
Loans	142,634		(142,634)	
Mortgage-backed and investment securities	224,475		(224,475)	
Inventories	48,384			48,384
Foreclosed real estate	19,262		(3,928)	15,334
Net property, plant and equipment	65,670		(7,617)	58,053
Excess of purchase price over net assets acquired	22,184		(17,041)	5,143
Other assets	13,683		(3,179)	10,504
	<u>\$597,512</u>	<u>\$65,416</u>	<u>\$ (474,922)</u>	<u>\$ 188,006</u>
Liabilities, preferred and common stocks and other stockholders equity				
Liabilities:				
Deposits	\$332,511		\$(332,511)	\$ -
Notes payable	-	\$65,416	(65,416)	-
Securities sold under agreements to repurchase	38,721		(38,721)	-
Other liabilities	33,309		(2,690)	30,619
Federal Home Loan Bank advances	87,650		(87,650)	-
Long-term debt	30,295		27,066	57,361
	<u>522,486</u>	<u>65,416</u>	<u>(499,922)</u>	<u>87,980</u>
Redeemable, noncumulative, convertible preferred stock	155			155
Total non-redeemable preferred stock, common stock and other stockholders equity	74,871		25,000	99,871
	<u>\$597,512</u>	<u>\$65,416</u>	<u>\$ (474,922)</u>	<u>\$188,006</u>

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation (continued)

Note A

Pro forma adjustment to recognize the cash required by the Company to purchase the Retained Corporations from Equity Bank prior to the sale of Equity Bank to the Purchaser. The Company is negotiating with a lender to borrow the funds with which to fund the purchase. The borrowed funds plus interest will be repaid from the proceeds of the sale of Equity Bank. As the carrying value of the Retained Assets and Retained Corporations on a consolidated basis will not change as a result of the purchase, no adjustment to such carrying value is necessary.

Note B

Pro forma adjustment to recognize the sale of Equity Bank as though consummated on December 31, 1993. The adjustment is based on an estimated selling price of \$92 million resulting in an estimated financial gain of \$25 million after consideration of costs of the transaction.

The reductions in the detail balance sheet amounts represent the historical carrying values of such accounts that will remain assets and liabilities of Equity Bank after the sale and after acquisition by the Company of the Retained Assets and Retained Corporations.

1. Basis of Presentation (continued)

Pro Forma Condensed Consolidated Statement of Income
(Unaudited)

	Year ended December 31, 1993		
	Actual	Pro Forma Adjustments	As Adjusted
(Amounts In Thousands Except Per Share Data)			
Revenues:			
Net sales	\$232,616		\$232,616
Interest income on loans and investments	27,761	\$(27,521)(C)	240
Credit card and other	16,217	(14,315)(C) 213 (D)	2,115
Total revenues	276,594	(41,623)	234,971
Costs and expenses:			
Cost of sales	174,504		174,504
Selling, general and administrative:			
Financial Services	21,549	(21,549)(C)	-
Nonfinancial services	43,864	(750)(C) 133 (D)	43,247
Interest:			
Deposits	12,505	(12,505)(C)	-
Long-term debt and other	9,517	(2,010)(C) (781)(D)	6,726
Provision for loan losses	1,382	(1,382)(C)	-
	263,321	(38,844)	224,477
Income from continuing operations before provision for income taxes	13,273	(2,779)	10,494
Provision for income taxes	874	(460)(C) 557 (D)	971
Income from continuing operations	\$ 12,399	\$(2,876)	\$ 9,523
Income from continuing operations applicable to common stock	\$ 10,357		\$ 7,481
Earnings from continuing operations per common share:			
Primary	\$.77		\$.59
Fully diluted	\$.71		\$.55

1. Basis of Presentation (continued)

Note C

Reclassification of revenues and expenses of Equity Bank as a discontinued operation of the Company for the period presented. Such amounts are reconciled to reported segment data (Note 15) as follows:

	Year ended December 31, 1993
----- (In Thousands)	
Financial Services operating profit, as reported	\$ 4,390
Allocation of general corporate expenses	(750)
Allocation of income taxes	(460)
Losses on Retained Assets	46

Income from discontinued operations	\$ 3,226
	=====

Note D

Pro forma adjustments to reflect the estimated effect on earnings of acquiring the Retained Assets is considered. These include reduced interest expense on financing of the Company's accounts receivable with a new lender and the earnings on real estate assets acquired as Retained Assets.

2. Accounting Policies

Statements of Cash Flows

As permitted by Statement of Financial Accounting Standards (SFAS) No. 104, the Company reports in their statements of cash flows net cash receipts and payments for (a) deposits placed with other financial institutions and withdrawal of deposits, (b) time deposits accepted and repayment of deposits, (c) loans made to customers and principal collections of loans, and (d) loans originated for sale and proceeds from sales thereof.

For purposes of reporting cash flows, cash and cash equivalents include cash, overnight funds and interest bearing deposits with original maturities when purchased by the Company of 90 days or less.

Cash payments for interest and income taxes were as follows:

	1993	1992	1991
----- (In Thousands)			
Interest:			
Deposits	\$12,506	\$16,553	\$23,204
Long-term debt and other	8,841	12,959	15,638
Income taxes (1992 is net refunds received)	928	(102)	257
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Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Securities Held for Investment

Securities held for investment are carried at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. Management has the intent and ability to hold these securities to maturity. Gains and losses on sales are determined using the specific identification method.

Mortgage-Backed Securities Held for Investment

Mortgage-backed securities held for investment are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts using a method that approximates level yield. Management has the intent and ability to hold these assets to maturity. Should any be sold, gains and losses will be recognized based on the specific identification method.

Mortgage-Backed Securities Held for Sale

Mortgage-backed securities which management may sell in response to market conditions or for other reasons are classified as held for sale. These securities are carried at the lower of cost or estimated market value in the aggregate at the balance sheet date. Net unrealized losses on such securities are recognized through a valuation allowance that is shown as a reduction in the carrying value of the related securities and as a corresponding charge to income. These securities are comprised of FHLMC collateralized mortgage obligations. The cost at December 31, 1993 was \$14,020,790 and the market values of these securities were \$13,946,511. Gross unrealized losses at December 31, 1993 were \$74,279 and there were no gross unrealized gains at December 31, 1993. No sales of these securities have occurred in 1993; however, gains and losses realized on sales of these securities would be determined using the specific identification method.

SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires investments to be classified in three categories and accounted for as follows:

- o Debt securities that the Company has the positive intent and ability to hold to maturity are to be classified as held-to-maturity securities and reported at amortized cost.
- o Debt and equity securities that are bought and held principally for the purpose of selling in the near future are to be classified as trading securities and reported at fair value, with unrealized gains and losses included in current earnings.
- o Debt and equity securities not classified as either held-to-maturity securities or trading securities are to be classified as available-for-sale securities and reported at fair value, with unrealized gains and losses reported as a separate component of stockholder s equity.

The Statement is effective for fiscal years beginning after December 15, 1993 and is to be initially applied as of the beginning of the fiscal year. The Company will adopt the provisions of this Statement January 1, 1994.

Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Management has determined that the effect of the adoption of this Statement will not be material to the Company.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized by mortgage-backed securities. These fixed-coupon agreements are carried at their contractual amounts and are accounted for as financings.

Loans Receivable

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses, deferred loan origination fees and discounts. Discounts on first mortgage loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for prepayments. The allowance for loan losses is increased by charges to income and decreased by chargeoffs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on Equity Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, and current economic conditions. As discussed in Note 4, losses on covered assets were reimbursable and, accordingly, no allowance for loss was recorded on loans included in covered assets.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Gains and losses on sales of these mortgage loans are determined using the specific identification method.

Uncollectible interest on loans that are contractually past due (generally in excess of 90 days) is charged against income, or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management's judgment, the borrower has demonstrated the ability to make periodic interest and principal payments, in which case the loan is returned to accrual status.

SFAS No. 114, Accounting by Creditors for Impairment of a Loan, amends SFAS No. 5 to clarify that a creditor should evaluate both principal and interest when assessing the need for a loss accrual. This Statement also requires creditors to measure impairment of a loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The Statement does not apply to large groups of smaller-balance homogeneous loans that are collectively valued for impairment (i.e., consumer installment loans, residential mortgage loans, credit card loans, etc.). The Statement also amends Practice Bulletin 7 ("PB7") guidance on accounting for in-substance foreclosures ("ISFs"). PB7 requires creditors to account for the operations of the collateral underlying ISFs, even though the creditor has not taken possession of collateral, as if foreclosure had occurred. SFAS No. 114 recognizes the practical problems of accounting for the operation of an asset the creditor does not possess and, therefore, states that a loan for which foreclosure is probable should continue to be accounted for as a loan. The effect of this provision will require all ISFs, which are currently classified as foreclosed real estate for financial statement purposes (Note 9), to be

Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

reclassified as loans for reporting purposes. SFAS No. 114 is effective for financial statements for fiscal years beginning after December 15, 1994.

Inventories

Purchased machinery and equipment are carried at specific cost plus duty, freight and other charges, not in excess of net realizable value. All other inventory is priced at the lower of cost or market, with cost being determined using the first-in, first-out (FIFO) basis, except for certain heat pump products with a value of \$7,191,000 at December 31, 1993 (\$8,357,000 at December 31, 1992), which are priced at the lower of cost or market, with cost being determined using the last-in, first-out (LIFO) basis. The difference between the LIFO basis and current cost is \$571,000 at December 31, 1993 (\$625,000 at December 31, 1992).

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are recorded at the lower of cost or fair value, less estimated costs to sell the underlying property. Costs relating to the improvement of property are capitalized, whereas costs relating to the holding of the property are expensed. Valuations are periodically performed by management, and chargeoffs are reflected by a charge to operations if the carrying value of a property exceeds its estimated fair value.

Depreciation

For financial reporting purposes, depreciation, depletion and amortization is primarily computed using the straight-line method over the estimated useful lives of the assets.

Excess of Purchase Price Over Net Assets Acquired

The excess of purchase price over net assets acquired is being amortized by the interest or straight-line methods, as appropriate, primarily over periods of 12 to 15 years. The carrying value of the excess of purchase price over net assets acquired is reviewed if the facts and circumstances suggest that it may be impaired.

Research and Development Costs

Costs incurred in connection with product research and development are expensed as incurred. Such costs amounted to \$788,000 in 1993, \$684,000 in 1992 and \$454,000 in 1991.

Net Income (Loss) Applicable to Common Stock

Net income (loss) applicable to common stock is computed by adjusting net income or loss by the amount of preferred stock dividends, including unpaid dividends, if cumulative.

Earnings Per Share

Primary earnings per common share are based upon the weighted average number of common shares and dilutive common equivalent shares outstanding during each year after giving appropriate effect to preferred stock dividends.

Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Fully diluted earnings per share are based on the weighted average number of common shares and dilutive common equivalent shares outstanding and the assumed conversion of dilutive convertible securities outstanding after appropriate adjustment for interest and related income tax effects on convertible notes payable.

Average common shares outstanding used in computing earnings per share are as follows:

	1993	1992	1991
Primary	13,401,194	8,188,492	6,105,222
Fully diluted	15,397,886	14,413,179	6,105,222

Fair Value of Financial Instruments

The following discussion of fair values is not indicative of the overall fair value of the Company's balance sheet since the provisions of the SFAS No. 107, Disclosures About Fair Value of Financial Instruments does not apply to all assets, including intangibles.

The following methods and assumptions were used by the Company in estimating its fair value of financial instruments:

Cash and Cash Equivalents: Carrying value approximates fair value.

Mortgage-Backed Securities and Other Securities Held for Investment: Fair values for investment and mortgage-backed securities are based on quoted market prices where available. Where quoted market prices are not available, fair values are based upon dealer quotes or quoted market prices of comparable instruments. The carrying value of FHLB stock approximates estimated fair value since there is no active market for this stock and the stock can be redeemed for par value which equals carrying value.

Loans: For variable-rate loans with no significant change in credit risk since loan origination, fair values approximate carrying amounts. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality and for the same remaining maturities. Loans designated by the Company as problem or potential problem loans are reduced by an estimated impairment allowance in consideration of credit quality. Fair values for loans held for sale are based upon quoted market prices.

Deposits: The fair values of demand deposits, interest-bearing demand deposits and savings accounts are the amount payable on demand. The carrying amount for variable rate certificates of deposit approximates their fair value. Fair values for fixed rate certificates of deposit are estimated using discounted cash flow analyses that apply interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on the time deposits.

Notes to Consolidated Financial Statements (continued)

2. Accounting Policies (continued)

Borrowed Funds: Fair values for fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair value.

Securities Sold Under Agreements to Repurchase: Fair values for these obligations are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding.

3. Business Combinations

In July 1993, a subsidiary in the Company's Chemical Business acquired an Australian explosives business, Total Energy Systems, Limited (TES). TES is a distributor of blasting products and provides blasting services. In January 1992, subsidiaries in the Company's Chemical Business acquired all of the outstanding stock of Slurry Explosive Corporation and certain patent rights from Universal Tech Corporation (UTC). One of these subsidiaries acquired the outstanding stock of UTC in September 1992. These acquisitions expand the Company's Chemical Business to include the production and sale of certain patented blasting products and related accessories and services and allow the Company to sell license rights to other companies to manufacture the patented blasting products.

In December 1993, the Company purchased International Bearings Incorporated ("IBI"). IBI is a distributor of agricultural and industrial bearings and is included in the Automotive Products Business.

The results of operations of the acquired entities, recorded using the purchase method of accounting, are included in the accompanying consolidated financial statements from the date of acquisition. The pro forma effects of the acquisitions on the Company's results of operations for 1993 and 1992 are not significant. Following is a detail of the assets and liabilities acquired in connection with the acquisitions discussed above:

	TES and IBI	Slurry
	1993	1992
	(In Thousands)	
Cash and cash equivalents	\$1,228	\$ 55
Trade accounts receivable	1,618	1,186
Inventories	2,359	1,109
Supplies and prepaid items	43	130
Property, plant and equipment	2,143	861
Excess of purchase price over net assets acquired	343	196
Patents and other assets	490	2,285
Total assets	8,224	5,822

Notes to Consolidated Financial Statements (continued)

3. Business Combinations (continued)

	TES and IBI	Slurry
	1993	1992
(In Thousands)		
Accounts payable	\$4,456	\$ 1,458
Accrued liabilities	745	131
Long-term debt	1,276	1,749
Total liabilities	6,477	3,338
Total purchase price	1,747	2,484
Reduction of note receivable from UTC	-	(2,344)
Net cash payment	\$1,747	\$ 140

4. Assets Covered by FSLIC Assistance and FSLIC Receivables and Payable

On December 30, 1988, Equity Bank acquired Arrowhead Federal Savings and Loan Association (Arrowhead), which had assets of approximately \$317 million, through a Federal Savings and Loan Insurance Corporation (FSLIC) assisted acquisition. Arrowhead was merged into Equity Bank and its separate existence was terminated.

In connection with the acquisition of Arrowhead, Equity Bank and FSLIC entered into an Assistance Agreement with an original term of ten years. The Assistance Agreement provided for various forms of financial assistance and indemnifications to Equity Bank during the term of the Assistance Agreement and required payments to FSLIC for sharing of certain items including capital losses, net income and tax benefits.

From the date of the acquisition by Equity Bank of Arrowhead in December 1988 and continuing through 1992, Equity Bank had been subject to assistance considerations by the FSLIC. The terms and effects of such assistance are set forth in the following discussion as such assistance continued through 1992 and has been given effect in the consolidated financial position and results of operations through December 31, 1992.

In March 1993, Equity Bank, the Company, the Federal Deposit Insurance Corporation (FDIC - as manager of the FSLIC Resolution Fund) and the Resolution Trust Corporation (RTC) finalized an agreement terminating the Assistance Agreement. In connection with this Termination Agreement, the RTC paid Equity Bank approximately \$14.2 million in cash and all of the obligations of both parties under the Assistance Agreement were terminated. As a result of the Termination Agreement, Equity Bank assumed all credit risk with respect to existing covered assets. Equity Bank allocated a substantial portion of such \$14.2 million to record the previously covered loans and foreclosed real estate at estimated fair value. As a result, Equity Bank believes that there are adequate discounts relating to the assets to reserve for the credit risk which was assumed. Also as a result of the

Notes to Consolidated Financial Statements (continued)

4. Assets Covered by FSLIC Assistance and FSLIC Receivables and Payables
(continued)

Termination Agreement, Equity Bank is no longer indemnified for any potential claim relating to any covered asset arising out of, or based upon, any liability, action or failure to act of Equity Bank or any of Equity Bank's affiliates, officers or directors from and after December 30, 1988 that are asserted against the FDIC or Equity Bank related to covered assets. The effect of the accounting for the Termination Agreement included reclassifying previously covered assets to reflect their status at the termination date (on a fair value basis), all related receivables and payables were extinguished, the cash payment from the FDIC Manager was recorded and goodwill existing relating to the Arrowhead acquisition was adjusted for this resolution of a contingent purchase price.

Completion of the Termination Agreement had no effect on total stockholders equity and did not result in a charge or credit to the Company's statement of operations. The termination of the Assistance Agreement was recorded effective as of January 1, 1993; therefore, no assistance income from the FSLIC has been recognized in 1993.

Recording of the Termination Agreement increased (decreased) the following accounts (in millions):

Cash and cash equivalents	\$14.2
FSLIC receivables	(18.9)
Assets covered by FSLIC assistance	(33.1)
Loans receivable, net	13.3
Foreclosed real estate, net	8.7
Excess of purchase price over fair value of net assets acquired	6.7
Payable to FSLIC	(9.1)

Covered Assets

Prior to the Termination Agreement, FSLIC had guaranteed the December 30, 1988 book value of covered assets, as defined, of Arrowhead, under the provisions of the Assistance Agreement. Covered assets were defined to include all Arrowhead assets acquired except cash and marketable securities, performing one to four family residential first mortgage loans, certain fixed assets and assets owned by subsidiaries.

An analysis of the changes in assets covered by FSLIC assistance for the year ended December 31, 1992 is as follows (in thousands):

Carrying amount at December 31, 1991	\$48,291
Additions	349
Sales, net of financings	(9,097)
Chargeoffs	(159)
Loan principal paid by borrowers	(6,324)

Carrying amount at December 31, 1992	\$33,060
	=====

Yield Maintenance

Prior to the Termination Agreement and under the provisions of the Assistance Agreement, Equity Bank was provided yield maintenance guarantees on covered assets. Yield maintenance assistance payments were based upon the difference

Notes to Consolidated Financial Statements (continued)

4. Assets Covered by FSLIC Assistance and FSLIC Receivables and Payable
(continued)

between the actual net yield on the covered assets and the guaranteed net yield amount. The guaranteed yield maintenance rate is the FHLB District 10 cost of funds rate plus an additional amount as specified in the Assistance Agreement. At December 31, 1992, the aggregate yield maintenance rate was

6.28% and the average aggregate rate for 1992 was 6.94%. Yield maintenance assistance was \$936,000 in 1992 and \$2,851,000 in 1991.

Mark-to-Market Adjustment

Under the Assistance Agreement, Equity Bank was reimbursed for the acquisition date mark-to-market adjustments associated with certain investment securities and one to four family residential mortgage loans of Arrowhead that did not qualify as covered assets. A receivable for this reimbursement of \$36.3 million was recorded at December 30, 1988. The receivable did not bear interest and was payable in annual installments over ten years or at the time a loan was paid off. The receivable balance of \$15.8 million at December 31, 1992 was settled under provisions of the Termination Agreement.

Other FSLIC Receivables

Equity Bank had various other amounts receivable and payable from FSLIC pursuant to the Assistance Agreement. The following table summarizes the components of other net amounts receivable at December 31, 1992 which were settled under provisions of the Termination Agreement (in thousands):

Reimbursement for capital losses, net of recoveries	\$2,668
Yield maintenance receivable	612
Other	(105)

	\$3,175
	=====

Payable to FSLIC

Pursuant to the provisions of the Assistance Agreement, Equity Bank was required to pay FSLIC \$435,000 quarterly for seven years beginning in March 1992 in lieu of tax benefits arising from the acquisition of Arrowhead. The present value of amounts due under this provision of the Assistance Agreement at December 31, 1992 was \$9.1 million. Interest expense of \$829,000 in 1992 and \$745,000 in 1991 was added to the payable based on a rate of approximately 10%. This liability was settled by provisions of the Termination Agreement.

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank)

Credit Concentrations and Other Risk Factors

Equity Bank is active in originating, selling and servicing residential mortgage loans, as well as originating commercial real estate loans and originating and servicing credit card loans.

Equity Bank conducts its operations in Oklahoma, an area, like many other parts of the country, in which real estate markets are considered depressed. The collateral securing Equity Bank's residential and commercial real estate

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

loan portfolios is located in this geographical area, and the ultimate recoverability of these portfolios may be dependent upon the economic and market conditions in which Equity Bank conducts its operations. While management uses current available information to provide for losses, future additions to the allowances for losses may be necessary based on changes in economic and market conditions.

In addition, Equity Bank is subject to competition, regulations of certain federal agencies, and undergoes periodic examinations by those regulatory agencies. These agencies may require Equity Bank to recognize additions to the allowances for losses based on their judgments of information available to them at the time of their examination.

Equity Bank is not committed to lend additional funds to debtors whose loans have been modified.

Securities Held for Investment

The carrying values (amortized cost) and estimated market values of investment securities and mortgage-backed securities at December 31, 1993 and 1992 are summarized as follows:

1993	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
----- (In Thousands) -----				
U.S. Treasury securities	\$ 1,299	\$ 5	\$ -	\$ 1,304
Federal Home Loan Bank stock	6,417	-	-	6,417
Other	90	-	(18)	72
	-----	-----	-----	-----
	\$ 7,806	\$ 5	\$ (18)	\$ 7,793
	=====	=====	=====	=====
Mortgage-backed securities held for investment, excluding accrued interest receivable of \$1,099,000				
	\$201,623	\$ 793	\$ (807)	\$201,609
	=====	=====	=====	=====
----- 1992 -----				
U.S. Treasury securities	\$ 406	\$ 6	\$ -	\$ 412
Federal Home Loan Bank stock	6,417	-	-	6,417
Other	187	-	-	187
	-----	-----	-----	-----
	\$ 7,010	\$ 6	\$ -	\$ 7,016
	=====	=====	=====	=====
Mortgage-backed securities held for investment, excluding accrued interest receivable of \$1,186,000				
	\$174,241	\$1,143	\$(1,492)	\$173,892
	=====	=====	=====	=====

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

The amortized cost and estimated market value of securities held for investment at December 31, 1993, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Market Value

(In Thousands)		
Due in one year or less	\$1,283	\$1,264
Due after one year through five years ¹⁰⁶	112	
Other	6,417	6,417

Total investment securities	\$7,806	\$7,793
=====		

At December 31, 1993 and 1992, U.S. Treasury securities with an amortized cost of approximately \$1,299,000 and \$400,000, respectively, were pledged to secure customer deposits and FHLB advances.

Mortgage-Backed Securities Held for Investment

The carrying values and estimated market values of mortgage-backed securities held for investment, excluding accrued interest receivable, at December 31, 1993 and 1992 are summarized as follows:

1993	Principal Balance	Unamortized Premiums	Unearned Discounts	Carrying Value	Estimated Market Value

(In Thousands)					
FHLMC certificates	\$ 44,705	\$ 905	\$ -	\$ 45,610	\$ 45,396
FNMA certificates	58,983	1,567	-	60,550	60,399
GNMA certificates	44,384	379	(299)	44,464	45,013
FHLMC collateralized mortgage obligations	5,014	27	-	5,041	5,047
FNMA collateralized mortgage obligations	41,666	57	(2)	41,721	41,543
Private issue collateralized mortgage obligations	4,185	30	-	4,215	4,187
Other	22	-	-	22	24

	\$198,959	\$2,965	\$(301)	\$201,623	\$201,609
=====					

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

1992	Principle Balance	Unamortized Premiums	Unearned Discounts	Carrying Value	Estimated Market Value
(In Thousands)					
FHLMC certificates	\$ 50,569	\$1,129	\$ (79)	\$ 51,619	\$ 52,242
FNMA certificates	56,611	1,516		58,127	58,076
GNMA certificates	39,454	386	(317)	39,523	39,327
FHLMC collateralized mortgage obligations	12,330	484		12,814	12,471
REMICs	11,674	457		12,131	11,750
Other	27			27	26
	\$170,665	\$3,972	\$(396)	\$174,241	\$173,892

Mortgage-backed securities at December 31, 1993 had contractual maturities in installments to 2030.

Mortgage-backed securities with a carrying value at December 31, 1993 of \$39.1 million are pledged to secure outstanding repurchase agreements of \$38.7 million (\$52.1 million were pledged to secure outstanding repurchase agreements of \$50.3 million in 1992). Mortgage-backed securities, with a carrying value of \$162.5 million at December 31, 1993, are pledged to secure FHLB advances and certain deposits (\$132.2 million in 1992).

Loans Receivable

A summary of loans receivable at December 31, 1993 and 1992 is as follows:

	1993	1992
(In Thousands)		
Principal balances on first mortgage loans:		
Secured by one to four family residences	\$ 63,757	\$ 73,124
Secured by other properties	6,385	5,898
Commercial	18,955	12,495
Construction loans	1,029	1,234
Other	516	78
	90,642	92,829
Less:		
Unearned discounts	11,812	13,372
Undisbursed portion of construction loans	819	768
Net deferred loan origination fees	63	188
Total first mortgage loans	77,948	78,501

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

	1993	1992

	(In Thousands)	
Principal balances on consumer and other loans:		
Commercial	\$ 3,231	\$ 1,686
Loans on deposits	2,551	2,181
Credit cards	39,358	36,478
Other	3,984	2,887
	-----	-----
	49,124	43,232
Accrued interest receivable		
Less allowance for loan losses	3,625	3,142
	-----	-----
	\$124,060	\$119,278
	=====	=====
Loans held for sale	\$ 18,574	\$ 6,358
	=====	=====

The estimated fair values for loans receivable are approximately \$134.7 million and \$132.4 million at December 31, 1993 and 1992, respectively. The estimated fair value for loans held for sale are approximately \$18.6 million and \$6.4 million at December 31, 1993 and 1992, respectively.

Weighted average interest rates of loans receivable were 9.28% and 9.72% at December 31, 1993 and 1992, respectively.

Commercial real estate, consumer and other loans with a carrying amount of approximately \$14 million at December 31, 1992, were not included above and were included in Assets Covered by FSLIC Assistance in the balance sheet (Note 4).

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

Activity in the allowance for loan losses is summarized as follows for the years ended December 31:

	1993	1992	1991

	(In Thousands)		
Balance at the beginning of the year	\$3,142	\$3,424	\$3,712
Provision charged to income	1,382	1,224	1,335
Chargeoffs	(1,151)	(1,635)	(1,901)
Recoveries	252	129	278

Balance at the end of the year	\$3,625	\$3,142	\$3,424
	=====		

In connection with the termination of the Assistance Agreement, Equity Bank assumed the credit risk of \$13.3 million in loans whose credit risk had previously been covered under terms of the Assistance Agreement. At December 31, 1993, approximately \$1.4 million in unearned nonaccretable discounts exist to provide as additional reserves on these loans. These amounts are included as unearned discounts and are not included in the allowance for loan losses above.

Nonaccrual and renegotiated or restructured potentially problem loans approximate \$3.1 million and \$2.8 million at December 31, 1993 and 1992, respectively. Interest income that would have been recorded under the original terms of such loans and the interest income actually recognized for the years ended December 31 are summarized below:

	1993	1992	1991

Interest income that would have been recorded	\$397,000	\$351,000	\$156,000
Interest income recognized	(84,000)	(63,000)	(58,000)

Interest income foregone	\$313,000	\$288,000	\$ 98,000
	=====		

Loan Servicing

Mortgage loans and credit cards and other loans serviced for others are not included in the consolidated financial statements. The unpaid principal balances of these loans at December 31 are summarized as follows:

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

	1993	1992

	(In Thousands)	
Mortgage loans underlying FNMA passthrough securities	\$ 38,273	\$ 42,784
Mortgage loan portfolios serviced for:		
FNMA	3,305	4,449
FHLMC	158,265	132,112
Other investors	8,865	11,939
Credit cards and other loans serviced for others	23,589	32,454
	-----	-----
	\$232,297	\$223,738
	=====	

Custodial escrow balances maintained in connection with the foregoing loan servicing were approximately \$1,239,000 and \$1,211,000 at December 31, 1993 and 1992, respectively.

Foreclosed Real Estate

A summary of changes in foreclosed real estate is as follows:

	1993	1992	1991

	(In Thousands)		
Balance at the beginning of the year	\$15,151	\$16,165	\$17,289
Additions:			
Related to Termination Agreement	8,743		
Other additions	423	614	320
Sales	(4,941)	(1,148)	(814)
Chargeoffs and other	(114)	(480)	(630)
	-----	-----	-----
Balance at the end of the year	\$19,262	\$15,151	\$16,165
	=====		

Foreclosed real estate with a carrying value of \$19 million at December 31, 1992 is not included above and is included in Assets Covered by FSLIC Assistance (Note 4).

Foreclosed real estate includes loans considered in-substance foreclosures of \$13.9 million at December 31, 1993 and \$14.2 million at December 31, 1992. The majority of this balance is comprised of a commercial real estate property which is the office building in which Equity Bank's corporate office is located. This property was determined to be an in-substance foreclosure in 1990.

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

Deposits

Deposits at December 31 are summarized as follows:

	1993			1992		
	Weighted Average Rate	Amount	Percent	Weighted Average Rate	Amount	Percent
(Amounts in Thousands)						
Demand, money market and NOW accounts, including non-interest bearing deposits of approximately \$19,887,000 in 1993 and \$16,941,000 in 1992	2.24%	\$ 87,537	26.3%	2.96%	\$ 87,185	25.9%
Passbook savings	2.73%	17,260	5.2	3.50%	15,347	4.6
		-----			-----	
		104,797	31.5		102,532	30.5
Certificates of deposit:						
0.99% to 2.99%		1,083	.3		-	-
3.00% to 4.99%		191,852	57.7		182,230	54.2
5.00% to 6.99%		32,236	9.7		36,812	11.0
7.00% to 8.99%		2,196	.7		14,003	4.2
9.00% to 10.99%		245	.1		344	.1
11.00% to 12.99%		-	-		30	-
13.00% to 14.99%		102	-		102	-
		-----			-----	
	4.04%	227,714	68.5	4.54%	233,521	69.5
	-----			-----		
	3.50%	\$332,511	100.0%	4.08%	\$336,053	100.0%
	=====			=====		

The fair values for deposits at December 31, 1993 and 1992 are approximately \$333.4 million and \$337.4 million, respectively.

The aggregate amount of jumbo certificates of deposit and other accounts with a minimum denomination of \$100,000 was approximately \$39.7 million and \$31.2 million at December 31, 1993 and 1992, respectively.

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

At December 31, 1993, scheduled maturities of certificates of deposit are as follows:

		Year ending December 31,					
		1994	1995	1996	1997	1998	Total
		(In Thousands)					
0.99% to 2.99%		\$ 1,083	\$ -	\$ -	\$ -	\$ -	\$ 1,083
3.00% to 4.99%		166,670	19,723	5,099	-	360	191,852
5.00% to 6.99%		17,022	2,775	356	2,442	9,641	32,236
7.00% to 8.99%		2,073	124	-	-	-	2,197
9.00% to 10.99%		245	-	-	-	-	245
13.00% to 14.99%		102	-	-	-	-	102
		\$187,195	\$22,622	\$5,455	\$2,442	\$10,001	\$227,715

Interest expense on deposits is as follows:

Type	1993	1992	1991
(In Thousands)			
Demand, money market and NOW	\$ 2,223	\$ 2,634	\$ 2,748
Savings	530	524	522
Time	9,752	13,287	19,874
	\$12,505	\$16,445	\$23,144

Federal Home Loan Bank Advances

Advances at December 31, 1993 and 1992 were \$87.7 million and \$80.1 million, respectively. The advances have maturities ranging from 31 days to five years and have interest rates ranging from 3.30% to 6.40% at December 31, 1993 (3.85% to 6.40% at December 31, 1992) and are secured by mortgage-backed securities. The estimated fair values of FHLB advances at December 31, 1993 and 1992 are \$87.7 million and \$80.3 million, respectively. Interest expense on FHLB advances was \$3,122,000 in 1993, \$3,343,000 in 1992 and \$3,211,000 in 1991.

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase of \$38.7 million at December 31, 1993 and \$50.3 million at December 31, 1992 are treated as financings and the underlying collateral is included in mortgage-backed securities. The agreements outstanding at December 31, 1993 had interest rates of 3.38% (3.57% on agreements outstanding at December 31, 1992) and mature in March 1994. The underlying securities, which are held by a single counterparty (Prudential-Bache Securities), were mortgage-backed certificates with a book value of \$39.1 million (\$52.1 million at December 31, 1992) and a market value of approximately \$39.1 million (\$52.6 million at December 31, 1992). Interest expense on securities sold under agreements to repurchase was \$1.5 million in 1993, \$2.4 million in 1992 and \$4.9 million in 1991. Estimated fair values for securities sold under agreements to repurchase were \$38.7 million and \$50.3 million at December 31, 1993 and 1992, respectively.

The maximum amount of repurchase agreements outstanding at any month end was \$50.3 million in 1993, \$66.7 million in 1992 and \$82.2 million in 1991. The daily average amount outstanding was \$44 million in 1993, \$58 million in 1992 and \$75 million in 1991.

Off-Balance-Sheet Risk

Equity Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. At December 31, 1993, these financial instruments include commitments of undisbursed funds on loan commitments of \$5.4 million, unfunded lines of credit of \$2.4 million, and unfunded credit card availability of approximately \$147 million. Equity Bank uses the same credit and collateral policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Equity Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is generally represented by the contractual notional amount of these instruments. Equity Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless noted otherwise, Equity Bank does not require collateral or other security to support financial instruments with credit risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

necessarily represent future cash requirements. Equity Bank evaluates each customer's credit worthiness on a case by case basis. The amount of collateral obtained, if it is deemed necessary by Equity Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment and income producing commercial properties.

Regulatory and Other Matters

As discussed in Note 4, on August 9, 1989, the FIRREA legislation transferred FSLIC's rights and obligations under the Assistance Agreement to the FSLIC Resolution Fund, which is administered principally by the FDIC. Under FIRREA, the Office of Thrift Supervision (OTS), which is a bureau of the U.S. Treasury Department, became the primary regulator of thrift institutions and thrift holding companies. Deposit insurance for all banks and thrifts is now the responsibility of the FDIC through two agencies, the Savings Association Insurance Fund and the Bank Insurance Fund.

In connection with the Company's acquisition of Equity Bank and Equity Bank's acquisition of Arrowhead, Equity Bank received forbearances, approvals and waivers related to certain regulatory requirements, which were for specified periods of time in some instances. These included, among other things, approval for the purchase and financing, with full recourse, of affiliates' accounts receivable and forbearances related to the Qualified Thrift Lender regulatory requirements, among other things. The maximum amount of the receivables purchased could not exceed \$60 million. In March 1993, the five-year waiver from regulatory limitations expired and the balance of purchased receivables is now subject to transactions with affiliates' limitations as set forth in Sections 23A and 23B of the Federal Reserve Act (FRA). Equity Bank was notified by regulatory authorities that it is expected to be in full compliance with FRA 23A and 23B no later than September 1, 1994. The balance of these purchased accounts receivable at December 31, 1993 and 1992 is \$33.6 million and \$32.4 million, respectively. At December 31, 1993, approximately \$24.4 million of these receivables were in excess of the FRA 23A and 23B limitations. The Company is presently in process of obtaining alternative financing to meet its working capital needs.

Regulations for savings institutions' minimum capital requirements went into effect on December 7, 1989. In addition to the capital requirements, FIRREA includes provisions for changes in the federal regulatory structure for institutions, including a new deposit insurance system, increased deposit insurance premiums, and restricted investment activities with respect to noninvestment-grade corporate debt and certain other investments. FIRREA also increases the required ratio of housing related assets needed to qualify as a savings institution.

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

As a federally chartered institution and a member of the Federal Savings and Loan System, Equity Bank is subject to restrictions on the payments of capital distributions. At December 31, 1993, approximately \$6 million of retained earnings are available for future dividends.

Minimum capital standards for the thrift industry, which Equity Bank is subject to, prescribe three separate measurements of capital adequacy. The regulatory net worth requirements provide for tangible capital (1.5%), core capital (3.0%) and risk-based capital (8.0%) requirements. A comparison of Equity Bank's regulatory capital requirements at December 31, 1993 with actual amounts and percentages is as follows (amounts in thousands):

	Requirements		Actual	
	Amount	Percent	Amount	Percent
Tangible	\$ 7,554	1.5%	\$34,812	6.9%
Core	15,108	3.0	38,589	7.7
Risk-based	21,986	8.0	41,431	15.1

The following is a reconciliation of GAAP capital to regulatory capital:

	Regulatory		
	Tangible Capital	Core Capital	Risk-Based Capital
	(In Thousands)		
GAAP capital, as adjusted	\$58,627	\$58,627	\$58,627
Nonallowable assets:			
Investments in nonincludable subsidiaries	(6,774)	(6,774)	(6,774)
Goodwill and other intangible assets	(17,041)	(17,041)	(17,041)
Qualifying supervisory goodwill	-	3,777	3,777
Equity investments	-	-	(598)
Additional capital items:			
General valuation allowances - limited	-	-	3,440
Regulatory capital - computed	34,812	38,589	41,431
Minimum capital requirement	7,554	15,108	21,986
Regulatory capital - excess	\$27,258	\$23,481	\$19,445

Effective December 16, 1992, the banking regulations adopted final rules regarding the FDIC Improvement Act of 1991's establishment of five capital levels, ranging from well capitalized to critically undercapitalized. If an institution's capital level falls below well capitalized, it becomes subject to increasing regulatory oversight and restrictions on banking

Notes to Consolidated Financial Statements (continued)

5. Financial Services Subsidiaries (See Note 1 for Discussion of Proposed Sale of Equity Bank) (continued)

activities for each lower capital level. In addition, FDIC insurance premiums are now, in part, based upon the institution's capital level.

A financial institution is considered well capitalized if it is under no regulatory order or action and its leverage ratio is at least 5% and its Tier 1 and Total Risk-Based Capital ratios are at least 6% and 10%, respectively. Equity Bank is considered well capitalized as defined.

6. Inventories

Inventories at December 31, 1993 and 1992 consist of:

	Finished (or Purchased) Goods	Work-In- Process	Raw Materials	Total

(In Thousands)				
1993:				
Air handling units	\$ 2,050	\$ 2,281	\$ 7,447	\$11,778
Machinery and industrial supplies	10,287	-	-	10,287
Automotive products	9,588	3,508	712	13,808
Chemical products	5,015	3,854	3,642	12,511
	-----	-----	-----	-----
Total	\$26,940	\$ 9,643	\$11,801	\$48,384
	=====	=====	=====	=====
1992 total	\$27,877	\$10,734	\$ 9,762	\$48,373
	=====	=====	=====	=====

7. Property, Plant and Equipment

Property, plant and equipment, at cost, consist of:

	December 31,	
	1993	1992

(In Thousands)		
Land and improvements	\$ 5,534	\$ 5,534
Buildings and improvements	23,116	20,822
Machinery, equipment and automotive	81,476	70,691
Furniture, fixtures and store equipment	8,385	7,481
Producing oil and gas properties	3,405	3,410
	-----	-----
	121,916	107,938
Less accumulated depreciation, depletion and amortization	56,246	49,889
	-----	-----
	\$ 65,670	\$ 58,049
	=====	=====

8. Foreign Sales Contract

On July 6, 1992, a subsidiary of the Company signed an agreement to supply a foreign customer with equipment, technology and technical assistance to manufacture certain types of automotive products. The total contract price is \$56 million with \$12 million to be retained by the customer, as the subsidiary's equity participation, which represents a minority interest in the customer. The subsidiary values its equity participation in the customer at a nominal amount. Of the balance of the contract price of \$44 million, \$13.1 million has been billed and collected by the Company. The remaining \$30.9 million is to be collected in 39 equal quarterly installments of \$791,000, plus interest at a rate of 7.5% per annum.

The Company's subsidiary has agreed to make its best effort to purchase approximately \$14.5 million of bearing products each year for ten years commencing in the customer's first year of operations, which is anticipated to be in 1994. However, the subsidiary is not required to purchase more product from the customer in any one year than the quantity of tapered bearing products the subsidiary is able to sell in its market. The customer has also agreed to repurchase within four years, \$6 million of the subsidiary's equity participation in the customer. In the event that the customer is unable to repurchase such equity participation, the parties may renegotiate and modify the agreement for purchase of the Company's subsidiary to purchase products from the customer.

During the last quarter of 1993, the Company's subsidiary exchanged its rights to the equity interest in the customer with a foreign nonaffiliated company (Purchaser of the Interest) for \$12.0 million in notes. The Company has been advised that the customer has agreed to repurchase from the Purchaser of the Interest up to \$6 million of such equity interest over a six-year period, with payment to the Purchaser of the Interest to be either in cash or bearing products. The notes issued to the subsidiary for its rights to the equity interest in the customer will only be payable when, as and if the Purchaser of the Interest collects from the customer for such equity interest, and the method of payment to the subsidiary will be either cash or bearing products, in the same manner as received by the Purchaser of the Interest from the customer. Due to the Company's inability to determine what payments, if any, it will receive on such notes, the Company will continue to carry such notes at a nominal amount.

Revenues, costs and profits related to the contract are being recognized in two separate phases. The first phase involves the purchase, modification, development and delivery of the machinery, tooling, designs and other technical information and services. Sales to be recognized during this phase are limited to the expected collections under the contract during this phase. Sales and costs during the first phase will be recognized using the percentage of completion method of accounting based on the ratio of total costs incurred, excluding the cost of purchased machinery, to estimated total costs, excluding the cost of purchased machinery. Since the inception of the contract, the Company has collected \$13.1 million of the contract price and recognized sales and cost of sales of \$13.7 million and \$4.8 million, respectively. For the year ended December 31, 1993, the Company recognized sales and cost of sales of \$7.5 million and \$2.2 million, respectively. The cumulative effect of future revisions in the contract terms or total cost estimates will be reflected in the period in which these changes become known.

Notes to Consolidated Financial Statements (continued)

8. Foreign Sales Contract (continued)

The second phase of the contract includes payments by the customer under the financing terms set forth above and purchases of bearing products by the Company's subsidiary from the customer. Contract revenues will be recognized as the Company performs its obligation to purchase products from the customer, which timing generally coincides with the timing that amounts are to be collected from the customer. Interest will be recognized as the amounts are collected from the customer.

9. Long-Term Debt

Long-term debt is detailed as follows:

	December 31,	
	1993	1992

	(In Thousands)	
Subordinated debt:		
13-3/4% Subordinated Sinking Fund Debentures	\$ -	\$ 2,225
Other:		
Secured loans of a subsidiary with interest payable quarterly at rates indicated (A):		
10.415% to 12.72% term loans	20,583	24,938
Revolving loans with interest at the corporate base rate of a certain bank plus a specified percentage (7.5% at December 31, 1993)	2,100	-
Variable rate term loan	-	8,750
Secured revolving loans with interest payable monthly at the prime rate of a bank affiliated with the lender plus a specified percentage (9.0% aggregate rate at December 31, 1993) (B)	470	6,853
Other	7,142	7,555
	-----	-----
	\$30,295	\$50,321
	=====	=====

(A) This agreement between a subsidiary of the Company and two institutional lenders provides for two series of seven-year term loans aggregating \$28.5 million, a \$10 million asset-based revolving credit facility, and an additional revolving line of credit of \$7.2 million. Available borrowings under this additional revolving credit line at December 31, 1993 were \$7.2 million and decreases annually until its termination in March 1997. The asset-based revolving loans are available to the subsidiary based on varying percentages of the carrying value of eligible assets available for collateral, as specified in the agreement. At December 31, 1993, there was \$2.1 million in borrowings outstanding against the revolving credit facility. At December 31, 1993, the available asset-based revolving loans amounted to approximately \$6.6 million, based on eligible assets after reduction by \$1.1 million for an outstanding letter of credit related to a leasing arrangement for precious metals (Note 14). The subsidiary is required to pay a .5% fee for the excess of available over outstanding revolving loans.

Notes to Consolidated Financial Statements (continued)

9. Long-Term Debt (continued)

The agreement is secured by substantially all of the subsidiary's assets and capital stock. It requires the subsidiary to maintain certain financial ratios and contains other financial covenants, including working capital, fixed charge coverage and tangible net worth requirements and capital expenditure limitations. Payments to the parent company are limited to (i) the amount of income taxes that the subsidiary would pay if the subsidiary filed separate income tax returns, (ii) management and other fees required for reimbursement of reasonable costs and expenses, consistent with past practices and (iii) other payments to the parent company up to 25% or 50% of the cumulative net income of the subsidiary, depending on the capitalization ratio, as defined, of the subsidiary. As a result of the various restrictions under the agreement, net assets of the subsidiary of approximately \$5.3 million cannot be transferred to the parent company.

Annual principal payments of the term loans began on June 30, 1992 starting at \$4.8 million and escalate each year to a final payment of \$5.5 million on March 31, 1997.

- (B) The revolving loans are generally available to the Company, up to a maximum of \$8 million, based on varying percentages of the carrying value of eligible assets available for collateral, as specified in the agreement. At December 31, 1993, the unused portion of available revolving loans amounted to \$7.4 million.

The loan agreement requires the Company to maintain consolidated net worth, as defined, of not less than \$6 million. The agreement also requires the Company to maintain consolidated working capital (excluding the assets and liabilities of Equity Bank and other subsidiaries not parties to the agreement and excluding amounts owed under this agreement) of not less than \$9 million at the end of each fiscal quarter. The agreement provides for certain other restrictions which, among other things, (a) limit certain future liens, (b) prohibit declaration and payment of cash dividends on common stock in excess of \$1,896,000 annually, and (c) limit cumulative treasury stock purchases.

Borrowings are collateralized by certain inventory and a security interest in certain other assets of the Company and its subsidiaries. This agreement continues to March 31, 1994. The Company has not determined whether the agreement will be extended past March 31, 1994.

Maturities of long-term debt for each of the five years after December 31, 1993 are: 1994 - \$10,651,000; 1995 - \$5,568,000; 1996 - \$5,667,000; 1997 - \$5,769,000 and 1998 and after - \$2,640,000. All drafts payable mature in 1994.

The estimated fair value of the Company's long-term debt is \$31.8 million and \$52.2 million at December 31, 1993 and 1992, respectively.

10. Income Taxes

Prior to 1992, the Company computed income taxes in accordance with Accounting Principles Board Opinion No. 11. Effective January 1, 1992, the Company elected to adopt FASB Statement No. 109, Accounting for Income Taxes. Pursuant to the provisions of Statement No. 109, the Company elected not to restate prior years' financial statements. The Company has determined that the

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

cumulative effect of the change in accounting for income taxes was not significant.

Statement No. 109 provides that deferred income taxes will be determined using the liability method. Specifically, Statement No. 109 requires companies to recognize a deferred tax liability or asset for the estimated future tax effects attributable to temporary differences and carryforwards. Measurement of such liabilities and assets is based on provisions of enacted tax laws. Deferred tax assets are reduced, if necessary, by the amount of tax benefits, based on available evidence, that are not expected to be realized.

The provision for income taxes consists of the following:

	Deferred		
	Liability	Method	Method
	1993	1992	1991

	(In Thousands)		
Current:			
Federal	\$440	\$215	\$ -
State	434	301	197

	\$874	\$516	\$197
	=====		

The approximate tax effects of each type of temporary difference and carryforward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 1993 and 1992 are as follows:

	1993	1992

	(In Thousands)	
Deferred tax asset		
Allowances for doubtful accounts and		
loan losses not deductible for tax purposes	\$2,898	\$ 2,869
Partnership losses not deductible for tax purposes	2,294	1,843
Capitalization of certain costs as inventory for		
tax purposes	1,668	1,455
Foreclosed real estate basis differences	539	709
Net operating loss carryforward	38,493	43,661
Investment tax and alternative minimum tax		
credit carryforwards	1,356	948
Other	262	990

Total deferred tax assets	47,510	52,475
Less valuation allowance	34,865	39,915

Net deferred tax assets	\$12,645	\$12,560
	=====	

LSB Industries, Inc.
Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

	1993	1992

Deferred tax liability	(In Thousands)	
Accelerated depreciation used for tax purposes	\$ 7,061	\$ 6,083
Asset basis differences resulting from business combinations:		
Inventories	2,139	2,084
Investments	314	306
Loan servicing costs	194	280
Tax bad debt deduction over base year	2,234	3,179
FHLB stock dividends	598	583
Other	105	45

Total deferred tax liabilities	\$12,645	\$12,560
	=====	

The Company is able to realize deferred tax assets up to an amount equal to the future reversals of existing taxable temporary differences. The majority of the taxable temporary differences will turn around in the loss carryforward period as the differences are depreciated or amortized. Other differences will turn around as the assets are disposed in the normal course of business or by tax planning strategies which management considers prudent and feasible.

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to Income (loss) before provision for income taxes and extraordinary item are detailed below:

	Liability Method		Deferred Method
	1993	1992	1991

(In Thousands)			
Provision (credit) for income taxes at federal statutory rate	\$4,646	\$ 3,322	\$ (323)
FSLIC interest and assistance	-	(1,095)	(2,215)
Changes in the valuation allowance related to deferred tax assets	(5,050)	(1,295)	-
Net operating losses for which no current benefit is available	-	-	4,754
Amortization of mark-to-market adjustments	(1,029)	(1,493)	(1,947)
State income taxes, net of federal benefit	282	198	130
Amortization of excess of purchase price over net assets acquired	1,643	788	800
Settlement of dispute with governmental agency	618	-	-
Recoveries of previously covered foreclosed real estate	(574)	-	-
Excess provision for losses on loans and foreclosed real estate for financial purposes less than tax bad debt deduction	-	-	(1,516)
Utilization of net operating loss carryforward	-	(309)	-
Alternative minimum tax	440	215	-
Other	(102)	185	514

Provision for income taxes	\$ 874	\$ 516	\$ 197
	=====		

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

At December 31, 1993, the Company has net operating loss (NOL) carryforwards for tax purposes of approximately \$101 million including approximately \$64 million allocable to Equity Bank (See Note 1 for discussion of proposed sale of Equity Bank). Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$600,000, which expire beginning in 1994.

Savings and loan associations which meet certain definitional tests and operating requirements prescribed by the Internal Revenue Code are allowed a special bad debt deduction. If a savings and loan does not continue to meet the federal income tax requirements necessary to meet these definitions, the association may lose the benefits of this deduction.

11. Stockholders Equity

Stock Options and Warrants

In November 1981, the Company adopted the 1981 Incentive Stock Option Plan, in March 1986, the Company adopted the 1986 Incentive Stock Option Plan and in September 1993, the Company adopted the 1993 Incentive Stock Plan. Under these plans, the Company is authorized to grant options to purchase up to 3,700,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options to be granted under this plan is equal to the fair market value of the Company's common stock at the date of grant. For participants who own 10% or more of the Company's common stock at the date of grant, the option price is 110% of the fair market value at the date of grant and the options lapse after five years from the date of grant.

Activity in the Company's stock option plans during each of the three years in the period ended December 31, 1993 is as follows:

	1993	1992	1991
Outstanding options at beginning of year	1,340,300	2,501,700	2,719,700
Granted	14,000	280,000	-
Exercised	(791,636)	(1,411,400)	-
Surrendered, forfeited or expired	(6,000)	(30,000)	(218,000)
Outstanding options at end of year	556,664	1,340,300	2,501,700

Notes to Consolidated Financial Statements (continued)

11. Stockholders' Equity (continued)

	1993	1992	1991
At end of year:			
Prices of outstanding options	\$1.13 to \$9.00	\$1.13 to \$3.44	\$1.13 to \$3.03
Average option price per share	\$2.44	\$2.10	\$1.73
Options exercisable	280,640	852,566	1,803,580
Options available for future grants	926,300	84,300	334,300

The Company's Board of Directors approved the grant of non-qualified stock options to the Company's outside directors, President and a key employee of one of the Company's subsidiaries, as detailed below. The option price was based on the market value of the Company's common stock at the date of grant and these options are exercisable at any time after the date of grant and expire five years from such date. During 1993, one of the Company's directors exercised options to purchase 65,000 shares of the Company's stock at an average price of \$2.26 per share. During 1992, three of the Company's directors exercised options to purchase 150,000 shares of the Company's stock at \$1.25 per share and an option to purchase 50,000 shares at \$1.25 per share expired.

Date Granted	Option Price Per Share	Number of Shares Subject to Options Outstanding at December 31, 1993
June 1989	\$2.625	243,000
April 1990	\$1.375	100,000
June 1992	\$3.125	45,000

In September 1993, the Company adopted the 1993 Non-Employee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of nonqualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of shares of common stock of the Company that may be issued under the Outside Director Plan is 150,000 shares (subject to adjustment as provided in the Outside Director Plan). The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of \$9.2 million or more for such fiscal year. The exercise price for an option granted under this plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under this plan to the extent not exercised shall terminate upon the earlier of the termination as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. No options are outstanding under this plan.

Preferred Share Purchase Rights

In February 1989, the Company's Board of Directors declared a dividend distribution of one Preferred Share Purchase Right (the Preferred Right) for each outstanding share of the Company's common stock. The Preferred Rights are designed to ensure that all of the Company's stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

Notes to Consolidated Financial Statements (continued)

11. Stockholders' Equity (continued)

The Preferred Rights are generally exercisable when a person or group, other than the Company's Chairman and his affiliates, acquire beneficial ownership of 30% or more of the Company's common stock (such a person or group will be referred to as the Acquirer). Each Preferred Right (excluding 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 at an exercise price of \$14. Following the acquisition by the Acquirer of beneficial ownership of 30% or more of the Company's common stock, and prior to the acquisition of 50% or more of the Company's common stock by the Acquirer, the Company's Board of Directors may exchange all or a portion of the Preferred Rights (other than Preferred Rights owned by the Acquirer) for the Company's common stock at the rate of one share of common stock per Preferred Right. Following acquisition by the Acquirer of 30% or more of the Company's common stock, each Preferred Right (other than the Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Company's common shares having a market value of two times the Preferred Right's exercise price.

If the Company is acquired, each Preferred Right (other than the Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Acquirer's common shares having a market value at the time of two times the Preferred Right's exercise price.

Prior to the acquisition by the Acquirer of beneficial ownership of 30% or more of the Company's stock, the Company's Board of Directors may redeem the Preferred Rights for \$.01 per Preferred Right.

12. Redeemable Preferred Stock

Each share of the noncumulative redeemable preferred stock, \$100 par value, is convertible into 40 shares of the Company's common stock at any time at the option of the holder; entitles the holder to one vote and is redeemable at par. The redeemable preferred stock provides for a noncumulative annual dividend of 10%, payable when and as declared.

13. Non-redeemable Preferred Stock

The 20,000 shares of Series B cumulative, convertible preferred stock, \$100 par value, are convertible, in whole or in part, into 666,666 shares of the Company's common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. Dividend payments are current at December 31, 1993.

On May 27, 1993, the Company completed a public offering of \$46 million of a new series of Class C preferred stock, designated as a \$3.25 convertible exchangeable Class C preferred stock, Series 2, no par value (Series 2 Preferred). The Series 2 Preferred has a liquidation preference of \$50.00 per share plus accrued and unpaid dividends and is convertible at the option of the holder at any time, unless previously redeemed, into common stock of the Company at an initial conversion price of \$11.55 per share (equivalent to a conversion rate of approximately 4.3 shares of common stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. Upon the mailing of notice of certain corporate actions, holders will have special conversion rights for a 45-day period.

Notes to Consolidated Financial Statements (continued)

13. Non-redeemable Preferred Stock (continued)

The Series 2 Preferred is not redeemable prior to June 15, 1996. The Series 2 Preferred will be redeemable at the option of the Company, in whole or in part, at \$52.28 per share if redeemed on or after June 15, 1996, and thereafter at prices decreasing ratably annually to \$50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears.

The Series 2 Preferred also is exchangeable in whole, but not in part, at the option of the Company on any dividend payment date beginning June 15, 1996, for the Company's 6.50% Convertible Subordinated Debentures due 2018 (the Debentures) at the rate of \$50.00 principal amount of Debentures for each share of Series 2 Preferred. Interest on the Debentures, if issued, will be payable semiannually in arrears. The Debentures will, if issued, contain conversion and optional redemption provisions similar to those of the Series 2 Preferred and will be subject to a mandatory annual sinking fund redemption of five percent of the amount of Debentures initially issued, commencing June 15, 2003 (or the June 15 following their issuance, if later).

The 663,150 shares of Series 1 Convertible, Exchangeable Class C Preferred Stock (Series 1 Preferred Stock) outstanding at December 31, 1992 were converted into 5,008,558 shares of common stock. The remaining 5,760 shares of Series 1 Preferred Stock not converted to common stock, were redeemed at \$20.88 per share plus accrued dividends by the Company.

At December 31, 1993, the Company is authorized to issue an additional 228,363 shares of \$100 par value preferred stock and an additional 5,000,000 shares of no par value preferred stock. Upon issuance, the Board of Directors of the Company is to determine the specific terms and conditions of such preferred stock.

14. Commitments and Contingencies

Operating Leases

The Company leases certain property, plant and equipment. Future minimum payments on operating leases with initial or remaining terms of one year or more at December 31, 1993 are as follows:

(In Thousands)

1994	\$1,386
1995	980
1996	625
1997	234
1998	113
After 1998	36

	\$3,374
	=====

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

Rent expense under all operating lease agreements, including month-to-month leases, was \$2,073,000 in 1993, \$2,934,000 in 1992 and \$2,944,000 in 1991. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was \$120,000 in 1993, 1992 and 1991.

A subsidiary of the Company has an operating lease agreement for specified quantities of precious metals used in the subsidiary's production process. The lease, which expires in May 1994, requires, among other things, (i) rentals generally based on a percentage (5.5%) of the leased metals market values, (ii) the subsidiary to provide to the lessor a letter of credit equal to approximately 80% of the leased metals market value (approximately \$1.1 million at December 31, 1993) and (iii) the subsidiary to purchase the leased metals at market value at the end of the lease term, if not renewed, or return to the lessor the quantities of metals subject to the lease.

A substantial portion of Equity Bank's lease expense relates to the corporate office space occupied by Equity Bank. In 1989, Equity Bank made a \$15 million first mortgage real estate loan collateralized by the building in which Equity Bank's corporate office is located. In connection with the origination of this loan, Equity Bank obtained an option to purchase the building. The option period is from December 31, 1995 through June 30, 1996 at a price to be determined at the time of exercise. This loan was determined to be an in-substance foreclosure during 1990 and is included in foreclosed real estate at December 31, 1993 and 1992 (Note 4).

During 1993, the Company's Chemical Business acquired an additional nitric acid plant for approximately \$1.9 million. The Chemical Business is in the process of moving such plant from Illinois and installing the plant in Arkansas. The Company anticipates the total expenditures to move and install the plant will be approximately \$12 million, of which \$1.9 million had been incurred at December 31, 1993.

Legal Matters

Following is a summary of certain legal actions involving the Company:

- A. In 1987, the U.S. Government notified one of the Company's subsidiaries, along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in (i) the estimated total cost of clean-up of the site and (ii) the percentage of the total waste which was alleged to have been contributed to the site by the Company, accordingly, no provision for any liability which may result has been made in the accompanying financial statements. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.
- B. The primary manufacturing facility of the Company's Chemical Business has been placed in the Environmental Protection Agency's (EPA) tracking system ("System") of sites which are known or suspected to be a site of a release of contaminated waste. Inclusion in the EPA's tracking system does not represent a determination of liability or a finding that any response action is necessary, accordingly, no provision for any liability that may result has been made in the consolidated financial

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies (continued)

statements. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment. The Company has been advised that there have occurred certain releases of contaminants at the Site. In addition, as a result of certain releases of contaminants at the Site, the Company's subsidiary may be subject to assessment of certain civil penalties.

The Company's subsidiary has not yet received from the appropriate governmental agency of the State of Arkansas a determination as to the appropriate plan of remediation of the Site and what contaminants, if any, must be remediated. The subsidiary is unable to estimate the cost of such remediation until the subsidiary receives an acceptable plan from such agency. The subsidiary believes that it will receive such a plan from the appropriate Arkansas state agency in the near future and at that time will be able to estimate the cost of such remediation at the Site. The Company does not believe that the response to any contamination at the Site or the assessment of penalties, if any, due to the release of certain contaminants at the Site would have a material adverse effect on the Company or its financial condition.

- C. A subsidiary of the Company was named in April 1989 as a third party defendant in a lawsuit alleging defects in fan coil units installed in a commercial building. The amount of damages sought by the owner against the general contractor and the subsidiary's customer are substantial. The subsidiary's customer alleges that to the extent defects exist in the fan coil units, it is entitled to recovery from the subsidiary. The Company's subsidiary generally denies their customer's allegations and that any failures in the fan coil units were a result of improper design by the customer, improper installation or other causes beyond the subsidiary's control. The subsidiary has in turn filed claims against the suppliers of certain materials used to manufacture the fan coil units to the extent any failures in the fan coil units were caused by such materials. Discovery in these proceedings is continuing. The Company believes it is probable that it will receive insurance proceeds in the event of an unfavorable outcome.

The Company, including its subsidiaries, is a party to various other claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management after consultation with counsel, all claims, legal actions (including those described above) and complaints are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts that unfavorable disposition would not have a material effect on the financial position or results of operations of the Company.

During 1993 the Company settled an outstanding dispute with the U.S. Customs Service. Pursuant to the terms of the settlement agreement, the Company made a payment of \$1.8 million. This settlement payment has been included in nonfinancial services selling, general and administrative expenses in 1993.

In connection with its loan servicing activities, Equity Bank is contingently liable for certain mortgage loans sold with recourse to investors. At December 31, 1993, the outstanding principal balance of such loans is approximately \$17.9 million.

15. Segment Information

The Company and its subsidiaries operate principally in five industries.

Chemical

This segment manufactures and sells chemical products for mining, agricultural, electronic, paper and other industries. Sales to customers of this segment, which primarily include coal mining companies throughout the United States and farmers in Texas, Missouri and Tennessee, are generally unsecured.

Environmental Control

This business segment manufactures and sells a variety of air handling and heat pump products for use in commercial and residential air conditioning and heating systems. Sales to customers of this segment, which primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world, are generally secured by a mechanic's lien, except for sales to original equipment manufacturers, which are generally unsecured.

Financial Services (See Note 1 for Discussion of Proposed Sale of Equity Bank)

This segment provides a wide variety of financial services to various customers, located primarily in Oklahoma. See Notes 2, 4 and 5 for a more complete discussion of the Financial Services Business, customers and other matters.

Industrial Products

This segment purchases and sells machine tools and industrial supplies to machine tool dealers and end users throughout the world. Sales of industrial supplies are generally unsecured, whereas the Company generally retains a security interest in machine tools sold until payment is received.

Automotive Products

This segment manufactures and sells, generally on an unsecured basis, anti-friction bearings and other products for automotive applications to wholesalers, retailers and original equipment manufacturers located throughout the world.

For all but the Financial Services Business for which credit granting is discussed in Note 5, credit is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts receivable, particularly those accounts which are past due. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across many different industries and geographic areas.

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

Information about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1993 is detailed below.

	1993	1992	1991

	(In Thousands)		
Revenues:			
Chemical	\$115,631	\$107,219	\$ 90,226
Environmental Control	69,644	55,019	57,861
Financial Services	41,835	46,909	55,029
Industrial Products	20,719	17,590	14,012
Automotive Products	28,765	20,046	17,063
	-----	-----	-----
	\$276,594	\$246,783	\$234,191
	=====	=====	=====
Gross profit:			
Chemical	\$ 27,557	\$ 26,572	\$ 18,831
Environmental Control	15,651	13,839	15,532
Industrial Products	5,160	4,904	3,419
Automotive Products	9,744	6,667	2,995
	-----	-----	-----
	\$ 58,112	\$ 51,982	\$ 40,777
	=====	=====	=====
Operating profit (loss):			
Chemical	\$ 17,632	\$ 18,427	\$ 12,278
Environmental Control	3,900	3,269	2,030
Financial Services	4,390	2,989	3,483
Industrial Products	2,120	257	558
Automotive Products	2,528	954	(1,809)
	-----	-----	-----
	30,570	25,896	16,540
General corporate expenses	(9,789)	(6,900)	(6,714)
Interest expense, excluding			
Financial Services	(7,508)	(9,225)	(10,776)
	-----	-----	-----
Income (loss) before			
provision for income taxes	\$ 13,273	\$ 9,771	\$ (950)
	=====	=====	=====
Depreciation, depletion and			
amortization of property,			
plant and equipment:			
Chemical	\$ 3,696	\$ 3,566	\$ 3,274
	=====	=====	=====
Environmental Control	\$ 1,015	\$ 965	\$ 938
	=====	=====	=====
Financial Services	\$ 883	\$ 821	\$ 805
	=====	=====	=====
Industrial Products	\$ 118	\$ 141	\$ 92
	=====	=====	=====
Automotive Products	\$ 502	\$ 620	\$ 687
	=====	=====	=====

15. Segment Information (continued)

	1993	1992	1991
----- (In Thousands) -----			
Additions to property, plant and equipment:			
Chemical	\$ 9,036	\$ 3,916	\$ 2,224
Environmental Control	\$ 1,584	\$ 400	\$ 274
Financial Services	\$ 1,156	\$ 719	\$ 293
Industrial Products	\$ 560	\$ 471	\$ 1,830
Automotive Products	\$ 1,875	\$ 769	\$ 792
Identifiable assets:			
Chemical	\$ 71,299	\$ 57,138	\$ 55,474
Environmental Control	24,394	22,517	21,430
Financial Services	457,330	466,065	492,101
Industrial Products	18,451	15,353	18,255
Automotive Products	22,957	18,682	14,911
	594,431	579,755	602,171
Corporate assets	3,081	2,493	3,342
Total assets	\$ 597,512	\$582,248	\$605,513

Revenues by industry segment include revenues from unaffiliated customers, as reported in the consolidated financial statements. Intersegment revenues, which are accounted for at transfer prices ranging from the cost of producing or acquiring the product or service to normal prices to unaffiliated customers, are not significant.

Gross profit by industry segment represents net sales less cost of sales. In 1993 and 1992, gross profit of the Industrial Products and Automotive Products segments has been increased for the profits recognized on the long-term contract discussed in Note 8. The profits are divided equally between the two segments.

Operating profit by industry segment represents revenues less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, income taxes or interest expense (except the interest expense of the Financial Services segment is deducted in computing operating profit). The 1993 and 1992 operating profit of the Industrial Products and the Automotive Products segments has been increased for the profits recognized on the long-term contract discussed in Note 8. The profits are divided equally between the two segments.

15. Segment Information (continued)

Identifiable assets by industry segment are those assets used in the operations in each industry. Accounts receivable purchased by the Financial Services segment from the other business segments are included in the Financial Services identifiable assets since the financing income related thereto is included in the Financial Services operating profit. Corporate assets are those principally owned by the parent company.

Revenues from unaffiliated customers include direct foreign export sales as follows:

Geographic Area	1993	1992	1991
----- (In Thousands) -----			
Mexico and Central and South America	\$ 6,419	\$ 4,075	\$4,075
Canada	11,850	8,123	4,571
Slovakia	9,231	6,203	-
Other	5,183	2,679	590
	-----	-----	-----
	\$32,683	\$21,080	\$9,236
	=====	=====	=====

In addition, revenues from unaffiliated customers include sales in 1993, 1992 and 1991 amounting to \$5,917,000, \$2,088,000 and \$7,491,000, respectively, which the Company believes were ordered for export shipment.

As discussed in Note 1, the Company's consolidated balance sheet is prepared on an unclassified basis due to the inclusion of the financial services subsidiaries on a fully consolidated basis. The following detail presents the financial services subsidiaries on the equity method and presents the other assets and liabilities of the Company on the traditional classified basis:

	1993	1992
----- (In Thousands) -----		
Current assets:		
Cash	\$ 1,055	\$ 279
Trade accounts receivable, net	17,689	4,535
Inventories	48,384	48,373
Advances and prepaid items	5,459	4,134
	-----	-----
Total current assets	72,587	57,321
Investment in, net of advances from, Financial Services subsidiaries and other noncurrent assets	21,484	12,160
Property, plant and equipment, net	41,845	
	-----	-----
	\$135,916	\$103,963
	=====	=====

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

	1993	1992

	(In Thousands)	
Current liabilities:		
Drafts payable due within one year	\$ 1,220	\$ 3,738
Accounts payable	22,645	18,906
Billings in excess of costs and estimated earnings	-	4,858
Accrued liabilities	6,755	6,877
Long-term debt due within one year	14,349	9,158

Total current liabilities	44,969	43,537
Long-term debt and drafts payable due after one year		
	15,921	41,924
Redeemable, noncumulative, convertible preferred stock, \$100 par value		
	155	163
Non-redeemable preferred stock, common stock and other stockholders equity		
	74,871	18,339

	\$135,916	\$103,963
	=====	

The following detail presents summarized asset and liability amounts included in the consolidated financial statements at December 31, 1993 and 1992 for the Company's financial services subsidiaries. Real estate, office buildings and equipment include the assets transferred to Equity Bank in connection with the acquisition at the historical cost of \$18.8 million rather than at the fair value of \$69 million at which they are recorded in Equity Bank's stand-alone financial statements:

	1993	1992

	(In Thousands)	
Assets		
Cash and securities	\$ 18,438	\$ 40,002
Loans and mortgage-backed securities	359,303	301,063
Trade accounts receivable	31,844	31,515
Assets covered by FSLIC	-	52,004
Real estate, office buildings and equipment, net	43,086	38,718
Excess of purchase price over net assets acquired	17,041	14,645
Other assets	3,179	3,677

	\$472,891	\$481,624
	=====	

Notes to Consolidated Financial Statements (continued)

15. Segment Information (continued)

	1993	1992

	(In Thousands)	
Liabilities:		
Deposits	\$332,511	\$336,053
FHLB advances	87,650	80,150
Long-term borrowings	25	50
Securities sold under agreements to repurchase	38,721	50,344
Payable to FSLIC	-	9,107
Other liabilities	2,689	2,581
Investment and advances	11,295	3,339
	-----	-----
	\$472,891	\$481,624
	=====	=====

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)
(Three months ended)

	March 31	June 30	Sept. 30	Dec. 31
1993				
Total revenues	\$63,419	\$78,415	\$68,773	\$65,987
Gross profit on net sales	\$13,286	\$18,067	\$13,454	\$13,305
Net interest income related to the Financial Services Business*	\$ 3,008	\$ 3,232	\$ 3,409	\$ 3,358
Net income	\$ 2,657	\$ 5,758	\$ 2,424	\$ 1,560
Net income applicable to common stock	\$ 2,580	\$ 5,408	\$ 1,616	\$ 753
Primary earnings per common share	\$.25	\$.40	\$.09	\$.05
1992				
Total revenues	\$56,796	\$70,820	\$60,622	\$58,545
Gross profit on net sales	\$11,520	\$15,886	\$11,553	\$13,023
Net interest income related to the Financial Services Business*	\$ 2,857	\$ 3,150	\$ 3,076	\$ 3,496
Net income	\$ 1,108	\$ 4,276	\$ 2,097	\$ 1,774
Net income applicable to common stock	\$ 614	\$ 3,806	\$ 1,659	\$ 1,349
Primary earnings per common share	\$.10	\$.49	\$.19	\$.16

*This amount includes interest income earned on accounts receivable purchased, with recourse, from the Company's other subsidiaries. See Note 5 to the Consolidated Financial Statements.

Net income in the fourth quarter of 1993 was increased approximately \$3.5 million for additions to fixed assets resulting from capitalizable expenditures previously being expensed and the collection of an insurance settlement relating to the foreign project inventory (see Note 8 to the Consolidated Financial Statements for further discussions relating to the foreign sales contract).

Supplementary Financial Data

Quarterly Financial Data (Unaudited) (continued)

Net income in the fourth quarter of 1992 was increased by approximately \$3.5 million for adjustments to inventories resulting from book-to-physical differences, adjustments to estimated accruals and deferrals of certain operating expenses and profits recognized on a foreign sales contract (see Note 8 to the Consolidated Financial Statements for further discussion related to the foreign sales contract).

Schedule II - Amounts Receivable From Employees and Directors

Years ended December 31, 1993, 1992 and 1991

(Dollars in Thousands)

Name of Debtor	Balance at Beginning of Year	Additions	Payments	Balance at End of Year
Year ended December 31, 1993:				
David Houston, former President of the Company's savings and loan subsidiary - Advances, bearing interest at 10% (resigned in January 1991)	\$299	\$ -	\$ -	\$299
David R. Goss, Director and Senior Vice President, Operations	-	100	-	100
Tony M. Shelby, Director and Senior Vice President, Finance	100	-	100	-
C.L. Thurman, Director	-	147	-	147
	<u>\$399</u>	<u>\$247</u>	<u>\$100</u>	<u>\$546</u>
Year ended December 31, 1992:				
David Houston, former President of the Company's savings and loan subsidiary - Advances, bearing interest at 10% (resigned in January 1991)	\$299	\$ -	\$ -	\$299
Tony M. Shelby, Director and Senior Vice President, Finance	100	-	-	100
	<u>\$399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$399</u>
Year ended December 31, 1991:				
David Houston, former President of the Company's savings and loan subsidiary - Advances, bearing interest at 10% (resigned in January 1991)	\$299	\$ -	\$ -	\$299
Tony M. Shelby, Director and Senior Vice President, Finance	100	-	-	100
	<u>\$399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$399</u>

Schedule III - Condensed Financial Information of Registrant

Condensed Balance Sheets

	December 31,	
	1993	1992

	(In Thousands)	
Assets		
Current assets:		
Cash	\$ 52	\$ 702
Accounts receivable	381	90
Prepaid expenses	1,687	1,102

Total current assets	2,120	1,894
Property, plant and equipment	4,555	4,399
Less allowance for depreciation	(3,116)	(2,734)

	1,439	1,665
Excess of purchase price over net assets acquired, net	319	397
Other assets (principally investments in and amounts due from wholly-owned subsidiaries) (Notes A and B)	76,313	23,639

	\$80,191	\$27,595
	=====	
Liabilities and stockholders' equity		
Current liabilities	\$ 4,196	\$ 4,728
Long-term debt (Note B)	138	1,654
Commitments and contingencies (Notes C and D)		
Redeemable preferred stock	155	163
Non-redeemable preferred stock, common stock and other stockholders' equity:		
Common stock	1,451	810
Preferred stock	48,000	17,357
Other stockholders' equity	26,251	2,883

	75,702	21,050

	\$80,191	\$27,595
	=====	

See accompanying notes.

Schedule III - Condensed Financial Information of Registrant (continued)

Condensed Statements of Operations

	Year ended December 31,		
	1993	1992	1991

	(In Thousands)		
Management fees from consolidated subsidiaries	\$ 7,524	\$ 7,459	\$ 7,278
Interest income, primarily intercompany	3,078	1,807	7,073
Other income	808	800	1,250

	11,410	10,066	15,601
Costs and expenses:			
General and administrative expenses	9,023	7,789	8,320
Interest expense, primarily intercompany	1,666	1,930	4,901
Settlement of dispute	1,767	-	-

	12,456	9,719	13,221
Income (loss) before credit for income taxes and equity in net income (loss) of subsidiaries	(1,046)	347	2,380
Credit for income taxes	4,347	3,348	2,311

Income before equity in net income (loss) of subsidiaries	3,301	3,695	4,691
Equity in net income (loss) of subsidiaries	9,098	5,560	(5,838)

Net income (loss)	\$12,399	\$ 9,255	\$(1,147)
	=====		

See accompanying notes.

Schedule III - Condensed Financial Information of Registrant (continued)

Condensed Statements of Cash Flows

	Year ended December 31,		
	1993	1992	1991

	(In Thousands)		
Cash from operating activities	\$ 1,256	\$4,658	\$5,426
Investing activities			
Capital expenditures	(156)	(206)	(158)
Advances to, net of advances and dividends from subsidiaries	(43,613)	(1,811)	(3,166)
	(43,769)	(2,017)	(3,324)
Financing activities			
Payment on long-term debt	(2,262)	(676)	(636)
Dividends paid on common and preferred stocks	(2,713)	(1,827)	(1,943)
Proceeds from issuance of preferred stock	43,871	-	-
Proceeds from issuance of common stock	3,269	687	-
Purchase of treasury stock	(302)	-	-
	41,863	(1,816)	(2,579)
Increase (decrease) in cash	\$ (650)	\$ 825	\$(477)

See accompanying notes.

Schedule III - Condensed Financial Information of Registrant (continued)

Notes to Condensed Financial Statements

Note A - Basis of Presentation

In the parent-company-only financial statements, the Company's investment in subsidiaries is stated at cost plus equity in undistributed earnings (losses) of subsidiaries since date of acquisition. Parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements.

Note B - Long-Term Debt

Redemption of Debentures - On June 1, 1993, the Company called for redemption of all of its outstanding shares of 13-3/4% Subordinated Debentures due 1995 ("Debentures"). The Debentures were redeemed on July 1, 1993. Each outstanding Debenture was redeemed at \$1,000, the principal amount of such Debenture, plus accrued and unpaid interest on the Debentures to the redemption date of July 1, 1993. There were approximately \$2.2 million in outstanding Debentures at the redemption date.

Note C - Guarantees

The Company has guaranteed the payment of principal and interest under the terms of various debt agreements of the Company's subsidiaries. Subsidiaries' long-term debt outstanding at December 31, 1992 which is guaranteed by the parent is \$1,697,000.

The Company has guaranteed a subsidiary's obligation to pay into affiliated partnerships any deficit which exists in the subsidiary's partnership capital accounts at the time of liquidation of the partnerships, reduced by the difference between the net book value of the partnerships' assets and the fair market value (or sales price in the case of liquidation) of assets. At December 31, 1993, the deficit in the subsidiary's partnership capital accounts was \$10,994,000.

Note D - Commitments and Contingencies

See Note 14 to the Company's consolidated financial statements for discussion of material contingencies. See Notes 12 and 13 for a discussion of matters related to the Company's preferred stocks and other stockholders' equity matters.

Schedule VIII - Valuation and Qualifying Accounts

Years ended December 31, 1993, 1992 and 1991

(Dollars in Thousands)

Description	Balance at Beginning of Year	Additions	Deductions	Balance at End Year
		Charged to Costs and Expenses	Write- offs/ Costs Incurred ^{of}	
Allowance for doubtful accounts (1):				
1993	\$3,082	\$ 439	\$ 938	\$2,583
1992	\$3,354	\$ 972	\$1,244	\$3,082
1991	\$2,866	\$1,873	\$1,385	\$3,354
Product warranty liability:				
1993	\$ 613	\$ 427	\$ 387	\$ 653
1992	\$ 649	\$ 547	\$ 583	\$ 613
1991	\$ 579	\$ 831	\$ 761	\$ 649

(1) Deducted in the balance sheet from the related assets to which the reserve applies.

Other valuation and qualifying accounts are detailed in the Company's notes to consolidated financial statements.

LSB Industries, Inc.

Schedule X - Supplementary Statement of Operations Information

Years ended December 31, 1993, 1992 and 1991

(Dollars in Thousands)

	Charged to Costs and Expenses		
	1993	1992	1991
Maintenance and repairs	\$5,350	\$4,569	\$3,737

Taxes, other than payroll and income taxes, royalties, amortization of deferred costs and advertising costs did not exceed 1% of gross revenues during any of the three years in the period ended December 31, 1993.

TWELFTH AMENDMENT TO LOAN AGREEMENT

April 23, 1993

Congress Financial Corporation and
Congress Financial Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement dated March 29, 1984, as heretofore amended, modified or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement dated August 16, 1985, that certain Second Amendment to Loan Agreement dated April 3, 1986, that certain Third Amendment to Loan Agreement dated October 26, 1986, that certain Fourth Amendment to Loan Agreement dated December 17, 1986, that certain Fifth Amendment to Loan Agreement dated March 7, 1988, that certain Sixth Amendment to Loan Agreement dated March 31, 1989, that certain Seventh Amendment to Loan Agreement dated May 18, 1990, that certain Eighth Amendment to Loan Agreement dated May 1, 1991, that certain Ninth Amendment to Loan Agreement dated February 25, 1992, that certain Tenth Amendment to Loan Agreement dated March 31, 1992, and that certain Eleventh Amendment to Loan

Agreement, dated December 10, 1992; hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB, the "Borrowers") and LSB Financial Corp., LSB Lease Corp., LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited, Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors").

Borrower and Guarantors have requested a sixty (60) day extension of the Renewal Date of their existing financing arrangements with Congress and Congress is willing, subject to the terms and conditions set forth herein, to so extend the Renewal Date of the existing financing arrangements with Borrowers and Guarantors as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term. The date "April 30, 1993" in Section 9.1 of the Accounts Agreements, as heretofore amended, is hereby deleted and replaced with the date "June 30, 1993".

II. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

III. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.
L&S BEARING CO.
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
ROTEX CORPORATION
SUMMIT MACHINE TOOL MANUFACTURING
CORP.
HERCULES ENERGY MFG. CORPORATION
INTERNATIONAL ENVIRONMENTAL
CORPORATION
CHP CORPORATION
CLIMATE MASTER, INC.
KOAX CORP.
APR CORPORATION
CLIMATEX, INC.
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED

By: _____

Title _____

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: _____

Title: _____

THIRTEENTH AMENDMENT TO LOAN AGREEMENT

June 24, 1993

Congress Financial Corporation and
Congress Financial Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement dated March 29, 1984, as heretofore amended, modified or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement dated August 16, 1985, that certain Second Amendment to Loan Agreement dated April 3, 1986, that certain Third Amendment to Loan Agreement dated October 26, 1986, that certain Fourth Amendment to Loan Agreement dated December 17, 1986, that certain Fifth Amendment to Loan Agreement dated March 7, 1988, that certain Sixth Amendment to Loan Agreement dated March 31, 1989, that certain Seventh Amendment to Loan Agreement dated May 18, 1990, that certain Eighth Amendment to Loan Agreement dated May 1, 1991, that certain Ninth Amendment to Loan Agreement dated February 25, 1992, that certain Tenth Amendment to Loan Agreement dated March 31, 1992, that certain Eleventh Amendment to Loan Agreement, dated December 10, 1992, and that certain Twelfth Amendment to Loan Agreement, dated April 23, 1993, hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB, the "Borrowers") and LSB Financial Corp., LSB Lease Corp., LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited, Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors").

Borrower and Guarantors have requested a ninety (90) day extension of the Renewal Date of their existing financing arrangements with Congress and Congress is willing, subject to the terms and conditions set forth herein, to so extend the Renewal Date of the existing financing arrangements with

Borrowers and Guarantors as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term. The date "June 30, 1993" in Section 9.1 of the Accounts Agreements, as heretofore amended, is hereby deleted and replaced with the date "September 30, 1993".

II. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

III. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.
L&S BEARING CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
INTERNATIONAL ENVIRONMENTAL CORPORATION
CHP CORPORATION
KOAX CORP.
SUMMIT MACHINE TOOL MANUFACTURING CORP.
HERCULES ENERGY MFG. CORPORATION
CLIMATE MASTER, INC.
APR CORPORATION
CLIMATEX, INC.
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED

By: _____
Title _____

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: _____
Title: _____

September 23, 1993

Congress Financial Corporation and
Congress Financial Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement dated March 29, 1984, as heretofore amended, modified or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement dated August 16, 1985, that certain Second Amendment to Loan Agreement dated April 3, 1986, that certain Third Amendment to Loan Agreement dated October 26, 1986, that certain Fourth Amendment to Loan Agreement dated December 17, 1986, that certain Fifth Amendment to Loan Agreement dated March 7, 1988, that certain Sixth Amendment to Loan Agreement dated March 31, 1989, that certain Seventh Amendment to Loan Agreement dated May 18, 1990, that certain Eighth Amendment to Loan Agreement dated May 1, 1991, that certain Ninth Amendment to Loan Agreement dated February 25, 1992, that certain Tenth Amendment to Loan Agreement dated March 31, 1992, that certain Eleventh Amendment to Loan Agreement, dated December 10, 1992, that certain Twelfth Amendment to Loan Agreement, dated April 23, 1993, and that certain Thirteenth Amendment to Loan Agreement, dated June 24, 1993, hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB, the "Borrowers") and LSB Financial Corp., LSB Lease Corp., LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited, Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors").

Borrower and Guarantors have requested a sixty (60) day extension of the Renewal Date of their existing arrangements with Congress and Congress is willing, subject to the terms and conditions set forth herein, to so extend the Renewal Date of the existing financing arrangements with Borrowers and Guarantors as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term. The date "September 30, 1993" in Section 9.1 of the Accounts Agreements, as heretofore amended, is hereby deleted and replaced with the date "November 30, 1993".

II. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

III. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.
L&S BEARING CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
INTERNATIONAL ENVIRONMENTAL CORPORATION
CHP CORPORATION
KOAX CORP.
SUMMIT MACHINE TOOL MANUFACTURING CORP.
HERCULES ENERGY MFG. CORPORATION
CLIMATE MASTER, INC.
APR CORPORATION
CLIMATEX, INC.
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED

By: _____

Title _____

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: _____

Title: _____

November 29, 1993

Congress Financial Corporation and
Congress Financial Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement dated March 29, 1984, as heretofore amended, modified or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement dated August 16, 1985, that certain Second Amendment to Loan Agreement dated April 3, 1986, that certain Third Amendment to Loan Agreement dated October 26, 1986, that certain Fourth Amendment to Loan Agreement dated December 17, 1986, that certain Fifth Amendment to Loan Agreement dated March 7, 1988, that certain Sixth Amendment to Loan Agreement dated March 31, 1989, that certain Seventh Amendment to Loan Agreement dated May 18, 1990, that certain Eighth Amendment to Loan Agreement dated May 1, 1991, that certain Ninth Amendment to Loan Agreement dated February 25, 1992, that certain Tenth Amendment to Loan Agreement dated March 31, 1992, that certain Eleventh Amendment to Loan Agreement, dated December 10, 1992, that certain Twelfth Amendment to Loan Agreement, dated April 23, 1993, that certain Thirteenth Amendment to Loan Agreement, dated June 24, 1993, and that certain Fourteenth Amendment to Loan Agreement, dated September 23, 1993, hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB, the "Borrowers") and LSB Financial Corp., LSB Lease Corp., LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited, Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors").

Borrower and Guarantors have requested an extension of the Renewal Date of their existing arrangements with Congress and Congress is willing, subject to the terms and conditions set forth herein, to so extend the Renewal Date of the existing

financing arrangements with Borrowers and Guarantors as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term. The date "November 30, 1993" in Section 9.1 of the Accounts Agreements, as heretofore amended, is hereby deleted and replaced with the date "January 31, 1994".

II. Delivery of Cash Collateral Upon Termination. In addition to all of Congress' other rights and remedies available to it upon the effective date of termination or non-renewal of the Loan Agreement and the other Financing Agreements, upon the effective date of such termination or non-renewal, Borrower shall pay to Congress, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Congress in such amounts as Congress determines are reasonably necessary to secure Congress from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding letters of credit, banker's acceptances, purchase guaranties, other financial accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment. Such amounts shall be remitted to Congress by wire transfer in federal funds to such bank account of Congress, as Congress may, in its discretion, designate in writing to Borrower for such purpose.

III. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

IV. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.
L&S BEARING CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
INTERNATIONAL ENVIRONMENTAL
CORPORATION
CHP CORPORATION
KOAX CORP.
SUMMIT MACHINE TOOL MANUFACTURING
CORP.
HERCULES ENERGY MFG. CORPORATION
CLIMATE MASTER, INC.
APR CORPORATION
CLIMATEX, INC.
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED

By: _____

Title _____

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: _____

Title: _____

January 25, 1994

Congress Financial Corporation and
Congress Financial Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Gentlemen:

Reference is made to the Loan Agreement dated March 29, 1984, as heretofore amended, modified or supplemented (including, without limitation, pursuant to that certain Amendment to Loan Agreement dated August 16, 1985, that certain Second Amendment to Loan Agreement dated April 3, 1986, that certain Third Amendment to Loan Agreement dated October 26, 1986, that certain Fourth Amendment to Loan Agreement dated December 17, 1986, that certain Fifth Amendment to Loan Agreement dated March 7, 1988, that certain Sixth Amendment to Loan Agreement dated March 31, 1989, that certain Seventh Amendment to Loan Agreement dated May 18, 1990, that certain Eighth Amendment to Loan Agreement dated May 1, 1991, that certain Ninth Amendment to Loan Agreement dated February 25, 1992, that certain Tenth Amendment to Loan Agreement dated March 31, 1992, that certain Eleventh Amendment to Loan Agreement, dated December 10, 1992, that certain Twelfth Amendment to Loan Agreement, dated April 23, 1993, that certain Thirteenth Amendment to Loan Agreement, dated June 24, 1993, that certain Fourteenth Amendment to Loan Agreement, dated September 23, 1993, and that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993, hereinafter, the "Loan Agreement"), currently by and among Congress Financial Corporation and Congress Financial Corporation (Central) (collectively "Congress"), LSB Industries, Inc. (hereinafter "LSB"), L&S Bearing Co., Rotex Corporation, Tribonetics Corporation, LSB Extrusion Co., International Environmental Corporation, CHP Corporation, Koax Corp., Summit Machine Tool Manufacturing Corp., Hercules Energy Mfg. Corporation, Climate Master, Inc., APR Corporation and Climatex, Inc. (collectively, with LSB, the "Borrowers") and LSB Financial Corp., LSB Lease Corp., LSB Import Corp., LSB Bearing Corp., Summit Machine Tool Systems, Inc., LSB Europa Limited, Bowerdean Limited and LSB International Limited (collectively herein, and pursuant to the Loan Agreement, the "Guarantors").

Borrower and Guarantors have requested an extension of the Renewal Date of their existing arrangements with Congress and Congress is willing, subject to the terms and conditions set forth herein, to so extend the Renewal Date of the existing financing arrangements with Borrowers and Guarantors as provided below. Congress, Borrowers and Guarantors agree as follows (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

I. Term. The date "January 31, 1994" in Section 9.1 of the Accounts Agreements, as heretofore amended, is hereby deleted and replaced with the date "March 31, 1994".

II. Delivery of Cash Collateral Upon Termination. In addition to all of Congress' other rights and remedies available to it upon the effective date of termination or non-renewal of the Loan Agreement and the other Financing Agreements, upon the effective date of such termination or non-renewal, Borrower shall pay to Congress, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Congress in such amounts as Congress determines are reasonably necessary to secure Congress from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any contingent Obligations, including issued and outstanding letters of credit, banker's acceptances, purchase guaranties, other financial accommodations and checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment. Such amounts shall be remitted to Congress by wire transfer in federal funds to such bank account of Congress, as Congress may, in its discretion, designate in writing to Borrower for such purpose.

III. Effect of this Amendment. Except as modified pursuant hereto, the Loan Agreement and the Financing Agreements are hereby specifically ratified, restated and confirmed by the parties hereto as of the date hereof. To the extent of conflict between the terms of this Amendment and the Loan Agreement or other Financing Agreements, the terms of this Amendment control.

IV. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary to effectuate the provisions and purposes of this Amendment.

By the signature hereto of each of their duly authorized officers, all of the parties hereto mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

Very truly yours,

LSB INDUSTRIES, INC.
L&S BEARING CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
INTERNATIONAL ENVIRONMENTAL CORPORATION
CHP CORPORATION
KOAX CORP.
SUMMIT MACHINE TOOL MANUFACTURING CORP.
HERCULES ENERGY MFG. CORPORATION
CLIMATE MASTER, INC.
APR CORPORATION
CLIMATEX, INC.
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED

By: _____

Title _____

AGREED AND ACCEPTED:

CONGRESS FINANCIAL CORPORATION AND
CONGRESS FINANCIAL CORPORATION (CENTRAL)

By: _____

Title: _____

March 30, 1994

Congress Financial Corporation
and Congress Financial
Corporation (Central)
1133 Avenue of the Americas
New York, New York 10036

Re: Seventeenth Amendment to Loan
Agreement

Ladies and Gentleman:

LSB Industries, Inc. ("LSB") and those certain subsidiaries of LSB identified on the execution page hereof (LSB and such subsidiaries being hereinafter collectively referred to as the "LSB Companies") have requested that Congress Financial Corporation and Congress Financial Corporation (Central) (collectively, "Congress") modify the Loan Documents (hereinafter defined) in order to permit: (a) the sale to Prime Financial Corp. ("Prime") of existing and future accounts receivable (individually called an "Account" and collectively called the "Accounts") of one or more of the LSB Companies; and (b) the guaranty by LSB of the financing of Prime's purchase of such Accounts by Bank IV Oklahoma, N.A. ("Bank IV"). Congress is willing to agree to such request, subject to the following terms:

1. Loan Documents. As used herein, the term "Loan Documents" will be deemed to refer to the following documents:

- 1.1 Loan Agreement dated March 29, 1984 (the "Loan Agreement"), among Congress as the lender and those LSB Companies named therein as the borrowers and guarantors;
- 1.2 Sixteen Amendments to the Loan Agreement variously dated (the "Amendments") among those LSB Companies named therein, Congress and certain other parties;
- 1.3 The other "Financing Agreements", as defined in the Loan Agreement;
- 1.4 Agreement dated March 31, 1989 (the "Equity Bank Agreement") among Congress and Northwest Federal Savings and Loan Association, now known as Equity Bank for Savings, F.A. ("Equity Bank"), as amended; and

1.5 Letter Agreement dated August 24, 1990 (the "Letter Agreement") among Congress and Equity Bank; which Letter Agreement was consented and agreed to by the LSB Companies.

2. Loan Documents Modification. Notwithstanding anything contained in the Loan Documents to the contrary, the LSB Companies and Congress hereby agree as follows:

2.1 Congress acknowledges that Prime may from time to time hereafter purchase Accounts from the LSB Companies. Congress hereby consents, subject to the terms hereof, to such purchases during the period (the "Selling Period") from the date hereof to the earlier of: (a) the occurrence of an Event of Default under the Loan Documents; and (b) June 30, 1994;

2.2 The purchase price for an Account purchased by Prime from the LSB Companies shall be 100% of the invoice amount of an Account (the "Purchase Price"). The Purchase Price shall be disbursed, without offset or deduction, directly to Congress for the respective accounts of the selling LSB Companies. If all monetary obligations of the LSB Companies to Congress under the Loan Documents are paid in full at the time or as a result of any such disbursement to Congress by Prime, Congress will within one (1) business day of LSB's oral or written request, remit the full amount received from Prime to LSB for the account of the selling LSB Companies;

2.3 Upon receipt by Congress of the Purchase Price for any Accounts purchased by Prime in accordance with paragraph 2.2 hereof during the Selling Period, Congress' security interest in such purchased Accounts will terminate and be deemed released and Congress will, at the request of Prime or Bank IV, execute any partial releases or other documents as Prime or Bank IV may reasonably request in order to effectuate or evidence the termination and release of Congress' security interest in such purchased Accounts;

2.4 Congress hereby consents to LSB's unconditionally guaranteeing to Bank IV the repayment of any loan or loans (including associated fees and expenses) made to Prime by Bank IV in connection with the financing of Accounts purchased from the LSB Companies in accordance herewith;

- 2.5 Notwithstanding anything contained in Sections 3.5 and 3.7 of the Loan Agreement (which was made a part of the Loan Agreement pursuant to Section IV of the Seventh Amendment to Loan Agreement), from and after the date hereof and at any time LSB shall have the right to prepay in full the unpaid principal balance plus all accrued interest due and owing under that certain Promissory Note dated December 31, 1989, made by LSB in favor of LSB Chemical Corp.
- 2.6 Congress waives any default occasioned by any advances, loans or investments made by one or more of the LSB Companies in violation of said Sections 3.5 and 3.7 prior to the date hereof.
- 2.7 The Loan Documents are hereby deemed amended as necessary to conform to the provisions set forth herein and in the event of a conflict between the terms of the Loan Documents and this agreement, this agreement will control; and
- 2.8 Section 9.1 of each of the Accounts Agreements (as defined in the Loan Agreement), as heretofore amended, is hereby deleted and replaced with the following:
- "9.1 This Agreement shall become effective upon acceptance by you and shall continue in full force and effect for a term ending June 30, 1994, unless sooner terminated as herein provided. You shall have the right to terminate this Agreement immediately at any time upon the occurrence of an Event of Default (as defined in the Loan Agreement). No termination of this Agreement, however, shall relieve or discharge us of our duties, obligations and covenants hereunder until all Obligations have been paid in full, and your continuing security interest in the Collateral shall remain in effect until such Obligations have been fully discharged. No provision hereof shall be modified or amended orally or by course of conduct, but only by a written instrument expressly referring hereto signed by both parties."
- 2.9 Congress will provide Bank IV with prior written or telefacsimile notice to either Mr. Robert R. Gilbert at (918) 749-4276 or Mr. Wade Edmundson at (918) 749-4276, of the occurrence of an Event of Default that would result in the termination of the Selling Period at least one (1) business day prior to ceasing to release Accounts purchased by Prime in accordance with Section 2.3 of this letter.

3. Modification Fee. Contemporaneously herewith, LSB shall cause to be delivered to Congress, in immediately available funds, the sum of TWENTY-FIVE THOUSAND DOLLARS (\$25,000.00) (the "Fee") in consideration of Congress' agreement to the terms hereof; provided, if subsequent to the date hereof Congress and LSB enter into a financing arrangement (the "Refinancing") in substitution or replacement of the financing arrangement set forth in the Loan Documents, then the full amount of the Fee will be credited against any closing fee payable to Congress in connection with the Refinancing.

4. Continued Validity. Except as expressly set forth herein, the Loan Documents will continue in full force and effect and the LSB Companies will continue to have the right, to the extent permitted under applicable law and regulatory authorities, to sell Accounts to Equity Bank pursuant and subject to the terms of the Equity Bank Agreement and the Letter Agreement.

5. Reliance. Bank IV may rely on Sections 2.3 and 2.4 of this letter.

6. Counterpart Execution. This Agreement may be executed in counterparts, each of which will be deemed an original document, but all of which will constitute a single document.

LSB INDUSTRIES, INC.
L & S BEARING CO.
TRIBONETICS CORPORATION
LSB EXTRUSION CO.
ROTEX CORPORATION
SUMMIT MACHINE TOOL
MANUFACTURING CORP.
HERCULES ENERGY MFG.
CORPORATION
LSB FINANCIAL CORP.
LSB LEASING CORP.
LSB IMPORT CORP.
LSB BEARING CORP.
SUMMIT MACHINE TOOL
SYSTEMS, INC.
LSB EUROPA LIMITED
BOWERDEAN LIMITED
LSB INTERNATIONAL LIMITED
INTERNATIONAL ENVIRONMENTAL
CORPORATION
CHP CORPORATION
CLIMATE MASTER, INC.
KOAX CORP.
APR CORPORATION
CLIMATEX, INC.

By: _____
Name: _____
Title: _____

(the "LSB Companies")

CONSENTED AND AGREED TO:
PRIME FINANCIAL CORP.

By: _____
Name: _____
Title: _____

("Prime")

CONSENTED AND AGREED TO:
CONGRESS FINANCIAL CORPORATION
AND CONGRESS FINANCIAL
CORPORATION (CENTRAL)

By: _____
Name: _____
Title: _____

Date Executed: _____

("Congress")

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By: _____
Name: _____
Title: _____

("Bank IV")

AMENDMENT AGREEMENT

THIS AMENDMENT AGREEMENT, dated as of March 30, 1994 (this "Agreement"), is among EL DORADO CHEMICAL COMPANY ("EDC"), SLURRY EXPLOSIVE CORPORATION ("Slurry"), HOUSEHOLD COMMERCIAL FINANCIAL SERVICES, INC. ("HCFS"), and PRIME FINANCIAL CORPORATION ("Prime").

BACKGROUND

- A. EDC, Slurry and HCFS are parties to the Second Amended and Restated Working Capital Loan Agreement, dated as of January 21, 1992 (as heretofore and hereafter amended or supplemented, the "Working Capital Loan Agreement").
- B. EDC, Slurry, HCFS, Connecticut Mutual Life Insurance Life Insurance Company and C.M. Life Insurance Company are parties to the Amended and Restated Secured Credit Agreement, dated as of January 21, 1992 (as heretofore or hereafter amended or supplemented, the "Credit Agreement").
- C. HCFS and Equity Bank for Savings, F.A. ("Equity Bank") are parties to the Agreement Regarding Accounts Receivable, dated May, 1990 (as heretofore or hereafter amended, the "Equity Bank Agreement").
- D. EDC and Prime are parties to an Agreement for Purchase of Receivables, dated as of March 29, 1994 (as amended, supplemented or otherwise modified with Lender's prior written consent, which consent shall not be unreasonably withheld, the "Prime Receivables Purchase Agreement").
- E. The parties hereto hereby desire to amend the Working Capital Loan Agreement, the Credit Agreement and the Equity Bank Agreement in certain respects to reflect the entering into of the Prime Receivables Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings assigned thereto in the Working Capital Loan Agreement.

2. Receivables Purchase Agreement. The definition of "Receivables Purchase Agreement" where it appears in the Working Capital Loan Agreement, the Credit Agreement and the Equity Agreement shall include the Prime Receivables Purchase Agreement.

3. Agreement of Prime. Prime hereby agrees that it shall have no interest in any funds received from the Lockbox (as defined in the Equity Bank Agreement) or otherwise to the extent that such funds relate to accounts receivable other than Prime's Receivables (hereafter defined) that have been purchased by Prime pursuant to the terms of the Prime Receivables Purchase Agreement (such accounts receivable other than Prime's Receivables, including receivables repurchased by EDC, being hereafter referred to as the "Lender's Receivables"). Prime acknowledges that HCFS has a continuing lien upon, and security interest in, the Lender's Receivables and all funds, cash, instruments, securities and other things of value which are at any time paid, deposited, credited or held or all other property of EDC or Slurry from time to time in the possession or under the control of, or in transit to the Lockbox or Equity Bank, except any of the foregoing which relate to Prime's Receivables, and all proceeds of the foregoing, to the extent they relate to Lender's Receivables.

4. Prime's Receivables. HCFS acknowledges that Prime is from time to time purchasing accounts receivable from EDC pursuant to the terms of the Prime Receivables Purchase Agreement ("Prime's Receivables") it being understood that Prime's Receivables shall not include receivables repurchased by EDC from Prime. Notwithstanding anything in the Working Capital Loan Agreement or the Credit Agreement or other agreements related thereto to the contrary, HCFS acknowledges and agrees that: (i) Prime is the owner of and has a continuing lien upon, and security interest in, all accounts receivable sold to Prime by EDC that are not repurchased by EDC and all funds, cash, instruments, securities and other things of value which are at any time paid, deposited, credited or held, and all other property of EDC from time to time in possession or under control of, and in transit to Prime, and all proceeds of the foregoing, to the extent that they relate to Prime's Receivables; (ii) it has no security interest or lien in and to the Prime Receivables or the proceeds thereof; and (iii) it has no interest in any funds, cash, installments, securities, collections and other things of value which relate to Prime's Receivables (including, but not limited to, funds in the Lockbox that relate to Prime's Receivables).

5. Prime Receivables Purchase Agreement. EDC and Prime each hereby agree that it shall not amend or modify the Prime Receivables Purchase Agreement without the prior written consent of HCFS and Bank IV.

6. Reliance. Bank IV may rely on Section 4 of this Agreement.

7. Cooperation. The parties hereto hereby agree that they shall cooperate with each other, in good faith, to execute and deliver such other documents as such other party may reasonably request in order to further effect the terms of this Agreement.

8. Miscellaneous. EDC hereby agrees to pay, or reimburse HCFS for, on demand, any and all reasonable costs and expenses, including reasonable attorneys' fees and disbursements, incurred in connection with this Agreement. This Agreement shall be governed by, and interpreted in accordance with, the laws of the State of Illinois. This Agreement may be executed in any number of counterparts, and by the different parties on different counterparts, each of which shall constitute an original, but all of which shall constitute one and the same agreement. The Credit Agreement, the Working Capital Loan Agreement and the Equity Bank Agreement, as amended hereby, remain in full force and effect.

9. Termination. This Agreement shall terminate on August 31, 1994.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective duly authorized officers as of the date above written.

EL DORADO CHEMICAL COMPANY

By _____
Name _____
Title _____

SLURRY EXPLOSIVE CORPORATION

By _____
Name _____
Title _____

HOUSEHOLD COMMERCIAL FINANCIAL
SERVICES, INC.

By _____
Name _____
Title _____

PRIME FINANCIAL CORPORATION

By _____
Name _____
Title _____

ACKNOWLEDGED:

BANK IV, OKLAHOMA, N.A.

By _____
Name _____
Title _____

EQUITY BANK FOR SAVINGS, F.A.

By _____
Name _____
Title _____

LSB INDUSTRIES, INC.

1993 STOCK OPTION AND INCENTIVE PLAN

The Board of Directors of LSB Industries, Inc., a Delaware corporation (the "Company"), has adopted this 1993 Stock Option and Incentive Plan (the "Plan"), effective the ----- day of -----, 1993, as follows:

1. Purpose. This Plan permits selected officers and key employees, prospective employees, consultants and independent contractors of the Company or any Subsidiary who bear a large measure of responsibility for the success of the Company to acquire and retain a proprietary interest in the Company and to participate in the future of the Company as shareholders. The purpose of this Plan is to advance the interests of the Company and its shareholders by enabling the Company and the subsidiaries to offer to its employee-directors, officers, key employees, consultants and independent contractors, long-term performance based stock and/or other equity interests in the Company, thereby enhancing its ability to attract, retain and reward such individuals, and by providing an incentive for employee-directors, officers, key employees to render outstanding service to the Company and to the Company's shareholders.

2. Definitions. For purposes of the Plan, the following terms shall be defined as set forth herein:

- 2.1 "Act" means the Securities Act of 1933, as amended from time to time, or any successor statute or statutes thereto.
- 2.2 "Agreement" means the agreement between the Company and the Holder setting forth the terms and conditions of an award under the Plan.
- 2.3 "Board" means the Board of Directors of the Company.
- 2.4 "Change of Control" means a change of control of the Company pursuant to Section hereof.
- 2.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute or statutes thereto.

- 2.6 "Committee" means the Stock Option Committee of the Board or any other committee of the Board which the Board may designate. In all events, the Committee shall consist only of non-employee directors of the Company.
- 2.7 "Common Stock" means the Common Stock of the Company, par value \$.10 per share.
- 2.8 "Disability" means disability as determined under the procedures established by the Committee for purposes of the Plan.
- 2.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto.
- 2.10 "Fair Market Value", unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date:
- 2.10.1 the closing price of the Common Stock on the last preceding day on which the Common Stock was traded, as reported on a national securities exchange; and,
- 2.10.2 if the fair market value of the Common Stock cannot be determined pursuant to clause (1) hereof, such price as the Committee shall determine.
- 2.11 "Formula Price Per Share" means the highest gross price (before brokerage commissions, soliciting dealers' fees and similar charges) paid for any share of Common Stock at any time during the ninety (90) day period immediately prior to the Change of Control (whether by way of exchange, conversion, distribution, liquidation or otherwise) paid or to be paid for any share of Common Stock in connection with a Change of Control. If the consideration paid or to be paid in any transaction that results in a Change of Control consists, in whole or in part, of consideration, other than cash, the Board shall take such action, as in its judgment it deems appropriate, to establish the cash value of such consideration, but such valuation shall not be less than the value, if any, attributed to such consideration by any other party to such transaction that results in a Change of Control.

- 2.12 "Holder" means an eligible employee-director, officer, key employee, consultant or independent contractor of the Company or a Subsidiary who has received an award under the Plan.
- 2.13 "Incentive Stock Option" or "ISO" means any Stock Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.
- 2.14 "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.
- 2.15 "SAR Value" means the excess of the Fair Market Value of one share of Common Stock over the exercise price per share specified in a related Stock Option in the case of a Stock Appreciation Right granted in tandem with a Stock Option and the Stock Appreciation Right price per share in the case of a Stock Appreciation Right awarded on a free-standing basis multiplied by the number of shares in respect of which the Stock Appreciation Right shall be exercised, on the date of exercise.
- 2.16 "Section 16(b) Holder" means such officer or director or ten percent (10%) beneficial owner of Common Stock subject to Section 16(b) of the Exchange Act.
- 2.17 "Stock Appreciation Right" means the right, pursuant to an award granted under Section 7 hereof, to recover an amount equal to the SAR Value.
- 2.18 "Stock Option" means any Incentive Stock Option or Non-Qualified Stock Option to purchase shares of Common Stock which is awarded pursuant to this Plan.
- 2.19 "Subsidiary" means any present or future subsidiary corporation of the Company, as such term is defined in Section 424(f) of the Code.

3. Administration.

- 3.1 Board; Committee. The Board shall create a committee consisting of three members of the Board. The Board may also appoint one member of the Board as an alternate member of the Committee. Upon such appointment, the Committee shall have all the powers, privileges and duties set forth herein. The Board may, from time to time, appoint members of any such

Committee in substitution for, or in addition to, members previously appointed, may fill vacancies in the Committee and may discharge the Committee. The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of such quorum. Any determination reduced to writing and signed by a majority of the members of the Committee, shall be fully effective and a valid act of the Committee as if it had been made by a majority vote at a meeting duly called and held. The membership of the Committee shall at all times be constituted so as to not adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, to the extent it is applicable, or with the requirements of any other applicable law, rule or regulation.

3.2 Power and Authority. The Committee shall have full power and authority to do all things necessary or appropriate to administer this Plan according to its terms and provisions (excluding the power to appoint members of the Committee and to terminate, modify, or amend the Plan, except as otherwise authorized by the Board), including, but not limited to the full power and authority (subject to the express provisions of this Plan):

- 3.2.1 to award Stock Options and Stock Appreciation Rights, pursuant to the terms of this Plan, to eligible individuals described under Section 5 hereof;
- 3.2.2 to select the eligible individuals to whom Stock Options or Stock Appreciation Rights, or any combination thereof, if any, may from time to time be awarded hereunder;
- 3.2.3 to determine the Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, or any combination thereof, if any, to be awarded hereunder to one or more eligible employees or persons;
- 3.2.4 to determine the number of shares to be covered by each award granted hereunder;

- 3.2.5 to determine the terms and conditions not inconsistent with the terms of the Plan, of any award hereunder (including, but not limited to, share price, any restrictions or limitations, and any vesting, exchange, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions, as the Committee shall determine);
 - 3.2.6 to determine any specified performance goals or such other factors or criteria which need to be attained for the vesting of an award granted hereunder;
 - 3.2.7 to determine the terms and conditions under which awards hereunder are to operate on a tandem basis and/or in conjunction with or apart from other equity awarded under this Plan and cash awards made by the Company or any Subsidiary outside of this Plan;
 - 3.2.8 to determine the extent and circumstances under which Common Stock and other amounts payable with respect to an award hereunder shall be deferred, which may be either automatic or at the election of the Holder; and
 - 3.2.9 to substitute (i) new Stock Options for previously granted Stock Options, which previously granted Stock Options have higher option exercise prices and/or contain other less favorable terms, and (ii) new awards of any other type for previously granted awards of the same or other type, which previously granted awards are upon less favorable terms.
- 3.3 Interpretation of Plan.
- 3.3.1 Subject to Sections 3.2 and 9 hereof, the Committee shall have the authority at its discretion to adopt, alter and repeal such general and special administrative rules, regulations, and practices governing the Plan as it shall, from time to time, deem advisable, to construe and interpret the terms and provisions of this Plan and any award issued under this Plan (and to determine the form and substance of all Agreements relating thereto), and to otherwise supervise the administration of this Plan.

3.3.2 Anything in this Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under this Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the Holder(s) affected, to disqualify any Incentive Stock Option under Section 422 of the Code.

3.3.3 Subject to Sections 3.2 and 9 hereof, all decisions made by the Committee pursuant to the provisions of this Plan shall be made in the Committee's sole discretion and shall be final and binding upon all persons granted options pursuant to the Plan.

4. Shares Subject to Plan.

4.2 Number of Shares. The aggregate number of shares of Common Stock reserved and available for distribution under this Plan shall be 850,000 shares. If any shares of Common Stock that are subject to a Stock Option or Stock Appreciation Right cease to be subject to such Stock Option or Stock Appreciation Right, or any such award otherwise terminates without a payment being made to the Holder in the form of Common Stock, such shares shall again be available for distribution in connection with future grants and awards under this Plan. The number of shares available for distribution under this Plan shall be reduced by the number of shares of Common Stock issued under this Plan upon the exercise of a Stock Option.

4.3 Character of Shares. The Company may elect to satisfy its obligations to a Holder exercising a Stock Option entirely by issuing authorized and unissued shares of Common Stock to such Holder, entirely by transferring treasury shares to such Holder, or in part by the issue of authorized and unissued shares and the balance by the transfer of treasury shares.

5. Eligibility.

- 5.1 General. Awards under this Plan may be made to: (i) officers and other key employees of the Company or any Subsidiary who are at the time of the grant of an award under this Plan regularly employed by the Company or any Subsidiary, including any full time salaried officer or employee who is a member of the Board (except as provided in the last sentence under Section 3.1); and, (ii) consultants or independent contractors whom the Board believes have contributed or will contribute to the success of the Company.
- 5.2 Multiple Awards. The Committee shall from time to time designate such employees, consultants or independent contractors to whom options are to be granted, and the number of shares to be subject to each option. The Committee may at any time grant one or more Stock Options or Stock Appreciation Rights or a combination thereof to an individual to whom a Stock Option or Stock Appreciation Right has previously been granted under this or any other stock option plan of the Company, whether or not such previously granted Stock Option or Stock Appreciation Right has been fully exercised.
- 5.3 Ineligibility for Awards. No person designated by the Board to serve on the Committee, effective at such future time so that he qualifies as a "disinterested person" within the meaning of Rule 16b-3(c) of the Exchange Act, shall be eligible to receive any awards under the Plan during the period from the date such designation is made to the date such designation becomes effective. Notwithstanding Section 5.1 hereof, no member of the Committee, while serving as such, shall be eligible to receive an award under the Plan.

6. Stock Options.

- 6.1 Grant and Exercise. Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options. Only full-time salaried officers or employees may be granted Incentive Stock Options. Any individual eligible to participate under this Plan may be granted Non-Qualified Stock Options. Any Stock Option granted under the Plan shall contain such terms, not inconsistent with this Plan, as the Committee may

from time to time approve. The Committee shall have the authority to grant to any eligible individual Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options and, in each case, may be granted alone, in tandem with, or without, or in addition to Stock Appreciation Rights. To the extent that any Stock Option (or portion thereof) does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option. Unless granted in substitution for another outstanding award, Stock Options shall be granted for no consideration other than services to the Company or a Subsidiary.

6.2 Exercise Price.

6.2.1 Less Than 10% Shareholder. The exercise price in any option granted under this Plan to an individual who, at the time the Stock Option is granted, does not own stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any Subsidiary (computed in accordance with the provisions applicable to Section 422(b)(6) of the Code) (a "less than 10% Shareholder") shall be not less than the Fair Market Value of the shares of Common Stock subject to the Stock Option at the time the Stock Option is granted, determined by the Committee in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Stock Option is granted.

6.2.2 10% Shareholder. The exercise price in any option granted under the Plan to an individual who is not a less than ten percent (10%) Shareholder (a "10% Shareholder") shall be not less than one hundred ten percent (110%) of the Fair Market Value of the shares of Common Stock subject to the Stock Option at the time the Stock Option is granted, determined in accordance with the applicable regulations and rulings of the Commissioner of the Internal Revenue Service in effect at the time the Stock Option is granted.

- 6.3 Option Term. The term of each Stock Option shall be fixed by the Board, but no Stock Option shall be exercisable more than ten (10) years (five (5) years, in the case of an Incentive Stock Option granted to a 10% Shareholder) after the date on which the Stock Option is granted.
- 6.4 Exercise of Non-Qualified Stock Options. Non-Qualified Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee; provided, however, that no Non-Qualified Stock Option granted under this Plan may be exercised until after the expiration of six (6) months from the date the Stock Option is granted. If the Committee provides, in its discretion, that any Stock Option is exercisable only in installments, the Committee may waive such installment exercise provisions at any time at or after the time of grant in whole or in part, based upon such factors as the Committee shall determine; provided that the Committee cannot waive the requirement that the Stock Option may not be exercised until after the expiration of six (6) months from the date the Stock Option is granted.
- 6.5 Exercise of Incentive Stock Options.
- 6.5.1 By an Employee. No Incentive Stock Option granted under this Plan shall be exercisable after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a person who is not a less than 10% Shareholder shall be exercisable after the expiration of five (5) years from the date such option is granted. Employment by a Subsidiary shall be employment by the Company. Unless such requirements are waived by the Committee, the employee, while still in the employment of the Company, may exercise the options as follows:
- 6.5.1.1 at any time after one (1) year of continuous employment from the date such ISO is granted, as to twenty percent (20%) of the shares subject to the option;
- 6.5.1.2 at any time after two (2) years of such continuous employment from the

date such ISO is granted, as to an additional twenty percent (20%) of the shares subject to the option;

6.5.1.3 at any time after three (3) years of such continuous employment from the date such ISO is granted, as to an additional thirty percent (30%) of the shares subject to the option; and

6.5.1.4 at any time after four (4) years of such continuous employment from the date such ISO is granted, as to all of the shares remaining subject to the option.

The Committee may decide in each case to what extent leaves of absence for government or military service, illness, temporary disability, or other reasons, shall not interrupt continuous employment.

6.5.2 Termination of Employment. Except as otherwise expressly provided in Sections 6.5.3 and 6.5.4 of this Plan or in the Agreement, no Stock Option may be exercised at any time unless the Holder thereof is then an employee of the Company or a Subsidiary.

6.5.3 By a Former Employee. No person may exercise an ISO after he is no longer an employee of the Company or any Subsidiary; except that if an employee ceases to be an employee on account of physical or mental disability as defined in Section 22(e)(3) of the Code ("Former Employee"), he may exercise the ISO within twelve (12) months after the date on which he ceased to be an employee, for the number of shares for which he could have exercised at the time he ceased to be an employee. No ISO granted under this Plan shall in any event be exercised by such Former Employee after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a person who is a 10% Shareholder may be exercisable after the expiration of five (5) years from the date such ISO is granted.

6.5.4 In Case of Death. If any employee or Former Employee who was granted an ISO dies prior to the termination of such ISO, such ISO may be exercised within twelve (12) months after the death of the employee or Former Employee by his estate, or by a person who acquired the right to exercise such ISO by bequest or inheritance, or by reason of the death of such employee or Former Employee, provided that:

6.5.4.1 such employee died while an employee of the Company or a Subsidiary; or

6.5.4.2 such Former Employee had ceased to be an employee of the Company or a Subsidiary on account of physical or mental disability and died within three (3) months after the date on which he ceased to be such employee.

Such ISO may be exercised only as to the number of shares for which he could have exercised at the time the employee or Former Employee died. No ISO granted under this Plan shall in any event be exercised in case of death of an employee or Former Employee after the expiration of ten (10) years from the date such ISO is granted, except that no ISO granted to a 10% Shareholder shall be exercisable after the expiration of five (5) years from the date such ISO is granted.

6.5.5 The Committee may, in its discretion, waive the installment exercise provisions at any time at or after the time of grant, in whole or in part, based on such factors as the Committee shall determine; provided that at all times no ISO may be exercised until the expiration of six (6) months from the date that the Stock Option was granted.

6.6 Termination of Options. A Stock Option granted under this Plan shall be considered terminated, in whole or in part, to the extent that it can no longer be exercised for shares originally subject to it, provided that a Stock Option granted shall be

considered terminated at an earlier date upon surrender for cancellation by the Holder to whom such Stock Option was granted.

- 6.7 Notice of Exercise and Payment. Subject to any installment, exercise and waiting period provisions that are applicable in a particular case, Stock Options granted under this Plan may be exercised, in whole or in part, at any time during the term of the Stock Option, by giving written notice of such exercise to the Company identifying the Stock Option being exercised and specifying the number of shares then being purchased. Such notice shall be accompanied by payment in full of the exercise price, which shall be in cash or, unless otherwise provided in the Agreement, in whole shares of Common Stock which are already owned by the Holder of the Stock Option or, unless otherwise provided in the Agreement, partly in cash and partly in such Common Stock. Cash payments shall be made by wire transfer, certified check or bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which a Stock Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Common Stock (which shall be valued at the Fair Market Value of a share of Common Stock on the date of exercise) shall be made by delivery of stock certificates in negotiable form which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances, with signature guaranteed by a bank or investment banking firm.
- 6.8 Issuance of Shares. As soon as practicable after its receipt of such notice and payment, the Company shall cause one or more certificates for the shares so purchased to be delivered to the Holder or his or her estate, as the case may be. No Holder or estate shall have any of the rights of a shareholder with reference to shares of Common Stock subject to a Stock Option until after the Stock Option has been exercised in accordance with Section 6.7 and certificates representing the shares of Common Stock so purchased by the Holder pursuant to the Stock Option have been delivered to the Holder or estate.

- 6.9 Partial Exercise. A Stock Option granted under this Plan may be exercised as to any part of the shares for which it could be exercised. Such a partial exercise of a Stock Option shall not affect the right to exercise the Stock Option from time to time in accordance with this Plan as to the remaining shares of Common Stock subject to the Stock Option.
- 6.10 \$100,000 Per Year Limitation. To the extent that the aggregate Fair Market Value of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Holder during any calendar year (under all of the Company's plans) exceeds \$100,000, such excess Stock Options shall be treated as Non-Qualified Stock Options for purposes of Section 422 of the Code.
- 6.11 Buyout and Settlement Provisions. The Committee may at any time offer to buy out for cash or otherwise settle a Stock Option previously granted, based upon such terms and conditions as the Committee shall establish and communicate to the Holder at the time that such offer is made, including a settlement for exchange of a different award under the Plan for the surrender of the Stock Option.

7. Stock Appreciation Rights.

- 7.1 Grant and Exercise. Stock Appreciation Rights may be granted in tandem with ("Tandem Stock Appreciation Right") or in conjunction with all or part of any Stock Option granted under this Plan or may be granted on a free-standing basis. In the case of a Non-Qualified Stock Option, a Tandem Stock Appreciation Right may be granted either at or after the time of the grant of such Non-Qualified Stock Option. In the case of an Incentive Stock Option, a Tandem Stock Appreciation Right may be granted only at the time of the grant of such Incentive Stock Option. Unless granted in substitution for another outstanding award, Stock Appreciation Rights shall be granted for no consideration other than services to the Company or a Subsidiary.
- 7.2 Termination. A Tandem Stock Appreciation Right shall terminate and shall no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise determined by the Board, a Tandem Stock Appreciation Right granted with

respect to less than the full number of shares covered by a related Stock Option shall not be reduced until after the number of shares remaining under the related Stock Option equals the number of shares covered by the Tandem Stock Appreciation Right.

7.3 Method of Exercise. A Tandem Stock Appreciation Right may be exercised by a Holder, in accordance with Section 7.4 hereof, by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the Holder shall be entitled to receive such amount in the form of payment determined in the manner prescribed in Section 7.5 hereof. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent Tandem Stock Appreciation Rights have been exercised.

7.4 Exercisability. Tandem Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 6 hereof and this Section 7, and may be subject to such additional limitations on exercisability as shall be determined by the Committee and set forth in the Agreement. Other Stock Appreciation Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee and set forth in the Agreement. Notwithstanding anything to the contrary contained herein (including the provisions of Section 8.1 hereof), any Stock Appreciation Right granted to a Section 16(b) Holder to be settled wholly or partially in cash (i) shall not be exercisable during the first six (6) months of the term of such Stock Appreciation Right, except that this special limitation shall not apply in the event of death or disability of such Holder prior to the expiration of the six (6) month period, and (ii) shall only be exercisable during the period beginning on the third business day following the date of release for publication of the Company of quarterly or annual summary statements of sales and earnings and ending on the twelfth (12) business day following such date.

- 7.5 Receipt of SAR Value. Upon the exercise of a Stock Appreciation Right, a Holder shall be entitled to receive up to, but not more than, an amount in cash and/or shares of Common Stock equal to the SAR Value with the Committee having the right to determine the form of payment.
- 7.6 Shares Affected Under Plan. Upon the exercise of a Tandem Stock Appreciation Right, the Stock Option or part thereof to which such Tandem Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 4.1 hereof on the number of shares of Common Stock to be issued under the Plan, but only to the extent of the number of shares, if any, issued under the Tandem Stock Appreciation Right at the time of exercise based upon the SAR Value.
- 7.7 Limited Stock Appreciation Rights. The Committee may grant "Limited Stock Appreciation Rights", i.e., Stock Appreciation Rights that become exercisable upon the occurrence of one or more of the events which trigger a Change of Control as defined in Section 8.2 hereof, and shall be settled in an amount equal to the Formula Price Per Share, subject to such other terms and conditions as the Committee may specify; provided, however, if any Limited Stock Appreciation Right is granted to a Section 16(b) Holder such Limited Stock Appreciation Right (i) shall only be exercisable within sixty (60) days after the event triggering the Change of Control; and (ii) may not be exercised during the first six (6) months after the date of grant of such Limited Stock Appreciation Right (except in the event of death or disability of such Holder prior to the expiration of the six (6) month period); and (iii) shall only be exercisable in the event that the date of the Change of Control was outside the control of such Holder; and (iv) shall only be settled in cash in an amount equal to the Formula Price Per Share.

8. Acceleration.

- 8.1 Acceleration Upon Change of Control. Unless the award Agreement provides otherwise or unless the Holder waives the application of this Section 8.1 prior to a Change of Control (as hereinafter defined), in the event of a Change of Control, each

outstanding Stock Option, Stock Appreciation Right and Limited Stock Appreciation Right granted under the Plan shall immediately become exercisable in full notwithstanding the vesting or exercise provisions contained in the Agreement.

8.2 Change of Control Defined. A "Change of control" shall be deemed to have occurred upon any of the following events:

8.2.1 The consummation of any of the following transactions: any merger, reverse stock split, recapitalization or other business combination of the Company, with or into another corporation, or an acquisition of securities or assets by the Company, pursuant to which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a transaction in which the majority of the holders of Common Stock immediately prior to such transaction will own at least fifty percent (50%) of the total voting power of the then-outstanding securities of the surviving corporation immediately after such transaction; or

8.2.2 A transaction in which any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company, or any profit-sharing, employee ownership or other employee benefit plan sponsored by the Company or any Subsidiary, or any trustee of or fiduciary with respect to any such plan when acting in such capacity, or any group comprised solely of such entities): (i) shall purchase any Common Stock (or securities convertible into Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board, or (ii) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly (in one transaction or a series of transactions), of securities of the Company representing fifty percent (50%) or more of the total voting

power of the then outstanding securities of the Company ordinarily (and apart from the rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire the Company's securities); or

8.2.3 If, during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board and any new director whose election by the Board, or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election by the stockholders was previously so approved, cease for any reason to constitute a majority thereof.

8.3 General Waiver by Board. The Committee may, after grant of an award, accelerate the vesting of all or any part of any Stock Option, and/or waive any limitations or restrictions, if any, for all or any part of an award.

8.4 Acceleration Upon Termination of Employment. In the case of a Holder whose employment or affiliation with the Company or a Subsidiary is involuntarily terminated for any reason (other than for cause), the Committee may, at its option and in its sole discretion, accelerate the vesting of all or any part of any award and/or waive, in whole or in part, any or all of the remaining deferral limitations or restrictions imposed hereunder or pursuant to the Agreement.

9. Amendments and Termination.

9.1 Amendments to Plan; Termination. The Board may at any time, and from time to time, amend any of the provisions of the Plan, and may at any time suspend or terminate the Plan; provided, however, that no such amendment shall be effective unless and until it has been duly approved by the stockholders of the outstanding shares of Common Stock if (i) such amendment materially increases the benefits accruing

to participants under this Plan; (ii) such amendment materially increases the number of securities which may be issued under this Plan; (iii) such amendment materially modifies the requirements as to eligibility for participation in this Plan; or, (iv) the failure to obtain such approval would adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation.

9.2 Amendments to Individual Awards. The Board may amend the terms of any award granted under the Plan; provided, however, that subject to Section 11 hereof, no such amendment may be made by the Board which in any material respect impairs the rights of the Holder without the Holder's consent.

10. Term of Plan.

10.1 Effective Date. The Plan shall be effective as of -----, 1993 ("Effective Date"), subject to the approval of the Plan by the stockholders of the Company within one year after the Effective Date. Any awards granted under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant) but shall be conditioned upon, and subject to, such approval of the Plan by the Company's stockholders and approval of the Company's application to list the shares of the Company's Common Stock covered by the Plan on the American Stock Exchange (and no awards shall vest or otherwise become free of restrictions prior to such approvals).

10.2 Termination Date. No award shall be granted pursuant to the Plan on or after the tenth (10th) anniversary of the Effective Date, but awards granted prior to such tenth (10th) anniversary may extend beyond that date. The Plan shall terminate at such time as no further awards may be granted and all awards granted under the Plan are no longer outstanding.

11. Adjustment Upon Change of Shares. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock for which Stock Options may thereafter be granted, and the number of shares of Common Stock then subject to Stock Options previously granted, and the price per share payable upon exercise of such Stock Option and the number of shares and

exercise price relating to Stock Appreciation Rights, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company.

11.1 If the Company is reorganized or consolidated or merged with another corporation, in which the Company is the non-surviving corporation, a Holder of an outstanding Stock Option and/or Stock Appreciation Right granted under this Plan shall be entitled (subject to the provisions of this Section 11) to receive options and/or stock appreciation rights covering shares of such reorganized, consolidated or merged corporation in the same proportion as granted to Holder prior to such reorganization, consolidation or merger at an equivalent exercise price, and subject to the same terms and conditions as this Plan. For purposes of the preceding sentence, the excess of the aggregate Fair Market Value of shares subject to the option immediately after the reorganization, consolidation or merger over the aggregate exercise price of such shares shall not be more than the excess of the aggregate Fair Market Value of all shares of Common Stock subject to the option or Stock Appreciation Right immediately before such reorganization, consolidation or merger over the aggregate exercise price of such shares of Common Stock, and the new stock option or stock appreciation right or assumption of the old Stock Option or old Stock Appreciation Right by any surviving corporation shall not give the Holder additional benefits which he did not have under the old Stock Option or Stock Appreciation Right.

11.2 To the extent that the foregoing adjustments relate to the shares of Common Stock of the Company, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive, provided that each Incentive Stock Option granted pursuant to this Plan shall not be adjusted in a manner that causes the Incentive Stock Option to fail to continue to qualify as an incentive stock option within the meaning of Section 422 of the Code.

11.3 Except as expressly provided in this Section 11, the Holder shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, consolidation, reorganization or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to the Stock Option or the number or price of Stock Appreciation Rights granted under this Plan.

11.4 The grant of a Stock Option or Stock Appreciation Right pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

12. General Provisions.

12.1 Investment Representations. The Committee may require each person acquiring shares of Common Stock pursuant to an award under this Plan to represent to and agree with the Company in writing that the Holder is acquiring the shares for investment without a view to distribution thereof.

12.2 Additional Incentive Arrangements. Nothing contained in this Plan shall prevent the Board from adopting such other or additional incentive arrangements as it may deem desirable, including, but not limited to, the granting of Stock Options and the awarding of stock and cash otherwise than under this Plan; and such arrangements may be either generally applicable or applicable only in specific cases.

12.3 No Right of Employment. Nothing contained in this Plan or in any award hereunder shall be deemed to confer upon any employee of the Company or any Subsidiary any right to continued employment with the

Company or any Subsidiary, nor shall it interfere in any way with the right of the Company or any Subsidiary to terminate the employment of any of its employees at any time.

- 12.4 Withholding Taxes. Not later than the date as of which an amount first becomes includible in the gross income of the Holder for federal income tax purposes with respect to any award under the Plan, the Holder shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Board, tax withholding or payment obligations may be settled with Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under this Plan shall be conditional upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Holder from the Company.
- 12.5 Governing Law. This Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware (without regard to choice of law provisions).
- 12.6 Other Benefit Plans. Any award granted under this Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary and shall not affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation (unless required by specific reference in any such other plan to awards under this Plan).
- 12.7 Employee Status. A leave of absence, unless otherwise determined by the Board prior to the commencement thereof, shall not be considered a termination of employment. Any awards granted under this Plan shall not be affected by any change of employment, so long as the Holder continues to be an employee of the Company or any Subsidiary.

- 12.8 Non-Transferability. Other than the transfer of a Stock Option or Stock Appreciation Right by will or by the laws of descent and distribution, no award under this Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbered or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such benefit. Unless otherwise provided in this Plan or the Agreement, any Stock Option or Stock Appreciation Right granted under this Plan is only exercisable during the lifetime of the Holder by the Holder or by his guardian or legal representative.
- 12.9 Applicable Laws. The obligations of the Company with respect to all awards under this Plan shall be subject to (i) all applicable laws, rules and regulations, including, without limitation, the requirements of all federal securities laws, rules and regulations and state securities and blue sky laws, rules and regulations, and such approvals by any governmental agencies as may be required, including, without limitation, the effectiveness of a registration statement under the Act, and (ii) the rules and regulations of any national securities exchange on which the Common Stock may be listed or the NASDAQ National Market System if the Common Stock is designated for quotation thereon.
- 12.10 Conflicts. If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation, and/or with respect to Incentive Stock Options, Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of said Rule 16b-3, and/or with respect to Incentive Stock Options, Section 422 of the Code. With respect to Incentive Stock Options, if this Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein.

- 12.11 Written Agreements. Each award granted under this Plan shall be confirmed by, and shall be subject to the terms of the Agreement approved by the Committee and executed by the Company and the Holder. The Committee may terminate any award made under this Plan if the Agreement relating thereto is not executed and returned to the Company within sixty (60) days after the Agreement has been delivered to the Holder for his or her execution.
- 12.12 Indemnification of Committee. In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any award granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member is liable for negligence or misconduct in the performance of his duties; provided that within sixty (60) days after institution of any such action, suit or proceeding a Committee member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.
- 12.13 Consideration for Common Stock. The Committee may not grant any awards under this Plan pursuant to which the Company will be required to issue any shares of Common Stock unless the Company will receive consideration for the shares of Common Stock sufficient under the laws of the State of Delaware so that such shares of Common Stock will be, when issued, validly issued and fully paid and nonassessable when issued.
- 12.14 Common Stock Certificates. All certificates for shares of Common Stock delivered under this Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem

advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, any applicable federal or state securities law and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding anything to the contrary contained herein, whenever certificates representing shares of Common Stock subject to an award are required to be delivered pursuant to the terms of this Plan, the Company may, in lieu of such delivery requirement, comply with the provisions of Section 158 of the Delaware General Corporation Law.

- 12.15 Unfunded Status of Plan. This Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Holder by the Company, nothing contained herein shall give any such Holder any rights that are greater than those of a general creditor of the Company.

LSB INDUSTRIES, INC.

1993 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

The Board of Directors of LSB Industries, Inc., a Delaware corporation (the "Company"), has adopted this 1993 Non-Employee Director Stock Option Plan (the "Plan"), effective the ---- day of -----, 1993:

1. Purpose. This nondiscretionary Plan permits members of the Board of Directors of the Company who are not officers or employees of the Company and/or any Subsidiary to acquire and retain a proprietary interest in the Company and to participate in the future of the Company as shareholders. The purpose of this Plan is to advance the interests of the Company and its shareholders by enabling the Company to offer to its non-employee directors long-term performance-based equity interests in the Company, thereby enhancing its ability to attract, retain and reward such individuals, as members of its Board of Directors, and by providing an incentive for such individuals to render outstanding service to the Company and to the Company's shareholders.

2. Definitions. For purposes of the Plan, the following terms shall be defined as set forth herein:

- 2.1 "Act" means the Securities Act of 1933, as amended from time to time, or any successor statute or statutes thereto.
- 2.2 "Agreement" means the agreement between the Company and the Holder setting forth the terms and conditions of an award under the Plan.
- 2.3 "Board" means the Board of Directors of the Company.
- 2.4 "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute or statutes thereto.
- 2.5 "Committee" means the Stock Option Committee of the Board or any other committee of the Board which the Board may designate.

- 2.6 "Common Stock" means the Common Stock of the Company, par value \$.10 per share.
- 2.7 "Eligible Director" means each member of the Board who is not an officer or employee of the Company or any Subsidiary.
- 2.8 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto.
- 2.9 "Fair Market Value", unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date:
 - 2.9.1 the closing price of the Common Stock on the last preceding day on which the Common Stock was traded, as reported on a national securities exchange; and,
 - 2.9.2 if the fair market value of the Common Stock cannot be determined pursuant to clause (i) hereof, such price as the Committee shall determine.
- 2.10 "Holder" means an Eligible Director of the Company who has received an award under the Plan.
- 2.11 "Stock Option" means any option to purchase shares of Common Stock which is awarded to an Eligible Director pursuant to this Plan.
- 2.12 "Subsidiary" means any present or future subsidiary corporation of the Company, as such term is defined in Section 424(f) of the Code.

3. Administration.

- 3.1 Board; Committee. The Board shall create a committee consisting of three members of the Board. The Board may also appoint one member of the Board as an alternate member of the Committee. Upon such appointment, the Committee shall have all the powers, privileges and duties set forth herein. The Board may, from time to time, appoint members of any such Committee in substitution for, or in addition to, members previously appointed, may fill vacancies in the Committee and may discharge the Committee. The Committee shall select one of its members as its

Chairman and shall hold its meetings at such times and places as it shall deem advisable. A majority of its members shall constitute a quorum and all determinations shall be made by a majority of such quorum. Any determination reduced to writing and signed by a majority of the members of the Committee, shall be fully effective and a valid act of the Committee as if it had been made by a majority vote at a meeting duly called and held. The membership of the Committee shall at all times be constituted so as to not adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, to the extent it is applicable, or with the requirements of any other applicable law, rule or regulation.

3.2 Power and Authority. The Committee shall have full power and authority to do all things necessary or appropriate to administer this Plan according to its terms and provisions (excluding the power to appoint members of the Committee and to terminate, modify, or amend the Plan, except as otherwise authorized by the Board); provided, however, that the Committee shall have no authority or power to determine the Eligible Directors who receive awards under this Plan or the timing, amount or price of awards to Eligible Directors under this Plan.

3.3 Interpretation of Plan. Subject to Sections 3.2 and 10 hereof, the Committee shall have the authority at its discretion to adopt, alter and repeal such general and special administrative rules, regulations, and practices governing the Plan as it shall, from time to time, deem advisable, to construe and interpret the terms and provisions of this Plan and any award issued under this Plan, and to otherwise supervise the administration of this Plan. Subject to Sections 3.2 and 10 hereof, all decisions made by the Committee pursuant to the provisions of this Plan shall be made in the Committee's sole discretion and shall be final and binding upon all persons granted options pursuant to the Plan.

4. Shares Subject to Plan.

4.1 Number of Shares. The aggregate number of shares of Common Stock reserved and available for distribution under this Plan shall be 150,000 shares. If any shares of Common Stock that are subject to a Stock

Option cease to be subject to such Stock Option, or any such award otherwise terminates without a payment being made to the Holder in the form of Common Stock, such shares shall again be available for distribution in connection with future grants and awards under this Plan. The number of shares available for distribution under this Plan shall be reduced by the number of shares of Common Stock issued under this Plan upon the exercise of a Stock Option.

4.2 Character of Shares. The Company may elect to satisfy its obligations to a Holder exercising a Stock Option entirely by issuing authorized and unissued shares of Common Stock to such Holder, entirely by transferring treasury shares to such Holder, or in part by the issue of authorized and unissued shares and the balance by the transfer of treasury shares.

5. Eligibility.

5.1 General. Awards under this Plan shall be made to Eligible Directors only.

5.2 Multiple Awards. An Eligible Director to whom a Stock Option has previously been granted under this or any other stock option plan of the Company shall receive an award under this Plan, whether or not such previously granted Stock Option has been fully exercised, if the terms of Section 6 hereof are met.

6. Grant of Option. Subject to the terms and conditions hereof, on the 30th day of April following the end of each of the Company's fiscal years in which the Company realizes net income of \$9.2 million or more for such fiscal year, as determined solely by the audited financial statements of the Company for such fiscal year, the Company shall automatically grant to each Eligible Director an option to acquire 5,000 shares of Common Stock under this Plan. Stock Options granted under this Plan are intended to be options which do not satisfy the requirements to be "incentive stock options" under Section 422 of the Code. Any Stock Option granted under the Plan shall contain such terms, not inconsistent with this Plan, as the Committee may from time to time approve.

7. Exercise Price. The exercise price of any Stock Option granted under this Plan to an Eligible Director shall be the Fair Market Value of the shares of Common Stock subject to the Stock Option at the time the Stock Option is granted.

8. Termination of Option. Each Stock Option granted under this Plan, to the extent not theretofore exercised, shall terminate forthwith upon the earlier of the following to occur: (i) termination of Holder as a member of the Company's Board of Directors or (ii) on the fifth anniversary of the date such Stock Option was granted.

9. Exercise, Method of Exercise and Payment.

9.1 Notice of Exercise and Payment. No Stock Option granted under this Plan may be exercised until after the expiration of six (6) months from the date the Stock Option is granted. At any time after the expiration of six (6) months from the date the Stock Option is granted, Stock Options granted under this Plan may be exercised, in whole or in part, at any time during the remaining term of the Stock Option, by giving written notice of such exercise to the Company identifying the Stock Option being exercised and specifying the number of shares then being purchased. Such notice shall be accompanied by payment in full of the exercise price, which shall be in cash or, unless otherwise provided in the Agreement, in whole shares of Common Stock which are already owned by the Holder of the Stock Option or, unless otherwise provided in the Agreement, partly in cash and partly in such Common Stock. Cash payments shall be made by wire transfer, certified check or bank check or personal check, in each case payable to the order of the Company; provided, however, that the Company shall not be required to deliver certificates for shares of Common Stock with respect to which a Stock Option is exercised until the Company has confirmed the receipt of good and valuable funds in payment of the purchase price thereof. Payments in the form of Common Stock (which shall be valued at the Fair Market Value of a share of Common Stock on the date of exercise) shall be made by delivery of stock certificates in negotiable form, with signatures guaranteed by a bank or investing banking firm, which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances. No Stock Option may be exercised at any time unless the Holder thereof is then a member of the Board of the Company.

9.2 Issuance of Shares. As soon as practicable after its receipt of such notice and payment, the Company shall cause one or more certificates for the shares so

purchased to be delivered to the Holder or his or her estate, as the case may be. No Holder or estate shall have any of the rights of a shareholder with reference to shares of Common Stock subject to a Stock Option until after the Stock Option has been exercised in accordance with this Section 9 and certificates representing such shares so purchased by the Holder pursuant to the Stock Option have been delivered to the Holder or estate.

9.3 Partial Exercise. A Stock Option granted under this Plan may be exercised as to any part of the shares for which it could be exercised. Such a partial exercise of a Stock Option shall not affect the right to exercise the Stock Option from time to time in accordance with this Plan as to the remaining shares of Common Stock subject to the Stock Option.

9.4 Buyout and Settlement Provisions. The Committee may at any time offer to buy out for cash or otherwise settle a Stock Option previously granted, based upon such terms and conditions as the Committee shall establish and communicate to the Holder at the time that such offer is made, including a settlement for exchange of a different award under the Plan for the surrender of the Stock Option.

10. Amendments and Termination.

10.1 Amendments to Plan; Termination. The Board may amend any of the provisions of this Plan, and may at any time suspend or terminate this Plan; provided, however, that no such amendment shall be effective unless and until it has been duly approved by the stockholders of the outstanding shares of Common Stock if (i) such amendment materially increases the benefits accruing to participants under this Plan; (ii) such amendment materially increases the number of securities which may be issued under this Plan; (iii) such amendment materially modifies the requirements as to eligibility for participation in this Plan; (iv) such amendment would disqualify an Eligible Director a disinterested administrator under 16b-3 under any other stock option plan of the Company; or, (v) the failure to obtain such approval would adversely affect the compliance of the Plan with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation; and, further

provided, that this Plan may not be amended more than once every six (6) months, other than to comport with changes in the Internal Revenue Code, the Employee Retirement Income Security Act, or the rules thereunder.

10.2 Amendments to Individual Awards. Subject to Section 12 hereof, no amendment may be made to this Plan which in any material respect impairs the rights of a Holder of a Stock Option without such Holder's consent.

11. Term of Plan.

11.1 Effective Date. The Plan shall be effective as of -----, 1993 ("Effective Date"), subject to the approval of the Plan by the stockholders of the Company within one year after the Effective Date. Any awards granted under the Plan prior to such approval shall be effective when made, but shall be conditioned upon, and subject to, such approval of the Plan by the Company's stockholders (and no awards shall vest or otherwise become free of restrictions prior to such approval).

11.2 Termination Date. No award shall be granted pursuant to the Plan on or after the tenth (10th) anniversary of the Effective Date, but awards granted prior to such tenth (10th) anniversary may extend beyond that date. The Plan shall terminate at such time as no further awards may be granted and all awards granted under the Plan are no longer outstanding.

12. Adjustment Upon Change of Shares. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock for which options may thereafter be granted, and the number of shares of Common Stock then subject to options previously granted, and the price per share payable upon exercise of such option, shall be proportionately adjusted for any increase or decrease in the number of shares of Common Stock of the Company issued under this Plan resulting from a subdivision or consolidation of such shares or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares effected without receipt of consideration by the Company.

12.1 If the Company is reorganized or consolidated or merged with another corporation, in which the Company is the non-surviving corporation, optionee shall be

entitled (subject to the provisions of this Section 12) to receive options covering shares of such reorganized, consolidated or merged corporation in the same proportion as optioned to optionee prior to such reorganization, consolidation or merger at an equivalent exercise price, and subject to the same terms and conditions as this Plan. For purposes of the preceding sentence the excess of the aggregate fair market value of shares subject to the option immediately after the reorganization, consolidation or merger over the aggregate exercise price of such shares shall not be more than the excess of the aggregate fair market value of all shares issued under this Plan subject to the option immediately before such reorganization, consolidation or merger over the aggregate exercise price of such shares issued under this Plan, and the new option or assumption of the old option by any surviving corporation shall not give optionee additional benefits which he did not have under the old option.

- 12.2 To the extent that the foregoing adjustments relate to the shares of the Company issued under this Plan, such adjustments shall be made by the Committee, whose determination in that respect shall be final, binding and conclusive.
- 12.3 Except as hereinbefore expressly provided in this Section 12, the Holder shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, consolidation, reorganization or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to the option.
- 12.4 The grant of an option pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

13. Proration of Awards. In the event there is an insufficient number of shares of Common Stock available under the Plan for any automatic grant of a Stock Option pursuant to Section 6, the shares of Common Stock available for awards under the Plan shall be prorated among the Eligible Directors.

14. General Provisions.

- 14.1 Investment Representations. The Committee may require each person acquiring shares of Common Stock pursuant to an award under the Plan to represent to and agree with the Company in writing that the Holder is acquiring the shares for investment without a view to distribution thereof.
- 14.2 Additional Incentive Arrangements. Nothing contained in the Plan shall prevent the Board from adopting such other or additional incentive arrangements as it may deem desirable, including, but not limited to, the granting of stock options and the awarding of stock and cash otherwise than under the Plan; and such arrangements may be either generally applicable or applicable only in specific cases.
- 14.3 Withholding Taxes. Not later than the date as of which an amount first becomes includible in the gross income of the Holder for federal income tax purposes with respect to any award under this Plan, the Holder shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Board, tax withholding or payment obligations may be settled with Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under this Plan shall be conditional upon such payment or arrangements and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Holder from the Company.
- 14.4 Governing Law. The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Delaware (without regard to choice of law provisions).

- 14.5 Director Status. A leave of absence, unless otherwise determined by the Board prior to the commencement thereof, shall not be considered a termination of an individual's status as a director of the Company.
- 14.6 Non-Transferability. Other than the transfer of a Stock Option by will or by the laws of descent and distribution, no award under the Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbered or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities or torts of the person entitled to such benefit. Any Stock Option granted under this Plan is only exercisable during the lifetime of the Holder while such Holder is serving as an Eligible Director.
- 14.7 Applicable Laws. The obligations of the Company with respect to all awards under this Plan shall be subject to (i) all applicable laws, rules and regulations, including, without limitation, the requirements of all federal securities laws, rules and regulations and state securities and blue sky laws, rules and regulations, and such approvals by any governmental agencies as may be required, including, without limitation, the effectiveness of a registration statement under the Act, and (ii) the rules and regulations of any national securities exchange on which the Common Stock may be listed or the NASDAQ National Market System if the Common Stock is designated for quotation thereon.
- 14.7 Conflicts. If any of the terms or provisions of the Plan conflict with the requirements of Rule 16b-3 under the Exchange Act, or with the requirements of any other applicable law, rule or regulation, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of said Rule 16b-3.
- 14.8 Written Agreements. Each award granted under the Plan shall be confirmed by, and shall be subject to the terms of the Agreement approved by the Committee and executed by the Company and the Holder. The

Committee may terminate any award made under the Plan if the Agreement relating thereto is not executed and returned to the Company within sixty (60) days after the Agreement has been delivered to the Holder for his or her execution.

- 14.9 Consideration for Common Stock. The Committee may not grant any awards under the Plan pursuant to which the Company will be required to issue any shares of Common Stock unless the Company will receive consideration for the shares of Common Stock sufficient under the laws of the State of Delaware so that such shares of Common Stock will be, when issued, validly issued and fully paid and nonassessable when issued.
- 14.10 Common Stock Certificates. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, any applicable federal or state securities law and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. Notwithstanding anything to the contrary contained herein, whenever certificates representing shares of Common Stock subject to an award are required to be delivered pursuant to the terms of the Plan, the Company may, in lieu of such delivery requirement, comply with the provisions of Section 158 of the Delaware General Corporation Law.
- 14.11 Unfunded Status of Plan. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Holder by the Company, nothing contained herein shall give any such Holder any rights that are greater than those of a general creditor of the Company.

EXHIBIT "10.38"

LOAN AGREEMENT

PRIME FINANCIAL CORPORATION,
an Oklahoma corporation

"Borrower"

BANK IV OKLAHOMA, N.A.,
a national banking association

"Lender"

Dated: MARCH 30, 1994

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LIST OF EXHIBITS

- A. Borrowing Base Certificate (Including Compliance Certificate)
- B. Note
- C. Request for Advance - Revolving Credit Loan Request
- D. Security Agreement
- E. List of Account Sellers
- F. Certificate of Officers (include proof of authority to sign Request for advance)
- G. Guaranty Agreement
- H. Subsidiaries
- I. Other Corporate, Fictitious or Trade Names; Mergers, Consolidations, Asset Acquisitions
- J. Insurance
- K. Litigation
- L. Tax Proceedings

LOAN AGREEMENT

THIS LOAN AGREEMENT (the "Agreement") is made as of the 30th day of March, 1994, by and between PRIME FINANCIAL CORPORATION, an Oklahoma corporation (the "Borrower") and BANK IV OKLAHOMA, N.A., a national banking association (the "Lender").

R E C I T A L S

A. The Borrower has requested that the Lender enter into a financing arrangement whereby the Lender shall extend credit to Borrower in the form of a revolving loan up to the original principal amount of \$25,000,000.00 (the "Loan"); and

B. The Lender is willing to extend such credit on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, receipt of which is acknowledged, the parties agree as follows:

ARTICLE I.

CERTAIN DEFINITIONS

When used herein, the following terms shall have the following meanings:

1.1 "Account Debtor" shall have the meaning assigned to that term in Section 2.7 hereof.

1.2 "Account Sellers" shall mean those parties identified in the attached Exhibit "E", which is made a part hereof, or any other parties from whom Borrower may purchase accounts with proceeds of the Loan after obtaining consent from the Lender.

1.3 "Affiliate" of any Person shall mean any Person directly or indirectly controlling, controlled by, or under common control with, such Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Shares or by contract or otherwise.

1.4 "Applicable Prime Rate" shall mean the annual rate of interest announced by the Wall Street Journal, New York, New York ("WSJ") from time to time as average of corporate loan rates quoted by a certain number of the nation's largest banks. The Applicable Prime Rate shall be adjusted daily as announced, calculated on the basis of a year of 360 days and a month of 30 days. Changes in the Applicable Prime Rate are effective, without notice, on the same day as the change in the Applicable Prime Rate as announced from time to time. The Applicable Prime Rate shall not necessarily be the Lender's "best" or lowest rate. Should WSJ fail to announce a prime rate, then the Applicable Prime Rate shall be the rate announced by Chase Manhattan Bank, New York, New York, from time to time as its prime rate.

1.5 "Borrowing Base" shall have the meaning assigned to that term in Section 2.6 hereof.

1.6 "Borrowing Base Certificate" shall mean a Certificate of Borrower in the form of Exhibit "A" annexed hereto and made a part hereof.

1.7 "Business Day" shall mean a day other than a Saturday, Sunday or a day upon which banks in the State of Oklahoma are closed for business generally.

1.8 "Closing Date" shall mean March 30, 1994. .

1.9 "Collateral" shall have the meaning assigned to that term in Article III of this Agreement.

1.10 "Commitment" shall mean the agreement of the Lender to make the Loan on a revolving credit basis pursuant to this Agreement.

1.11 "Congress" shall mean Congress Financial Corporation and Congress Financial Corporation (Central).

1.12 "Congress Loan Agreement" shall mean that certain Loan Agreement dated March 29, 1984, as amended, between Congress, Guarantor and certain of Guarantor's Subsidiaries.

1.13 "Default Rate" shall mean the Applicable Prime Rate plus five percent per annum.

1.14 "Default" shall mean any event, which together with any lapse of time or giving of any notice, or both, would constitute an Event of Default.

1.15 "Determination Date" shall mean any date not more than five (5) days prior to the date on which the amount of the Borrowing Base is determined.

1.16 "Due Date" shall mean, in the case of an Invoice calling for only one payment, the first day on which payment of the full amount of the Invoice is due; and in the case of an Invoice which contemplates more than one payment, the date on which any particular payment is due.

1.17 "Eligible Accounts" shall have the meaning assigned to that term in Section 2.7 of this Agreement.

1.18 "Event of Default" shall have the meaning specified in Section 7.1 of this Agreement.

1.19 "GAAP" shall mean generally accepted accounting principles applied on a consistent basis in all material respects to those applied in the preceding period. Unless otherwise indicated herein, all accounting terms will be defined according to GAAP.

1.20 "Guarantor" shall mean LSB Industries, Inc., a Delaware corporation.

1.21 "Guarantor Advances" shall mean indebtedness arising from loans made by Guarantor or LSB Chemical Corp. to Borrower to enable Borrower to purchase Accounts from Account Sellers.

1.22 "Guaranty" shall have the meaning as assigned to that term in Section 4.1 of this Agreement.

1.23 "hereby", "herein", "hereof", "hereunder" and similar such terms shall mean and refer to this Agreement as a whole and not merely to the specific section, paragraph or clause in which the respective word appears.

1.24 "Household" shall mean Household Commercial Financial Services, Inc.

1.25 "Household Loan Agreement" shall mean that certain Second Amended and Restated Working Capital Loan Agreement dated January 21, 1992 between Guarantor, El Dorado Chemical Company, Slurry Explosives Corporation and Household.

1.26 "Indebtedness" shall mean and include any and all: (i) indebtedness, obligations and liabilities of the Borrower to the Lender incurred or which may be incurred hereafter pursuant to the terms of this Agreement or any of the other Loan Documents, and any extensions, renewals, substitutions, amendments and increases in amount thereof, including such amounts as may be evidenced by the Note and all lawful interest, loan closing fees, service fees, facility fees, commitment fees, fees in lieu of

balances and other charges, and all costs and expenses incurred in connection with the preparation, filing and recording of the Loan Documents, including reasonable attorneys' fees and legal expenses; (ii) all other indebtedness, obligations (whether direct or indirect, primary or secondary, fixed or contingent) and liabilities of the Borrower to the Lender arising out of this Agreement or the Loan Documents, including future advances and loans made by the Lender to the Borrower and any extensions, renewals, substitutions, amendments and increases in amount thereof; (iii) all reasonable costs and expenses paid or incurred by the Lender, including attorneys' fees, in enforcing or attempting to enforce collection of any Indebtedness and in enforcing or realizing upon or attempting to enforce or realize upon any collateral or security for any Indebtedness, including interest on all sums so expended by the Lender accruing from the date upon which such expenditures are made until paid, at an annual rate equal to the Default Rate; (iv) all sums expended by the Lender in curing any Event of Default or Default of the Borrower under the terms of this Agreement, the other Loan Documents or any other writing evidencing or securing the payment of the Note together with interest on all sums so expended by the Lender accruing from the date upon which such expenditures are made until paid, at an annual rate equal to the Default Rate; (v) all reasonable costs and expenses paid or incurred by the Lender, including attorneys' fees and legal expenses, in enforcing or attempting to enforce any right, remedy or cause of action of the Lender against the Guarantor under the Guaranty, including interest on all sums so expended by the Lender accruing from the date upon which such expenditures are made until paid, at an annual rate equal to the Default Rate; and (vi) all "Indebtedness" or "Secured Indebtedness" or "Obligations" as said terms may be defined in any of the Loan Documents.

1.27 "Invoice" shall mean any form of demand for payment by Borrower or any Account Seller to an Account Debtor for services rendered or goods sold or leased, written or oral.

1.28 "Invoice Date" shall mean the date of the first Invoice for the particular services rendered or the particular goods sold or leased to an Account Debtor.

1.29 "Laws" shall mean all statutes, laws, ordinances, regulations, orders, writs, injunctions, or decrees of the United States, any state or commonwealth, any municipality, any foreign country, any territory or possession, or any Tribunal.

1.30 "Lien" shall mean any mortgage, pledge, security interest, tax lien, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in

the nature thereof, and the filing of or agreement to give any financing statement or other similar form of public notice under the Laws of any jurisdiction), whether arising by agreement or under any statute or law.

1.31 "Loan Documents" shall mean this Agreement, the Note (including any renewals or extensions thereof), the Guaranty, the Security Instruments and all other documents, instruments and certificates executed and delivered to the Lender by the Borrower or any other party pursuant to the terms of this Agreement, and any supplements thereto or modifications thereof.

1.32 "Note" shall mean that certain Promissory Note by Borrower in favor of Lender in the form attached hereto as Exhibit "B" annexed to this Agreement, together with any and all extensions, renewals, modifications, substitutions and changes in form thereof which may be from time to time and for any term or terms effected.

1.33 "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization, and a government or any department, agency or political subdivision thereof.

1.34 "Related Person" shall mean any Affiliate of Borrower, any individual, corporation, organization or other entity who is a stockholder, officer, director or employee of Borrower, or any entity, fifty percent (50%) of the capital (or any class of capital), or fifty percent (50%) of the partnership, limited liability company membership, or other ownership interest in such entity, of which Borrower is the owner. The term "Related Person" shall also include any corporation, organization or other entity, fifty percent (50%) of the capital (or fifty percent (50%) of any class of capital) of which is owned by a Related Person.

1.35 "Revolving Credit Loan Request" shall mean a Loan Request in the form of Exhibit "C" annexed to this Agreement and to be delivered to the Lender by the Borrower pursuant to Section 2.3 of this Agreement.

1.36 "Security Agreement" shall mean that certain Security Agreement in the form of Exhibit "D" annexed to this Agreement, to be made, executed and delivered by Borrower to the Lender covering all accounts receivable and other personal property of Borrower, as described therein.

1.37 "Security Instruments" shall mean the Security Agreement and all other financing statements, assignments, security agreements, documents or writings and any and all amendments and supplements thereto, granting, conveying, assigning, transferring, perfecting or in any manner providing the Lender with a security interest in any property as security for the repayment of all or any part of the Indebtedness.

1.38 "Subsidiary" shall mean any corporation in which the Borrower or Guarantor, as the case may be, owns or controls (directly or indirectly) fifty percent (50%) or more of the outstanding capital stock.

1.39 "Taxes" shall mean all taxes, assessments, fees, or other charges or levies from time to time or at any time imposed by any Laws or by any Tribunal.

1.40 "Tribunal" shall mean any municipal, state, commonwealth, federal, foreign, territorial or other sovereign, governmental entity, governmental department, court, commission, board, bureau, agency or instrumentality.

1.41 "UCC" shall mean the Uniform Commercial Code as adopted in the State of Oklahoma, as it may be amended from time to time.

1.42 "Voting Shares" shall mean shares of any class or classes (however designated) having ordinary voting power for the election of at least a majority of the members of the Board of Directors (or other governing bodies) of such corporation, other than shares having such power only by reason of the happening of a contingency.

ARTICLE II.

REVOLVING CREDIT LOAN

2.1 Loan. The Lender agrees, upon the terms and subject to the conditions hereinafter set forth, to lend up to \$25,000,000.00 to Borrower on a revolving credit basis from the Closing Date until October 1, 1994, unless its Commitment shall be sooner terminated pursuant to the provisions of this Agreement, for the purpose of purchasing Accounts from the Account Sellers, and in such amounts as may from time to time be requested by Borrower, provided however, the outstanding principal amount due and payable under the Note shall not at any one time exceed the Borrowing Base.

2.2 Note. On the Closing Date the Borrower shall execute and deliver to the Lender the Borrower's Promissory Note in the principal amount of \$25,000,000.00, the form of which is annexed hereto as Exhibit "B" and made a part hereof (referred to as the "Note"), thereby evidencing Borrower's obligation to repay advances under the Loan. The Note shall be dated as of the Closing Date, and shall bear interest, payable monthly on the first day of every month commencing May 1, 1994, on unpaid balances of principal advanced to or on behalf of Borrower from time to time outstanding at a variable annual rate equal from day to day to the Applicable Prime Rate plus one-fourth of one percent (1/4%). After maturity (whether by acceleration or otherwise) the Note shall bear interest at the Default Rate. Interest shall be calculated on the basis of a year of 360 days but assessed for the actual number of days elapsed in each accrual period.

2.3 Request for Advances. Each advance under the Loan shall be requested by the Borrower from the Lender and shall (i) be requested in writing on the form of Revolving Credit Loan Request annexed hereto as Exhibit "C" and made a part hereof, and shall be executed by the President of the Borrower or any other authorized officer referred to in Section 4.1(c) hereof, on behalf of the Borrower, which shall be delivered to the Lender no later than three Business Days prior to the date upon which the advance is to be made; (ii) be requested no more frequently than one time per week (unless the last Borrowing Base Certificate received by the Bank, taking into account any advances made by the Bank after the receipt of such Borrowing Base Certificate, indicates that additional funds may be advanced without exceeding the Borrowing Base, in which case advances may be requested up to one time per day); and (iii) be advanced by the Lender on the applicable date, provided the Revolving Credit Loan Request is timely received by the Lender and all other conditions of funding are met. All advances made by the Lender under the Loan shall be wired to the account(s) of Borrower designated by Borrower, for the benefit of Borrower, which account(s) shall be acceptable to Congress to the extent that such advance is used to purchase Accounts subject to Congress's lien, and the Lender shall have no responsibility to Borrower to monitor the distribution of such advances in any other respect. All advances shall be paid promptly upon receipt by Borrower to Congress, if Congress holds the first priority lien and security interest in the Accounts to be purchased with such advance, and in an amount necessary to secure a release of such first priority lien and security interest.

2.4 Payments and Voluntary Prepayments. Except as otherwise prohibited hereby, the Borrower may from time to time make prepayments of principal under the Note without premium or penalty, provided that interest on the amount prepaid, accrued to the prepayment date, shall be paid on such prepayment date. The Borrower may reborrow subject to the limitations and conditions for the Loan contained herein. All advances made by the Lender on the Note and all payments or prepayments of principal and interest thereon made by the Borrower shall be recorded by the Lender in its records, and the aggregate unpaid principal amount so recorded shall be rebuttable evidence of the principal amount owing and unpaid on the Note. The failure to so record shall not, however, limit or otherwise affect the obligations of the Borrower hereunder or under the Note to repay the principal amount of the Loan together with all interest accrued thereon. If additional lines or blanks shall be needed for the purpose of recording advances or payments on the schedule, one or more additional schedules may be annexed to the Note and shall become a part thereof. All payments and prepayments shall be made in lawful money of the United States of America. Any payments or prepayments on the Note received by the Lender after 2:00 o'clock P.M. (applicable current time in Tulsa, Oklahoma) shall be deemed to have been made on the next succeeding Business Day. All outstanding principal of and accrued interest on the Note not previously paid hereunder shall be due and payable at maturity on October 1, 1994 unless such maturity shall be extended by the Lender in writing or accelerated pursuant to the terms hereof.

2.5 Mandatory Prepayments. In the event the sum of the Indebtedness exceeds the "Borrowing Base", as hereinafter defined, the Borrower shall make a mandatory prepayment in an amount equal to such excess. Each such mandatory prepayment shall be paid prior to the earlier of (a) three Business Days after the Borrower shall have knowledge of such excess, or (b) three Business Days after the Lender shall have made demand that the Borrower make such a mandatory prepayment. Notwithstanding the above, Borrower hereby authorizes and directs the Lender to withdraw the amount of such excess from any account or accounts of Borrower maintained at the Lender, in any order and manner as the Lender may determine in its sole discretion, without prior notice or demand to Borrower, upon and at any time after receipt by the Lender of a Borrowing Base Certificate reflecting such excess, and apply said sums to the payment of such mandatory prepayment.

2.6 Borrowing Base. The Borrower will not request, nor will it accept, the proceeds of the Loan or an advance under the Loan at any time when the amount thereof exceeds the "Borrowing Base". As used in this Agreement, the term "Borrowing Base" shall mean an amount equal to:

the lesser of:

eighty percent (80%) of the uncollected amount of the aggregate Eligible Accounts of the Borrower at book value, held by and due and

owing to the Borrower as shown by the books and records of the Borrower as of the Determination Date;

or

(b) \$25,000,000.00.

2.7 Eligible Accounts. For the purposes of this Agreement, an "Eligible Account" shall mean an Account (as defined in Article 9 of the UCC) for which the Invoice Date has occurred and which meets the following standards until the same is collected in full:

(a) The Account is owned by and payable to the Borrower and represents a sum of money (exclusive of interest, late charges or carrying costs) unconditionally due and owing to the Borrower from an account debtor ("Account Debtor") thereof for services rendered or goods sold or leased or services performed by the Borrower, or the Account Seller from whom Borrower may have purchased such Account, to such Account Debtor in the ordinary course of business and which services or goods have been accepted by the Account Debtor;

(b) such sum of money does not remain unpaid for a period in excess of sixty (60) days beyond the Due Date;

(c) such sum of money does not remain unpaid for a period in excess of one-hundred fifty (150) days beyond the Invoice Date, unless the Lender has pre-approved such Account Debtor to receive more liberal terms, in the Lender's sole discretion, which approval the Lender may grant or withhold at any time;

(d) The Account is not a contra account and the portion of the Account to be included as an Eligible Account is not otherwise subject to any dispute, set-off, recoupment, counterclaim or other claim or to any rescission, cancellation or avoidance which would reduce or eliminate the amount to be paid by the Account Debtor, and the Account Debtor has not received or requested permission to pay the same in installments at dates later than were originally due and payable; it being further understood that contract retainages will not constitute Eligible Accounts;

(e) The Account is not subject to any concession or understanding with the Account Debtor of any kind which

varies from the terms of the Invoice that is not disclosed to the Lender in writing and which does not cause the Account to otherwise fall outside the definition of an "Eligible Account";

(f) The Account does not result from the sale or lease of any goods held on consignment;

(g) The Borrower has the full and unqualified right to assign and grant a security interest in such Account as security for the Indebtedness;

(h) The Account Debtor has not ceased business or made an assignment for the benefit of creditors, and no trustee, receiver, liquidator, conservator, custodian or like officer has been appointed to take custody, possession or control of the Account Debtor or any substantial portion of the assets in general of such Account Debtor. The Account Debtor has not become or been adjudged to be insolvent, requested or consented to the appointment of any receiver, trustee, custodian, liquidator or like officer or become subject to the control or supervision of any court or other governmental body or officer for the purpose of liquidating its assets, winding up its affairs or for the purpose of any financial reorganization, rehabilitation or other relief under any law or statute now or hereafter in force affording relief to debtors from their obligations or affecting the rights of creditors generally;

(i) If twenty-five percent (25%) or more of any Account or Accounts with any Account Debtor shall be unpaid for a period in excess of sixty (60) days from the Due Date, all accounts with such Account Debtor shall be ineligible for inclusion in the Borrowing Base and none thereof shall constitute an Eligible Account and, if the aggregate accounts of any one Account Debtor constitute more than ten percent (10%) of the total accounts of the Borrower at any one time, the amount of all such accounts in excess of ten percent (10%) shall be deemed ineligible for Borrowing Base purposes; provided however, that upon prior application by the Borrower to the Lender setting forth in writing the extent of and reasons for the excess of the concentration limits in this subparagraph, the Lender in its sole discretion may allow certain Accounts in excess of the ten percent (10%) concentration limit to be included in Eligible Accounts;

(j) The Borrower or Account Seller who generated the account has in its possession and under its control shipping

tickets, bills of lading, invoices, delivery receipts and other written business records and memoranda sufficient to document and verify such Borrower's Accounts and the amount thereof and to enforce collection thereof;

(k) The Account Debtor has neither attempted to return the goods or services, the sale or delivery of which created or gave rise to the portion of the Account to be included in the "Eligible Accounts", nor refused to accept the goods or services creating the portion of the Account to be included in the "Eligible Accounts", nor attempted to revoke any acceptance thereof or requested any allowance in adjustment with respect to such goods or services creating the portion of the Account to be included in the "Eligible Accounts", nor made partial payment on a specific Invoice which is being disputed;

(l) The Account is not evidenced by any promissory note, trade acceptance, negotiable instrument or judgment (unless the Lender pre-approves such Account Debtor and the terms and documentation of such Account);

(m) All claims required to be filed in any public office or with any public officer in connection with the Account have been duly filed with and accepted by the appropriate public office or officer;

(n) The Account Debtor is not a Related Person, or the Guarantor;

(o) The Account Debtor is not a director, officer or an employee of the Borrower, nor a member of the family of any director, officer or employee of the Borrower, nor any proprietorship or partnership owned in whole or in part by any such director, officer or employee of the Borrower, or by any member of the family of any such person;

(p) The Account is not subject to the federal statutes requiring notice of the assignment of claims against the United States of America, unless (i) the Borrower shall have given the Lender advance notice of the officer, office and filing address for notice, and telephone number for such office (ii) the Borrower shall have executed all documents which shall have been requested by the Lender in connection with the notice of assignment of such claims, (iii) the Lender shall have filed such notice in the appropriate manner and shall have received confirmation thereof to its satisfaction, and (iv) the Lender shall have received an

opinion of Borrower's counsel, acceptable to the Lender and its counsel, to the effect that all requisite action has been taken to properly perfect the Lender's security interest in such Account and to properly provide notice of such assignment of claims;

(q) The Account is not subject to the security interest, Lien or claim of any party other than the Lender, Prime, Household or Congress; and

(r) The Account was purchased from an Account Seller for whom the Lender has received and approved (i) an Agreement for Purchase of Receivables as contemplated by Sections 3.1(b) and 4.1(h) hereof, (ii) an acknowledgment contemplated by Section 4.1(i) hereof and (iii) verification as contemplated by Section 4.1(j) hereof.

The above specifications with respect to the term "Eligible Account" are specifications adopted for the purpose of determining the Borrowing Base and the designation of such specifications shall not be interpreted to limit in any respect the security interest granted to the Lender to such Eligible Accounts.

2.8 Variance from Borrowing Base. The Loan shall be conclusively presumed to have been made to the Borrower by the Lender under the terms and provisions hereof and shall be secured by all of the Collateral and security described or referred to herein or in the Security Instruments, whether or not such loan conforms in all respects to the terms and provisions hereof. If the Lender should (for the convenience of the Borrower or for any other reason) make loans or advances which would cause the Indebtedness to exceed the amount of the applicable Borrowing Base, no such variance, change or departure shall prevent any such loan or loans from being secured by the Collateral and security created or intended to be created herein or in the Security Instruments. The Borrowing Base shall not in any manner limit the extent or scope of the Collateral and security granted for the repayment of the Note (or any other Indebtedness) to the proceeds of the Eligible Accounts or limit the amount of indebtedness under the Note (or any other Indebtedness) to be secured.

2.9 Commitment Fee. In addition to the fees described elsewhere herein, Borrower agrees to pay to Lender a commitment fee computed at a rate per annum, based on a year of 360 days, equal to three-eighths of one percent (3/8%) on the average daily unborrowed amount of the Loan payable quarterly in arrears on the last day of each calendar quarter until such time as the Commitment shall have expired, which shall be added to and included within the Indebtedness.

ARTICLE III.

SECURITY

3.1 The Collateral. The repayment of the Indebtedness shall be secured by a continuing security interest of first priority in, and/or assignment, as security, of all the following (the collateral described herein and in the Security Instruments being referred to as the "Collateral"):

(a) all accounts, accounts receivable, reimbursements, notes receivable, drafts, contracts, contract rights, chattel paper and general intangibles of the Borrower and all other obligations for the payment of money, whether now owned or hereafter acquired, all instruments, documents, installment sales contracts, sales contracts, chattel paper, choses in action and other general intangibles relating thereto, all cash, notes, checks and other forms of remittance at any time received or to be received by Borrower in payment thereof, all rights of Borrower in and to all underlying goods the sale or lease of which gave rise thereto, all rights of Borrower as an unpaid vendor, conditional seller, lessor or mortgagee of goods, including all rights of stoppage in transit, repossession, reclamation, foreclosure or termination, all rights of Borrower in and to any returned, rejected, repossessed or reclaimed goods or merchandise, all guaranties and security for any of the foregoing, and all rights to goods relating thereto, except for proceeds of the sale of the Borrower's stock in Equity Bank for Savings, F.A.;

(b) all rights of Borrower in, to and under those certain Agreements for Purchase of Receivables dated March 29, 1994 by and between Borrower and the Account Sellers and any similar agreements relating in whole or in part to the rights of Borrower to buy accounts from the Account Sellers and to require the Account Sellers or any of them under certain conditions to repurchase accounts from Borrower;

(c) all cash, money, certificates of deposit, time deposits and demand deposits of the Borrower, at any time in the possession or control of the Lender, except for proceeds of the sale of the Borrower's stock in Equity Bank for Savings, F.A.;

(d) all documents, contracts, invoices and instruments constituting or evidencing accounts, and all ledgers, journals, books, records, vouchers, shipping tickets,

receipts, sales memoranda, contracts, correspondence and other writings, data or papers evidencing or relating to the items or types of collateral described above in subsections (a) through (c), inclusive; and

(e) all products and proceeds of the items or types of collateral described above in subsections (a) through (d), inclusive, including without limitation insurance proceeds, except for proceeds of the sale of the Borrower's stock in Equity Bank for Savings, F.A.;

subject only to those prior encumbrances in favor of Congress or Household as described in paragraph 3.4 below and only to the specific collateral to which they relate. The foregoing security interest is granted to the Lender pursuant to the Security Agreement, and the Borrower shall execute such financing statements, lien entry forms, assignments, notices and other documents and instruments as shall be necessary or appropriate to perfect the security interests thus created.

3.2 Continuation; Perfection. Borrower, at its expense, shall promptly and diligently take all action necessary to maintain and preserve the security interest herein granted in the Collateral and either shall cause to be timely filed, together with the payment of all necessary filing fees and taxes, such UCC financing and continuation statements in such offices of public record, or shall cause to be promptly delivered to the Lender, such statements, instruments, assignments, documents or papers, as may be necessary to keep the security interest herein granted continuously perfected in the Collateral, and shall execute and acknowledge and deliver or cause to be done, executed, acknowledged and delivered, all and every such further act, deed, conveyance, financing statement, continuation statement, transfer and assurance the Lender may from time to time reasonably request for the better assuring, conveying, transferring and confirming unto the Lender the Collateral that is now and thereafter constituted. Notwithstanding the above, the Lender is hereby appointed Borrower's attorney-in-fact, coupled with an interest, to do, at the Lender's option and at Borrower's expense, all acts and things which the Lender may deem necessary to perfect and continue perfecting the security interest referred to or created by this Agreement and to protect the Collateral.

3.3 Lien Survives Until Full Repayment. The Borrower hereby acknowledges that all of the Collateral is granted to the Lender as security for the repayment of all of the Indebtedness. Except as specifically limited herein, if a portion of the Indebtedness is satisfied, but any portion of the Indebtedness remains unsatisfied, the Lender may retain its security interest

in all of the Collateral until the remaining Indebtedness is paid in full, even if the value of the Collateral far exceeds the amount of Indebtedness outstanding.

3.4 Congress and Household. Congress and/or Household currently may claim a first lien and security interest in Borrower's Accounts. Notwithstanding anything to the contrary contained in this Agreement, Borrower and Lender agree and understand that the proceeds of all advances by Lender shall be used to purchase Accounts of Account Sellers, and that such proceeds shall be paid immediately upon receipt by Borrower to Congress if being used to purchase Accounts subject to Congress's lien, and that from the time of any advance by the Lender to the Borrower until receipt of the proceeds of such advance by Congress, Lender's security interest in the Account purchased shall attach and be perfected but may not have priority over Congress, but otherwise Lender's security interest in Accounts purchased from Account Sellers shall be a first priority security interest.

ARTICLE IV.

CONDITIONS PRECEDENT TO LOAN

4.1 Conditions Precedent. The obligation of the Lender to make the Loan as contemplated herein is subject to the satisfaction of all of the following conditions on or prior to the Closing Date (in addition to the other terms and conditions set forth herein):

(a) No Default. There shall exist no Event of Default and no Default on the Closing Date.

(b) Representations and Warranties. The representations, warranties and covenants set forth in Article VI shall be true and correct on and as of the Closing Date, with the same effect as though made on and as of the Closing Date.

(c) Certificate. The Borrower shall have delivered to the Lender a Certificate, dated as of the Closing Date, and signed by the President or Vice President of Borrower, substantially in the form as shown in Exhibit "F" annexed hereto and made a part hereof. The Lender may conclusively rely on such Certificate until it receives notice in writing to the contrary.

(d) Proceedings; Opinion of Borrower's Counsel. On or before the Closing Date, all corporate proceedings of the Borrower and the Guarantor shall be taken in connection with the transactions contemplated by the Loan Documents and shall be satisfactory in form and substance to the Lender and its counsel; the Lender shall have received certified copies, in form and substance satisfactory to the Lender and its counsel, of the Articles or Certificate of Incorporation and By-Laws of the Borrower and the Guarantor and the resolutions of the Board of Directors of the Borrower and the Guarantor, as adopted, authorizing the execution and delivery of the Loan Documents, the borrowings under this Agreement, and the granting of the security interests and mortgage liens in, and assignment and pledge of, the Collateral pursuant to the Security Instruments, to secure the payment of the Indebtedness; and the Lender shall have received an opinion of Borrower's counsel pertaining to these matters and such other matters as shall be required by the Lender, in a form acceptable to the Lender and Lender's counsel.

(e) Certificate of Good Standing. The Borrower shall have delivered to the Lender a Certificate of Good Standing from the Secretary of State of the State of Oklahoma for Borrower and from the Secretary of State of the State of Delaware for Guarantor, all as of a recent date, along with a Certificate from the Secretary of State of the State of Oklahoma indicating that the Guarantor is qualified to do business in the State of Oklahoma.

(f) Note. The Borrower shall have delivered the Note to the Lender, appropriately executed.

(g) Guaranty. The Lender shall have received a Guaranty in the form of Exhibit "G" annexed hereto and made a part hereof duly executed by the Guarantor, whereby the Guarantor shall unconditionally guarantee repayment of all Indebtedness owed to the Lender by Borrower, including but not limited to the indebtedness evidenced by the Note, together with a financial statement of the Guarantor in a form acceptable to Lender dated as of a date acceptable to Lender and duly executed by the Guarantor.

(h) Account Sellers. The Borrower shall have delivered to Lender an appropriately executed agreement by all Account Sellers in a form acceptable to the Lender pertaining to the Borrower's purchase of accounts from the Account Sellers.

(i) Acknowledgement. The Lender shall have received a fully executed acknowledgement by each Account Seller acknowledging the Lender's security interest in the Collateral, in a form acceptable to Lender.

(j) Sale of Accounts. The Lender shall have received verification in a form acceptable to Lender that all filings required by the UCC or by other applicable law arising out of the sale of accounts to the Borrower by the Account Sellers are effective and in place.

(k) Litigation. The Lender shall have received a list certified by an officer of the Borrower of all litigation pending or threatened which could result in the entry of judgment against Borrower and of any contingent claims, asserted or unasserted, against Borrower in excess of \$50,000.

(l) Congress and Household. The Lender shall have received fully-executed copies of agreements providing for releases by Congress and Household of Accounts purchased by the Borrower from Account Sellers, in a form acceptable to the Lender.

(m) Other Loan Documents. The Lender shall have received all Security Instruments and other Loan Documents contemplated hereby.

(n) Other Information. The Lender shall have received such other and assurances as shall be reasonably requested by the Lender.

4.2 Continuing Conditions Precedent to Advances under Loan. The Lender shall not be obligated to make any advances under the Loan (i) if at such time any Event of Default shall have occurred or any Default shall have occurred and be continuing; (ii) if any of the representations, warranties and covenants contained in Article VI of this Agreement shall be false or untrue in any material respect on the date of such loan, as if made on such date; or (iii) unless the Borrower shall have provided to the Lender the appropriate Revolving Credit Loan Request duly executed by authorized officers and in proper form and establishing that the Borrowing Base will support the additional Loan being requested and such other information as shall be requested by the Lender in support thereof, all in conformity with Section 2.3 hereof. Each request by the Borrower for an advance shall constitute a representation by the Borrower that there is not at the time of such request an Event of Default or a Default, and that all representations, warranties and covenants in Article V of this Agreement are true and correct on and as of the date of each such request.

ARTICLE V.

COVENANTS

The Borrower and Guarantor covenant and agree with the Lender that from the date hereof and so long as this Agreement is in effect (by extension, amendment or otherwise) and until payment in full of all Indebtedness and the performance of all other obligations of the Borrower under this Agreement, unless the Lender shall otherwise consent in writing:

5.1 Payment of Taxes and Claims. The Borrower will pay and discharge or cause to be paid and discharged all Taxes imposed upon their income or profits or upon their property, real, personal or mixed, or upon any part thereof, before the same shall be in default, and all lawful claims for labor, rentals, materials and supplies which, if unpaid, might become a Lien upon their property or any part thereof; provided however, that the Borrower shall not be required to pay and discharge or cause to be paid or discharged any such Tax, assessment or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings, and adequate book reserves shall be established with respect thereto, and the Borrower shall pay such Tax, charge or claim before any property subject thereto shall become subject to execution.

5.2 Maintenance of Corporate Existence. The Borrower will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and will continue to conduct and operate its business substantially as being conducted and operated presently. The Borrower will become and remain qualified to conduct business in each jurisdiction where the nature of the business or ownership of property by the Borrower may require such qualification.

5.3 Preservation of Property. The Borrower will at all times maintain, preserve and protect all franchises and trade names and keep all the remainder of its properties which are used or useful in the conduct of its business whether owned in fee or otherwise, or leased, in good repair and operating condition; from time to time make, or cause to be made, all needful and proper repairs, renewals, replacements, betterments and improvements thereto so that the business carried on in connection therewith may be properly and advantageously conducted at all times; and comply with all material leases to which it is a party or under which it occupies property so as to prevent any material loss or forfeiture thereunder.

5.4 Insurance. The Borrower will keep or cause to be kept adequately insured by financially sound and reputable insurers all property of a character usually insured by businesses engaged in the same or similar businesses as Borrower. The Borrower shall at all times maintain adequate insurance against damage to persons or property, which insurance shall be by financially sound and reputable insurers and shall include the coverage listed on the attached Exhibit "J", which is made a part hereof.

5.5 Compliance with Applicable Laws. The Borrower will use reasonable efforts to comply with the requirements of all applicable Laws and orders of any Tribunal and obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its properties or to the conduct of its business.

5.6 Financial Statements and Reports.

(a) Monthly Report of Accounts Receivable, Sales and Cash Receipts; Report of Accounts Payable. On or before the twenty-fifth (25th) day of each calendar month, the Borrower will deliver to the Lender schedules (certified to be true and correct by the President or chief financial officer of the Borrower) showing, as of the close of business on the last day of the immediately preceding calendar month (i) the name of the Borrower's Account Debtors and others with like obligations payable to Borrower, (ii) the amounts due and owing to the Borrower from each Account Debtor thereof, (iii) "aging" of each Account dating from the Due Date and shown by categories, as follows:

one day to and including 30 days,
31 days to and including 60 days,
61 days to and including 90 days, and
Over 90 days,

and (iv) any modification of the Due Date of any Account granted after the Invoice Date. Upon request of the Lender, but no more often than one time every thirty (30) days, the Borrower shall report to Lender or cause to be reported to Lender the amount of all accounts payable of the Borrower, the Guarantor and all Account Sellers and to whom such accounts payable are owed (excluding obligations to the Lender).

(b) Weekly Borrowing Base and Compliance Certificate. One time per week, the Borrower will deliver to the Lender a Borrowing Base and Compliance Certificate, in the form as shown in Exhibit "A" annexed hereto and made a part hereof, certified by Borrower as being true and correct, along with all information referenced therein.

5.7 Notice of Default. Immediately upon the happening of any condition or event which constitutes an Event of Default or Default or any default or event of default under the Congress Loan Agreement or the Household Loan Agreement, the Borrower will give to or cause to be given to the Lender a written notice thereof specifying the nature and period of existence thereof and what actions, if any, the Borrower and/or any party thereto is taking and proposes to take with respect thereto.

5.8 Notice of Litigation. Immediately upon becoming aware of the existence of any action, suit or proceeding at law or in equity before any Tribunal, an adverse outcome in which would (i) materially impair the ability of the Borrower to carry on its business substantially as now conducted, (ii) materially and adversely affect the condition (financial or otherwise) of the Borrower, or (iii) result in monetary damages in excess of \$50,000, the Borrower will give the Lender a written notice specifying the nature thereof and what action, if any, is being taken or is proposed to be taken with respect thereto.

5.9 Notice of Claimed Default. Immediately upon becoming aware that the holder of any note or any evidence of indebtedness or other security of the Borrower, or Congress or Household in regard to the Congress Loan Agreement or the Household Loan Agreement, has given notice or taken any action with respect to a claimed default or event of default thereunder, the Borrower will give the Lender a written notice specifying the notice given or action taken by such holder and the nature of the claimed default or event of default thereunder and what actions, if any, the Borrower or any other Person is taking and proposes to take with respect thereto.

5.10 Changes in or Creation of Subsidiaries. The Borrower will give the Lender notice promptly upon the creation of any Subsidiaries.

5.11 Notice of Change in Office. Within at least fifteen (15) days prior to relocation of any office of Borrower, including Borrower's chief executive office, the Borrower will give the Lender a written notice of any such change of location to be made (of a duration of more than five days), the effective date of the change of location and the anticipated duration.

5.12 Notice of Change of Management. Within two (2) days after any change in management of the Borrower or Guarantor involving any officers holding an office of Secretary, Vice President, President, Chairman or chief financial officer, the Borrower shall give written notice thereof to the Lender, together with a description of the reasons for the change.

5.13 Requested Information. With reasonable promptness, the Borrower will give the Lender such other data and information relating to the Borrower as from time to time may be reasonably requested by the Lender.

5.14 Inspection. The Borrower or Account Sellers will keep complete and accurate books and records with respect to the Collateral and all its other properties, businesses and operations and will permit employees and representatives of the Lender to audit, inspect and examine the same and to make copies thereof and extracts therefrom during normal business hours. All such records shall be at all times kept and maintained at the offices of the Borrower, Guarantor or Account Sellers. Upon any Default or Event of Default, the Borrower will surrender all such records relating to the Collateral to the Lender upon receipt of any request therefor from the Lender.

5.15 Limitation on Other Indebtedness. The Borrower will not create, incur, assume, become or be liable in any manner in respect of, or suffer to exist, any indebtedness, whether evidenced by a note, bond, debenture, agreement, letter of credit or similar or other obligation, or accept any deposits or advances of any kind, except (i) trade payables and current indebtedness (other than for borrowed money) incurred in, and deposits and advances accepted in, the ordinary course of business, provided that such indebtedness shall be promptly paid and discharged when due or in conformity with customary trade terms; (ii) Guarantor Advances; and (iii) the Indebtedness.

5.16 Limitation on Liens. The Borrower will not create or suffer to exist any Lien upon any of its inventory, property or assets except (i) Liens currently in existence of which Lender is aware; (ii) Liens in favor of the Lender securing the Indebtedness; (iii) Liens arising in the ordinary course of business for sums not due or sums being contested in good faith and by appropriate proceedings and not involving any deposits, advances, borrowed money or the deferred purchase price of property or services; and (iv) Liens permitted to exist under the terms of any of the Security Instruments.

5.17 Contingent Liabilities; Advances. The Borrower will not, either directly or indirectly, (i) guarantee, become surety for, discount, endorse, agree (contingently or otherwise) to purchase, repurchase or otherwise acquire or supply or advance funds in respect of, or otherwise become or be contingently liable upon the indebtedness, obligation or liability of any Person, (ii) guarantee the payment of any dividends or other distributions upon the stock of any corporation, (iii) except to Household and the Lender, discount or sell with recourse or for

less than the face value thereof, any of its notes receivable, accounts receivable or chattel paper; (iv) lend, agree to lend, or advance money to any Person; or (v) enter into any agreement for the purchase or other acquisition of any goods, products, materials or supplies, or for the making of any shipments or for the payment of services, if in any such case payment therefor is to be made regardless of the non-delivery of such goods, products, materials or supplies or the non-furnishing of the transportation of services; provided, however that the foregoing shall not be applicable to endorsement of negotiable instruments presented to or deposited with a bank for collection or deposit in the ordinary course of business.

5.18 Limitation on Investments. The Borrower will not make any investment in any Person, except for investments which consist of:

(a) trade or customer accounts receivable for inventory sold or services rendered in the ordinary course of business or Accounts purchased by Borrower from the Account Sellers in accordance with this Agreement;

(b) obligations issued or guaranteed as to principal and interest by the United States of America and having a maturity of not more than one year from the date of acquisition;

(c) certificates of deposit issued by the Lender or any other bank organized under the laws of the United States of America or any state thereof and having total assets of at least \$400,000,000;

(d) commercial paper or finance company paper which is rated not less than prime-one or A-1 or their equivalents by Moody's Investors Service, Inc. or Standard & Poor's Corporation or their successors; and

(e) repurchase agreements secured by any one or more of the foregoing;

provided, however, that the foregoing shall not apply to proceeds Borrower shall receive from the sale of its stock in Equity Bank for Savings.

5.19 Disposition of Assets - Borrower. Except for the Borrower's stock in Equity Bank For Savings, F.A. and the proceeds of the sale of the Borrower's stock in Equity Bank for Savings, F.A., the Borrower will not sell, lease, transfer, scrap or otherwise dispose of any of its properties or assets, whether

for replacement or not, to the extent that the fair market value of such assets exceeds \$50,000.00 in the aggregate for all such assets disposed of by the Borrower during any fiscal year unless such sale or disposition shall be in the ordinary course of business and for a full and fair consideration; provided, however, that the Borrower shall not sell, assign or discount any Accounts except as contemplated by Borrower's Agreements for Purchase of Receivables with the Account Sellers.

5.20 Pledge of Chattel Paper. Neither the Borrower nor any Account Seller will pledge and/or transfer possession of any chattel paper which is included in the Collateral to any party other than the Borrower or the Lender.

5.21 Merger, Consolidation, Acquisition, Etc. The Borrower will not merge or consolidate with or into any other Person; or permit any other Person to consolidate with or merge into the Borrower; or acquire all or substantially all of the assets or properties or capital stock of any other Person; or adopt or effect any plan of reorganization, recapitalization, liquidation or dissolution; or acquire any properties or assets, other than in the ordinary course of business, to the extent that such acquisitions exceed \$50,000.00 in the aggregate during any calendar year.

5.22 Dividends by Borrower, Etc. The Borrower will not declare, pay or become obligated to declare or pay any dividend on any class of its capital stock now or hereafter outstanding, make any distribution of cash or property to holders of any shares of such stock, or redeem, retire, purchase or otherwise acquire, directly or indirectly, any shares of any class of its capital stock now or hereafter outstanding; provided, however, that this paragraph shall not apply to (i) any distribution by Borrower of proceeds of the sale of Borrower's stock in Equity Bank for Savings and (ii) any payment by Borrower to Guarantor to repay Guarantor Advances.

5.23 Related Persons. The Borrower shall not engage in any transaction or transactions with any Related Person, except upon terms similar to those prevailing in like transactions with Persons other than Related Persons, except for that Administrative Services Agreement between Borrower and Guarantor dated March 29, 1994.

5.24 Change of Fiscal Year. The Borrower will not change its fiscal year from its present fiscal year.

5.25 Other Agreements. The Borrower will not enter into or permit to exist any agreement (i) which would cause an Event of Default or a Default hereunder; or (ii) which contains any

provision which would be violated or breached by the performance of Borrower's obligations hereunder or under any of the other Loan Documents.

5.26 Performance Bonds and Sureties. The Borrower will not obtain, apply for, or enter into any undertaking relating to, any performance bond or any other surety arrangement with respect to the performance of any of the obligations of the Borrower to any third party, over \$50,000.00.

5.27 Payment of Indebtedness. The Borrower hereby agrees to pay, when due and owing, all Indebtedness, whether or not evidenced by the Note.

ARTICLE VI.

REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into this Agreement and to make the Loan to the Borrower under the provisions hereof, and in consideration thereof, the Borrower represents, warrants and covenants as follows:

6.1 Organization and Qualification - Borrower. The Borrower is duly organized, validly existing, and in good standing under the Laws of its jurisdiction of incorporation, and is duly licensed and in good standing as a foreign corporation in each jurisdiction in which the nature of the business transacted or the property owned is such as to require licensing or qualification as such.

6.2 Chief Executive Office. The Borrower's chief executive office is located in the State of Oklahoma.

6.3 Litigation. There is no action, suit, investigation or proceeding threatened or pending before any Tribunal against or affecting the Borrower or any properties or rights of the Borrower, which is not described on the attached Exhibit "K", which is made a part hereof, or which has not otherwise been reported to the Lender and which, if adversely determined, would result in a liability of greater than \$50,000.00.

6.4 Financial Statements. The Borrower's financial statements which have been furnished to the Lender have been prepared in conformity with GAAP, show all material liabilities, direct and contingent, and fairly present the financial condition of the Borrower as of such date and the results of its operations for the period then ended, and since such date there has been no material adverse change in the business, financial condition or operations of the Borrower.

6.5 Title to Properties; Authority. The Borrower has full power, authority and legal right to own and operate the properties which it now owns and operates and to carry on the lines of business in which it is now engaged, and the Borrower has good and marketable title to the Collateral subject to no Lien of any kind except Liens in favor of the Lender or otherwise permitted by this Agreement. The Borrower has full power, authority and legal right to execute and deliver and to perform and observe the provisions of this Agreement and the other Loan Documents to which it is a party.

6.6 Conflicting Agreements and Other Matters. The Borrower is not in default in the performance of any obligation, covenant, or condition in any agreement to which it is a party or by which it is bound, which would materially and adversely affect its business, property or assets, or its financial condition. The Borrower is not a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or assets, or financial condition. The Borrower is not a party to or otherwise subject to any contract or agreement which restricts or otherwise affects the right or ability of the Borrower to execute the Loan Documents to which it is a party or the performance of any of their respective terms. Neither the execution nor delivery of any of the Loan Documents, nor fulfillment of nor compliance with their respective terms and provisions will conflict with, or result in a breach of, the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Borrower pursuant to, or require any consent, approval or other action by or any notice to or filing with any Tribunal (other than routine filings after the Closing Date with the Securities and Exchange Commission, any securities exchange and/or state blue sky authorities) pursuant to, the charter or By-Laws of the Borrower, any award of any arbitrator, or any agreement, instrument or Law to which the Borrower is subject.

6.7 Corporate Authorization - Borrower. The Board of Directors of the Borrower has duly authorized, and the Borrower has the corporate power necessary for, the execution and delivery of each of the Loan Documents and the performance of their respective terms. No other consent of any other Person, except for the Lender, is required as a prerequisite to the validity and enforceability of the Loan Documents.

6.8 Purposes. The Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of

the Federal Reserve System) and no part of the proceeds of any borrowing hereunder will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock. If requested by the Lender, the Borrower will furnish to the Lender a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U, to the foregoing effect. The Borrower has not taken and will not take any action which might cause this Agreement, the Note or the Guaranty to violate any regulation of the Board of Governors of the Federal Reserve System (including but not limited to Regulations G, T, U and X) or to violate any securities laws, state or federal, in each case as in effect now or as the same may hereafter be in effect.

6.9 Compliance with Applicable Laws - Borrower. To the best of Borrower's knowledge, the Borrower is in compliance with all Laws, ordinances, rules, regulations and other legal requirements applicable to it and the business it conducts, the violation of which could or would have a material adverse effect on its business or condition, financial or otherwise. Neither the ownership of any capital stock of the Borrower nor any continued role of any Person in the management or other affairs of the Borrower (i) to the best of Borrower's knowledge results or could result in the Borrower's noncompliance with any Laws, ordinances, rules, regulations and other legal requirements applicable to the Borrower, or (ii) could or would have a material adverse effect on the business or condition, financial or otherwise, of the Borrower.

6.10 Possession of Franchises, Licenses, Etc. The Borrower possesses all franchises, certificates, licenses, permits and other authorizations from governmental, political subdivisions or regulatory authorities, that are necessary in any material respect for the ownership, maintenance and operation of its properties and assets, and the Borrower is not in violation of any thereof in any material respect.

6.11 Taxes. The Borrower has filed all Federal, state and other income tax returns which are required to be filed and has paid all Taxes, as shown on said returns, and has paid all Taxes due or payable without returns and all assessments received to the extent that such Taxes or assessments have become due, except for Taxes being contested in good faith by appropriate proceedings, a list of which is attached hereto, marked Exhibit "L", and made a part hereof. All Tax liabilities of the Borrower are adequately provided for on the books of the respective books of the Borrower including interest and penalties. No income tax liability of a material nature has been asserted by taxing authorities for Taxes in excess of those already paid. There is no proposed tax assessment against Borrower and there is no basis for any such assessment except as disclosed on Exhibit "L".

6.12 Stock, Etc. The Guarantor owns 100% of the issued and outstanding capital stock of the Borrower. All of the shares of the capital stock of the Borrower have been duly issued and are fully paid and non-assessable. All of the outstanding shares of capital stock of the Borrower were issued under a valid exemption to the registration provisions of the Securities Act of 1933, as amended, and all applicable state securities Laws, and do not require compliance with the Trust Indenture Act of 1939.

6.13 Subsidiaries. Borrower owns no Subsidiaries as of the date hereof except as reflected on the annexed Exhibit "H", which reflects the respective jurisdiction of incorporation and qualifications of all Subsidiaries and the percentage of their capital stock owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock of such Subsidiaries have been duly authorized and issued and are fully paid and non-assessable.

6.14 Fiscal Year. The fiscal year of the Borrower and Guarantor ends December 31.

6.15 Performance Bonds; Sureties. The Borrower has not obtained, applied for, or entered into any undertakings relating to, any performance bond or any other surety arrangement with respect to the performance of any of the obligations of the Borrower to any third party, greater than \$50,000.00.

6.16 Corporate Name. Borrower has not during the preceding five (5) years, been known as or used any other corporate, fictitious or tradename except as disclosed on Exhibit "I". Except as set forth on Exhibit "I", Borrower has not been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person.

6.17 Congress. Guarantor and certain of its Subsidiaries are presently parties to the Congress Loan Agreement. No uncured Events of Default have occurred thereunder, nor to the best of Borrower's knowledge do any events or conditions exist which with the passage of time or notice will constitute any Event of Default thereunder. Congress claims no security interest or other interest in any of the Collateral except to the extent described in paragraph 3.4 above.

Household. Guarantor and certain of its Subsidiaries are presently parties to the Household Loan Agreement. No uncured Events of Default have occurred thereunder, nor to the best of Guarantor's knowledge, do any events or conditions exist which with the passage of time or notice will constitute any Event of Default thereunder. Household claims no security interest or other interest in any of the Collateral except to the extent described in paragraph 3.4 above.

ARTICLE VII.

EVENTS OF DEFAULT

7.1 Events of Default. Any one or more of the following events, once occurring and continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of Law or otherwise), shall be a "Default" hereunder, and if any such Default shall not have been cured or remedied within the earlier of twenty (20) Business Days after Borrower shall know (or should have known) of its occurrence or ten (10) Business Days following the date notice thereof from Lender is deemed to be received by Borrower pursuant to paragraph 8.1 hereof, such Default shall be an "Event of Default" hereunder:

(a) The Borrower shall fail to make any payment or prepayment of principal or interest upon the Note, or fail to pay any other indebtedness after the same shall become due and payable (whether by extension, renewal, acceleration or otherwise); or

(b) Any representation or warranty of the Borrower or the Guarantor made herein or in any writing furnished in connection with or pursuant to any of the Loan Documents shall have been false or misleading in any material respect on the date when made; or

(c) The Borrower shall fail to duly observe, perform or comply with any covenant, agreement or term contained in this Agreement or any of the Loan Documents; or

(d) The Borrower or Guarantor shall default in the payment of principal or of interest on any other material obligation (which for purposes of this subparagraph shall mean an obligation of over \$50,000.00 for Borrower and over \$1,000,000.00 for Guarantor) for money borrowed or received as an advance (or any obligation under any conditional sale or other title retention agreement, or any obligation issued or assumed as full or partial payment for property whether or not secured by purchase money Lien, or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any grace period provided with respect thereto, or shall default in the performance of any other agreement, term or condition contained in any agreement under which such obligation is created (or if any other default under any such agreement shall occur and be continuing beyond any period of grace provided with respect

thereto) if the effect of such default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause such obligation to become due prior to its date of maturity; or

(e) Any of the following: (i) the Borrower or the Guarantor shall become insolvent or unable to pay its debts as they mature, make an assignment for the benefit of creditors or admit in writing its inability to pay its debts generally as they become due or fail generally to pay its debts as they mature; or (ii) an order, judgment or decree is entered adjudicating the Borrower or the Guarantor bankrupt or insolvent; or (iii) the Borrower or the Guarantor shall petition or apply to any Tribunal for the appointment of a trustee, receiver, custodian or liquidator of the Borrower or the Guarantor or of any substantial part of the assets of Borrower or the Guarantor, or shall commence any proceedings relating to the Borrower or the Guarantor under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debts, dissolution, or liquidation Law of any jurisdiction, whether now or hereafter in effect; or (iv) any such petition or application shall be filed, or any such proceedings shall be commenced, of a type described in subsection (iii) above, against the Borrower or the Guarantor and the Borrower or the Guarantor by any act shall indicate its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree shall be entered appointing any such trustee, receiver, custodian or liquidator, or approving the petition in any such proceedings, and such order, judgment or decree shall remain unstayed and in effect, if being vigorously contested, for more than sixty (60) days; or (v) any order, judgment or decree shall be entered in any proceedings against the Borrower or the Guarantor decreeing the dissolution of the Borrower or the Guarantor and such order, judgment or decree shall remain unstayed and in effect for more than thirty (30) days; or (vi) any order, judgment or decree shall be entered in any proceedings against the Borrower or the Guarantor decreeing a split-up of the Borrower or the Guarantor which requires the divestiture of a substantial part of the assets of the Borrower or the Guarantor, and such order, judgment or decree shall remain unstayed and in effect for more than thirty (30) days; or (vii) the Borrower or Guarantor shall fail to make timely payment or deposit of any amount of Tax required to be withheld by the Borrower or Guarantor and paid to or deposited to or to the credit of the United States of America pursuant to the provisions of the Internal Revenue Code of 1986, as amended, in respect of any and all wages and salaries paid to employees of the Borrower or Guarantor; or

(f) Any final judgment on the merits for the payment of money in an amount in excess of \$50,000 shall be outstanding against the Borrower, or in excess of \$1,000,000.00 shall be outstanding against the Guarantor, and such judgment shall remain unstayed and in effect and unpaid for more than thirty (30) days; or

(g) A majority of the outstanding voting stock of the Borrower or of the outstanding voting stock of the Guarantor shall be acquired, directly or indirectly, by a Person or group of Persons, acting in concert, who own on the date of this Agreement less than fifty percent (50%) of the voting stock of the Borrower or Guarantor; or

(h) The Guarantor shall give the Lender notice of asserted discontinuance under the Guaranty; or

(i) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the Person executing the same in accordance with the respective terms thereof or shall in any way be terminated or become or be declared ineffective or inoperative or shall in any way whatsoever cease to give or provide the respective liens, security interests, rights, titles, interests, remedies, powers or privileges intended to be created thereby, and Borrower or Guarantor shall fail or refuse to execute a valid agreement or document reasonably acceptable to Lender which will provide to Lender the same lien, security interest, right, title, interest, remedy, power or privilege originally contemplated; or

(j) The making of any levy against, seizure, garnishment or attachment of any Collateral with a value of over \$50,000.00; or

(k) Any default or event of default under any of the other Loan Documents which shall remain uncured beyond any applicable cure period; or

(l) The occurrence of any Event of Default under the Congress Loan Agreement or the Household Loan Agreement which shall remain uncured beyond any applicable cure period.

7.2 Remedies. Upon the occurrence of Default referred to in Section 7.1(e) the Commitment shall immediately terminate and the Note and all other Indebtedness shall be immediately due and payable. Upon the occurrence of any other Event of Default, and without prejudice to any right or remedy of the Lender under this

Agreement or the Loan Documents or under applicable Law of under any other instrument or document delivered in connection herewith, the Lender may (i) declare the Commitment terminated or (ii) declare the Commitment terminated and declare the Note and the other Indebtedness, or any part thereof, to be forthwith due and payable, whereupon the Note and the other Indebtedness, or such portion as is designated by the Lender shall forthwith become due and payable, without presentment, demand, notice or protest of any kind, all of which are hereby expressly waived by the Borrower. No delay or omission on the part of the Lender in exercising any power or right hereunder or under the Note, the Loan Documents or under applicable law shall impair such right or power or be construed to be a waiver of any default or any acquiescence therein, nor shall any single or partial exercise by the Lender of any such power or right preclude other or further exercise thereof or the exercise of any other such power or right by the Lender. In the event that all or part of the Indebtedness becomes or is declared to be forthwith due and payable as herein provided, the Lender shall have the right to set off the amount of all the Indebtedness of the Borrower owing to the Lender against, and shall have, and is hereby granted by the Borrower, a lien upon and security interest in, all property of the Borrower in the Lender's possession at or subsequent to such default, regardless of the capacity in which the Lender possesses such property, including but not limited to any balance or share of any deposit, collection or agency account. After any Event of Default all proceeds received by the Lender may be applied to the Indebtedness in such order of application and such proportions as the Lender, in its discretion, shall choose. At any time after the occurrence of any Event of Default, the Lender may, at its option, cause an audit of any and/or all of the books, records and documents of the Borrower to be made by auditors satisfactory to the Lender at the expense of the Borrower. The Lender also shall have, and may exercise, each and every right and remedy granted to it for default under the terms of the Security Instruments and the other Loan Documents upon any Event of Default.

ARTICLE VIII.

MISCELLANEOUS

8.1 Notices. Unless otherwise provided herein, all notices, requests, consents and demands shall be in writing and shall be mailed by certified mail, postage prepaid, to the respective addresses specified below, or, as to any party, to such other address as may be designated by it in written notice in accordance herewith to the other parties:

If to the Borrower, to:

Prime Financial Corporation
16 South Pennsylvania
Oklahoma City, Ok. 73107
Attn: Jim Jones

with a copy to:

David Shear
LSB Industries, Inc.
16 S. Pennsylvania
Oklahoma City, OK 73107

If to the Lender, to:

BANK IV OKLAHOMA, N.A.
P. O. Box 2360
Tulsa, Oklahoma 74101
Attention: Wade Edmundson

All notices, requests, consents and demands hereunder will be effective when mailed by certified mail, postage prepaid, addressed as aforesaid, and will be deemed received by the addressee(s) thereof two (2) Business Days after so mailed.

8.2 Place of Payment. All sums payable hereunder shall be paid in immediately available funds to the Lender, at its principal banking offices in Tulsa, Oklahoma, or at such other place as the Lender shall notify the Borrower in writing. If any interest, principal or other payment falls due on a date other than a Business Day, then (unless otherwise provided herein) such due date shall be extended to the next succeeding Business Day, and such extension of time will in such case be included in computing interest, if any, in connection with such payment.

8.3 Marshalling. Borrower waives any right it may have to require marshalling of assets or Collateral for repayment of the Indebtedness in the event of the occurrence of any Default or Event of Default hereunder or under any of the other Loan Documents.

8.4 Survival of Agreements. All covenants, agreements, representations and warranties made herein shall survive the execution and the delivery of the Loan Documents. All statements contained in any certificate or other instrument delivered by the Borrower hereunder shall be deemed to constitute representations and warranties by the Borrower.

8.5 Parties in Interest. All covenants, agreements and obligations contained in this Agreement shall bind and inure to the benefit of the respective successors and assigns of the parties hereto, except that the Borrower may not assign its rights or obligations hereunder without the prior written consent of the Lender.

8.6 Governing Law and Jurisdiction; Venue. This Agreement and the Note shall be deemed to have been made or incurred under the Laws of the State of Oklahoma and shall be construed and enforced in accordance with and governed by the Laws of Oklahoma. For purposes of enforcing and/or interpreting the provisions of this Agreement and all other Loan Documents, or resolving any dispute arising out of the execution, delivery or performance of this Agreement or any of the Loan Documents, the Borrower hereby submits itself to the jurisdiction of the Courts of the State of Oklahoma, the Borrower waives all objections to service of process therefrom and the Borrower waives all objections to venue of any state or federal court sitting in Tulsa County, Oklahoma.

8.7 Maximum Interest Rate. Regardless of any provision herein, the Lender shall never be entitled to receive, collect or apply, as interest on the Indebtedness, any amount in excess of the maximum rate of interest permitted to be charged by the Lender by applicable Law, and, in the event the Lender shall ever receive, collect or apply, as interest, any such excess, such amount which would be excessive interest shall be applied to other Indebtedness and then to the reduction of principal; and, if all other Indebtedness and principal are paid in full, then any remaining excess shall forthwith be paid to the Borrower.

8.8 No Waiver; Cumulative Remedies. No failure to exercise, and no delay in exercising on the part of the Lender, any right, power or privilege hereunder or under any other Loan Document or applicable Law shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege of the Lender. The rights and remedies herein provided are cumulative and not exclusive of any other rights or remedies provided by any other instrument or by law. No amendment, modification or waiver of any provision of this Agreement or any other Loan Document shall be effective unless the same shall be in writing and signed by the Lender. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

8.9 Costs. The Borrower agrees to pay to the Lender on demand all costs, fees and expenses (including without limitation attorneys' fees and legal expenses) incurred or accrued by the Lender in connection with the preparation, execution, delivery,

filing, recording and administration of this Agreement, the Security Instruments and the other Loan Documents, or any amendment, waiver, consent or modification thereto or thereof, or any enforcement thereof, including without limitation the Lender's attorneys' fees and expenses. The Borrower further agrees that all such fees and expenses shall be paid regardless of whether or not the transactions provided for in this Agreement are eventually closed and regardless of whether or not any sums are advanced to the Borrower by the Lender.

8.10 Participation. The Borrower recognizes and acknowledges that the Lender may sell participating interests in the Note to one or more financial institutions (the "Participants"). Each Participant shall own an undivided interest in the applicable Note. The Borrower hereby acknowledges that each Participant shall be deemed a holder of the applicable Note to the extent of its participation, and the Borrower hereby waives its right, if any, to offset any amounts owing to the Borrower from the Lender against any Participant's portion of the applicable Note. Notwithstanding any sale to any Participant, the Borrower shall not be required to send any notice or demand required by this Agreement to any party not specifically required by this Agreement.

8.11 Full Agreement. This Agreement and the other Loan Documents contain the full agreement of the parties and supersede all negotiations and agreements prior to the date hereof.

8.12 Headings. The article and section headings of this Agreement are for convenience of reference only and shall not constitute a part of the text hereof nor alter or otherwise affect the meaning hereof.

8.13 Severability. The unenforceability or invalidity as determined by a Tribunal of competent jurisdiction, of any provision or provisions of this Agreement shall not render unenforceable or invalid any other provision or provisions hereof.

8.14 Exceptions to Covenants. The Borrower shall not be deemed to be permitted to take any action or fail to take any action which is permitted as an exception to any of the covenants contained herein or which is within the permissible limits of any of the covenants contained herein if such action or omission would result in the breach of any other covenant contained herein.

8.15 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.

EXHIBIT "A"

BORROWING BASE AND COMPLIANCE CERTIFICATE

BANK IV Oklahoma, P. O. Box 2360, Tulsa, Oklahoma 74101

Pursuant to the terms and provisions of our Loan Agreement (the "Loan Agreement") dated as of the ---- day of -----, 1994, by and between PRIME FINANCIAL CORPORATION, an Oklahoma corporation (the "Borrower") and BANK IV OKLAHOMA, N.A., a national banking association (the "Bank"), Borrower hereby certifies as follows:

BORROWING BASE

- 1. Total Accounts Receivable \$-----
- 2. Less: Non-Eligible Accounts -----
- 3. Total Eligible Accounts per Section 2.7 of the Loan Agreement (Line 1 minus Line 2) \$-----
- 4. Total Borrowing Base (The lesser of (i) Line 3 x 80% or (ii) \$25,000,000.00) -----
- 5. Less outstanding principal due - NOTE -----
- 6. Available for advance (Line 4, less Line 5) \$-----

COMPLIANCE CERTIFICATE (NOT COMPREHENSIVE)

REPORTING

- Quarterly Operating Statements Enclosed Last Furnished Dated -----
Next Due -----
- Annual Audited Financial Statements Enclosed Last Furnished Dated -----
Next Due -----
- Monthly Report of Accounts Enclosed Last Furnished Dated -----
Next Due -----

CERTIFICATION

All terms used herein shall have the same meaning as set forth in the Loan Agreement. Borrower hereby certifies (i) that the information contained herein is true and correct as of the date hereof; (ii) there has been no change in the financial condition of Borrower which significantly impairs the security of the Bank; (iii) that no Default has occurred or is occurring under the Loan Agreement or any of the other Loan Documents; (iv) all Eligible Accounts included within this Certificate as shown above comply with all terms and conditions of Article II of the Loan Agreement, in all respects; (v) attached hereto as Schedule "1" is a schedule of all Accounts which, since the date of the last Borrowing Base and Compliance Certificate submitted to the Lender, have become "Chargedback Receivables" pursuant to any Agreement for Purchase of Receivables between the Borrower and any Account Seller; (vi) attached hereto as Schedule "2" is a schedule of all cash receipts received since the last Borrowing Base Certificate attributable to Accounts subject to Lender's security interest, including customer number and name, date of Invoice, amount of payment received and Invoice number.

PRIME FINANCIAL CORPORATION,
an Oklahoma corporation

By: _____
Title: _____

Exhibit "C"

REVOLVING CREDIT LOAN REQUEST

BANK IV Oklahoma, N.A. (the "Bank")
P.O. Box 2360
Tulsa, Oklahoma 74101

Pursuant to the terms and provisions of our Loan Agreement (the "Loan Agreement") dated as of the ---- day of -----, 199--, by and between PRIME FINANCIAL CORPORATION (the "Borrower") and BANK IV OKLAHOMA, N.A. (the "Bank"), Borrower hereby provides the following Borrowing Base to be used to present the amount of Borrower's requested advance under the Loan Agreement:

1. Total Accounts Receivable	\$-----
2. Less: Non-Eligible Accounts	-----
3. Total Eligible Accounts per Section 2.7 of the Loan Agreement (Line 1 minus Line 2)	\$-----
4. Total Borrowing Base with no further Account Purchases (The lesser of (i) Line 3 x 80% or (ii) \$25,000,000.00)	\$-----
5. Less outstanding principal due - NOTE	\$-----
6. Available for advance with no further Account Purchases (Line 4, less Line 5)	\$-----
7. Total Accounts to be Purchased from Account Sellers with proceeds of requested advance	\$-----
8. AMOUNT REQUESTED HEREBY (must be less than Line 6 plus Line 7)	\$-----

All terms used herein shall have the same meaning as set forth in the Loan Agreement.

The undersigned certifies (i) that the information contained herein is true and correct as of the date hereof; (ii) that there has been no change in the financial condition of Borrower which significantly impairs the security of the Bank; and (iii) that no Default has occurred under the Loan Agreement or any of the other Loan Documents (as that term is defined in the Loan Agreement).

Attached hereto as Exhibit "A" is a schedule of all Eligible Accounts which form the basis for this Request, which includes for each such Eligible Account the name of the Account Debtor, the Invoice Date, the Due Date, the Invoice Number, the amount of the Account, and the name of the Account Seller from whom each Eligible Account was or is to be purchased. The undersigned certifies (i) that all such Eligible Accounts are now owned by Borrower or will be purchased from one or more of the Account Sellers, (ii) that the same schedule has been transmitted to Congress and its liens or security interests on all such Accounts, if any, will be released upon receipt of the proceeds of the advance requested hereby, (iii) that all Eligible Accounts contained in the attached schedule or included in the total Eligible Accounts hereunder (except those Accounts to be purchased with proceeds of the advance requested hereby, which are subject to the first lien of Congress or Household) are free and clear of any liens, claims or interests of any party except for the Lender, (iv) that the Lender has a first and prior and perfected lien and security interest in and to all such Accounts except those to be purchased with proceeds hereof which may currently be subject to first and prior liens in favor of Congress, and (v) that the Lender's security interest will be first and prior in and to such Accounts upon receipt by Congress and/or Household of the proceeds of the requested advance.

To the extent that any Account on the attached listing of Eligible Accounts was purchased from an Account Seller for whom the Lender has not received (i) a fully executed Agreement for Purchase of Receivables as contemplated by Sections 3.1(b) and 4.1(h) of the Loan Agreement, (ii) a fully executed acknowledgment as contemplated by Section 4.1(i) of the Loan Agreement and (iii) verification as contemplated by Section 4.1(j) of the Loan Agreement, such documents are attached hereto and submitted for approval of the Lender.

DATED this _____ day of _____,
1994.

PRIME FINANCIAL CORPORATION, an
Oklahoma corporation

By:

Title:

Exhibit "E"

APR Corporation
Climate Master, Inc.
International Environmental Corporation
L&S Bearing Co.
Summit Machine Tool Manufacturing Corp.
El Dorado Chemical Company
Slurry Explosives Corporation
LSB Chemical Corp.
L&S Automotive Products Co.
Summit Machine Tool Inc. Corp.
Clipmate Corporation
Tribonetics Corporation
Rotex Corporation
International Bearings, Inc.
Hercules Energy Manufacturing Corporation
Koax Corp.
LSB Industries, Inc.
Universal Tech Corporation
CHP Corporation

CERTIFICATE

STATE OF OKLAHOMA)
) ss.
COUNTY OF _____)

The undersigned, -----, on his oath,
does hereby depose and state as follows:

1. This Certificate is provided to BANK IV Oklahoma, N.A.
(the "Lender") pursuant to Section 4.1(c) of that certain Loan
Agreement (the "Loan Agreement") dated March 30, 1994 between the
Lender and Prime Financial Corporation, an Oklahoma corporation
(the "Borrower").

2. The undersigned, -----, is the
currently acting and duly elected -----
president of the Borrower.

3. The undersigned hereby certifies to the Lender that the
following persons are authorized to execute on behalf and in the
name of the Borrower all Borrowing Base Certificates (Exhibit "A"
to the Loan Agreement) and Requests for Advances (Exhibit "C" to
the Loan Agreement) contemplated or required by the Loan
Agreement (collectively the "Certifications"):

and the signature of any of the above-named individuals shall be
conclusive evidence, on which the Lender may rely at any time,
that the statements contained therein are true and correct.

4. The undersigned hereby certifies that he understands
and agrees that the Lender may rely upon the statements contained
herein and in the Certifications in acting under and pursuant to
the Loan Agreement.

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STATE OF OKLAHOMA)
) ss.
COUNTY OF -----)

Subscribed and sworn to before me this ----- day of March,
1994, by -----.

Notary Public

My Commission Expires:

(SEAL)

EXHIBIT "G"
(Guaranty Agreement)

EXHIBIT "H"

Equity Bank for Savings, F.A. which in turn is the parent
company of:

United BankCard, Inc.
Northwest Financial Corporation
Northwest Capital Corporation
Credit Card Center, Inc.
Equity Financial Service Corp.

EXHIBIT "I"

NONE

47

EXHIBIT "K"

NONE

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EXHIBIT "L"

NONE

GUARANTY AGREEMENT

LENDER: BANK IV OKLAHOMA, N.A.
515 SOUTH BOULDER
TULSA, OKLAHOMA 74103

GUARANTOR: LSB INDUSTRIES, INC.
16 S. PENNSYLVANIA
OKLAHOMA CITY, OK 73107

A. For value received, and for the purpose of inducing the above named Lender to extend credit to PRIME FINANCIAL CORPORATION, an Oklahoma corporation ("Debtor") or other financial accommodations from the Lender named herein, the undersigned as a primary obligor irrevocably and unconditionally: (1) guarantees to the Lender that the undersigned Guarantor will fully and promptly pay and discharge all indebtedness upon which Debtor now is or may hereafter, from time to time, become obligated to Lender under that Loan Agreement of even date herewith between Lender and Debtor, specifically including, but not limited to, that certain Promissory Note of even date herewith in the principal amount of \$25,000,000.00 by Debtor in favor of Lender (the "Guaranteed Indebtedness"); (2) agrees, without the Lender first having to proceed against Debtor or to liquidate any security, to pay on demand all sums due to Lender from Debtor under the Loan Agreement, and all losses, costs, attorney fees or expenses which may be suffered or incurred by Lender by reason of Debtor's default under the Loan Agreement; (3) agrees to be bound by and on demand to pay any balance of any Guaranteed Indebtedness subsequent to a sale of security held by Lender, with or without notice to the undersigned; (4) further agrees that liability hereunder will not be affected or impaired by any failure, neglect or omission by Lender to protect in any manner, the collection of the Guaranteed Indebtedness or the security given therefor, including but not limited to any failure or delay by Lender to perfect or keep perfected any lien or security interest in any collateral, and regardless of whether the Debtor has defenses or claims available under law or any agreement with the Lender, including any failure or omission by Lender to seek a deficiency judgment against Debtor; and (5) represents and warrants to Lender that the undersigned owns 100% of all capital stock of the Debtor and has received direct or indirect benefit from the making of this Agreement and the extension of credit or other financial accommodation from Lender to Debtor.

B. Lender may at any time without the consent of or notice to the undersigned, without incurring responsibility to the undersigned and without impairing or releasing the obligations of the undersigned, and upon any terms and conditions the Lender may elect: (1) change the manner, place for terms of payment or extend the time of payment of any indebtedness of Debtor to Lender; (2) extend, amend, modify, renew, replace, substitute for, change or alter any indebtedness of Debtor to Lender; (3) raise or lower the interest rate or rates charged Debtor; (4) sell, exchange, release surrender, realize upon or otherwise deal with in any manner and in any order any property at any time pledged to secure or securing the indebtedness of Debtor to Lender or any liabilities incurred directly or indirectly hereunder or any offsets against any such indebtedness or liabilities; (5) exercise or refrain from exercising any rights against debtor or others, or otherwise act or refrain from acting; (6) settle or compromise any indebtedness hereby guaranteed or hereby incurred with any one of the undersigned or any other party for such sums as Lender may see fit in its sole discretion, including any release of any one or more of the undersigned or others in conjunction with a settlement or compromise or otherwise; (7) subordinate the payment of all or any part of any indebtedness of Debtor to Lender to the payment of any liabilities which may be due Lender or others; (8) alter in any respect the remedies or rights of Lender against the Debtor; and/or (9) apply any sums paid to any indebtedness of Debtor to Lender regardless of what indebtedness or liability of Debtor to Lender remains unpaid.

C. This Agreement shall be an absolute, unconditional and continuing guaranty of payment and not of collection and shall be binding upon the undersigned, its successors and assigns. Any one or more of the undersigned or any other party liable upon any indebtedness or other obligation hereby guaranteed may be released without affecting the liability hereunder of any of the undersigned or any other party not so released. The undersigned further agrees to the addition of guarantors without notice.

D. All rights of the Lender are cumulative and not alternative to other rights. Suit may be brought against the undersigned or any other parties liable, and against any one or more of them, all or less than all, without impairing the right of the Lender, its successors and assigns against the others of the undersigned or such other parties. The Lender may assign this Agreement or any of its rights and powers hereunder, with all or any of the indebtedness hereby guaranteed and may assign to any such assignee any of the security therefor and, in the event of such assignment, the assignee hereof shall have the same rights and remedies as if originally named herein in place of

Lender, and the Lender shall thereafter be fully discharged from all responsibility with respect to any such indebtedness so assigned.

E. This Agreement is understood to be unlimited in amount, and shall extend to the full amount of any unpaid Guaranteed Indebtedness owed by Debtor to Lender, regardless of any prior payments on such Guaranteed Indebtedness.

F. Notwithstanding the provisions of any note or obligation to which this Agreement applies, it is the intention of the parties, and it is here provided, that Guarantor shall not be liable for interest charges in excess of the maximum amount permitted under the law applicable to this Agreement.

G. The undersigned expressly waives: (1) notice of acceptance of this Agreement and of all extensions of credit to Debtor; (2) notice of the creation of any indebtedness; (3) presentment and demand for payment, notice of default or non-payment of any of the debts of the Debtor; (4) protest and notice of dishonor or of default to the undersigned or to any other party with respect to any of the debts of the Debtor or with respect to any security therefor; (5) acceptance of this Agreement by Lender; (6) all other notices to which the undersigned might otherwise be entitled; (7) demand for payment under this guaranty; (8) any impairment of collateral, including, but not limited to, the failure to perfect or maintain perfection of a security interest in collateral; (9) any act or omission of Lender (except acts or omissions in bad faith) which materially increases the scope of the undersigned's risk, as guarantor; and (10) any rights of setoff or any other credit against or reduction in the indebtedness guaranteed hereby which may arise under 12 O.S. Section 686, as may be amended from time to time, or any other law. The undersigned further agrees that the obligations hereunder are distinct and independent of the obligations of the Debtor and shall not be limited by or dependent upon the obtaining of any deficiency judgment in a foreclosure action.

H. All amounts becoming payable by the undersigned to Lender under this Guaranty shall be payable at Lender's offices at 515 South Boulder (or P.O. Box 2360, 74101) Tulsa, Oklahoma 74103 or such other place as Lender may from time to time designate. The payment by the undersigned of any amount pursuant to this Guaranty shall not in anywise entitle the undersigned to any right, title or interest (whether by way of subrogation, contribution or reimbursement or otherwise) in and to any of the obligations or any of proceeds thereof, or any security or collateral therefor.

I. In the event of a bankruptcy by the Debtor the undersigned waives, as of the date of this Guaranty, any "claim" (as that term is defined in the United States Bankruptcy Code) which the undersigned might have or acquire against the Debtor arising from the performance or existence of the undersigned's obligations under this Guaranty Agreement, and to that extent agrees that the undersigned is not a creditor of the Debtor.

J. Any deposits or other sums credited by or due from the Lender to the undersigned, except for proceeds of the sale of Debtor stock in Equity Bank for Savings, F.A., may be set off against any and all liabilities of the undersigned to the Lender arising under the terms of this Guaranty Agreement after an "Event of Default" under the Loan Agreement. The rights granted by this paragraph shall be in addition to the rights of Lender under any statutory banker's lien or common law right of offset.

K. In the event that any payment from Debtor to Lender is held to constitute a preference under the bankruptcy laws, such payment by Debtor to Lender shall not constitute a release of the undersigned from any liability hereunder and the undersigned agrees to pay such amount to Lender as all other obligations of the undersigned to Lender hereunder, and this Agreement shall continue to be enforceable to its full extent and shall be reinstated, as the case may be, to the extent of any such payment or payments.

L. All capitalized terms in this Agreement shall have the same meaning as in the Loan Agreement.

M. In order to induce the Lender to make the Loan contemplated by the Loan Agreement, the Guarantor hereby covenants as follows:

1. The Guarantor will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises. The Guarantor will become and remain qualified to conduct business in each jurisdiction where the nature of the business or ownership of property by the Guarantor may require such qualification.

2. The Guarantor will pay and discharge or cause to be paid and discharged all Taxes imposed upon its income or profits or upon its property, real, personal or mixed, or upon any part thereof, before the same shall be in default, and all lawful claims for labor, rentals, materials and supplies which, if unpaid, might become a Lien upon its property or any part thereof; provided however, that the

Guarantor shall not be required to pay and discharge or cause to be paid or discharged any such Tax, assessment or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings, and adequate book reserves shall be established with respect thereto, and the Guarantor shall pay such Tax charge or claim before any property subject thereto shall become subject to execution.

3. The Guarantor will reasonably comply with the requirements of all applicable Laws and orders of any Tribunal and obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its properties or to the conduct of its business, such that the failure of Guarantor to comply herewith shall have a material adverse effect on the Guarantor's and its subsidiaries' (taken as a whole) business or financial condition.

4. The Guarantor shall maintain a standard system of accounting and shall furnish to the Lender as soon as practicable after the end of each calendar quarter, and in any event within fifty (50) days after the end of each said calendar quarter, operating statements for the Guarantor on a consolidated and consolidating basis, which shall be certified, on the Guarantor's behalf, by the President or the chief financial officer of the Guarantor to have been prepared in accordance with GAAP and to fairly present the financial condition of the Guarantor for such period, and shall include at least a balance sheet as of the end of such period, and a consolidated statement of income and a consolidated statement of cash flow for such period, all in reasonable detail, setting forth, in each case, the comparative figures for the corresponding date or period from the operating statements for the immediately preceding fiscal year. In this Agreement, "GAAP" shall mean generally accepted accounting principles applied on a consistent basis in all material respects to those applied in the preceding period.

5. As soon as practicable after the end of each fiscal year of the Guarantor and in any event within 105 days thereafter, including for any fiscal year which may have expired within six (6) months prior to the date of this Agreement, the Guarantor shall furnish to the Lender the following audited financial statements, together with a report thereon, prepared in accordance with GAAP, unqualified as to scope limitations imposed by the Guarantor, of reputable independent certified public accountants of recognized standing selected by the Guarantor and acceptable to the Lender:

(a) A consolidated balance sheet of the Guarantor at the end of such year,

(b) A consolidated statement of income of the Guarantor for such year, and

(c) A consolidated statement of cash flow of the Guarantor for such year setting forth in comparative form the figures for the previous fiscal year, if applicable, all in reasonable detail. In addition, the certified public accountant shall prepare and submit to Lender a report that contains a certification that in the course of the audit necessary for the certification of such financial statements, they have obtained no knowledge of any Event of Default or Default as defined in the Loan Agreement, or, if any such Event of Default or Default existed or exists, specifying the nature and period of existence thereof; provided, however, that such accountants shall not be liable to the Lender by reason of their failure to obtain knowledge of any such Event of Default or Default which would not be disclosed in the course of an audit conducted in accordance with generally accepted auditing standards.

6. Promptly upon transmission thereof to the Securities and Exchange Commission, the Guarantor shall deliver to the Lender copies of all 10-K and 10-Q reports and accompanying documents prepared and submitted on behalf of the Guarantor.

7. Promptly upon receipt thereof, the Guarantor shall deliver to the Lender a copy of each report submitted to the Guarantor by independent accountants in connection with any annual, interim or special audit made by them of the books and records of the Guarantor, including, without limitation, any comment letter submitted by such accountants to management in connection with their audit.

8. Promptly upon completion thereof, and after any request by Lender, the Guarantor shall deliver to the Lender a copy of each operating budget and/or projection of financial performance prepared for or by the Guarantor.

9. With reasonable promptness, the Guarantor will give the Lender such other data and information relating to the Guarantor as from time to time may be reasonably requested by the Lender.

10. The Guarantor or its designee will keep complete and accurate books and records with respect to the Collateral and all its other properties, businesses and operations and will permit employees and representatives of the Lender to audit, inspect and examine the same to make copies thereof and extracts therefrom during normal business hours. All such records shall be at all times kept and maintained at the offices of the Borrower, Guarantor or Account Seller. Upon any Default or Event of Default, the Guarantor will; surrender all such records relating to the Collateral in its possession to the Lender upon receipt of any request therefor from the Lender.

11. Immediately upon becoming aware of the existence of any action, suit or proceeding at law or in equity before any Tribunal, an adverse outcome in which would (i) materially impair the ability of the Guarantor to carry on its business substantially as now conducted, (ii) materially and adversely affect the condition (financial or otherwise) of the Borrower, or (iii) result in monetary damages in excess of \$500,000.00, the Guarantor will give the Lender a written notice specifying the nature thereof and what action, if any, is being taken or is proposed to be taken with respect thereto.

N. To induce the Lender to enter into this Agreement and to make the Loan to the Borrower under the provisions hereof, and in consideration thereof, the Guarantor represents and warrants as follows:

1. The Guarantor is duly organized, validly existing, and in good standing under the Laws of its jurisdiction of incorporation, and is duly licensed and in good standing as a foreign corporation in each jurisdiction in which the nature of the business transacted or the property owned is such as to require licensing or qualification as such.

2. There is no action, suit, investigation or proceeding threatened or pending before any Tribunal against or affecting the Guarantor or any properties or rights of the Guarantor which, if adversely determined would result in a liability of greater than \$500,000.00, and which is not described on the attached Exhibit "A", which is made a part hereof, or has not otherwise been reported to the Lender in the Guarantor's audit letters from counsel for 1993.

3. The Guarantor's financial statements which have been furnished to the Lender have been prepared in conformity with GAAP, show all material liabilities, direct

and contingent, and fairly present the financial condition of the Guarantor as of such date and the results of its operations for the period then ended, and since such date there has been no material adverse change in the business, financial condition or operations of the Guarantor.

4. The Guarantor has full power, authority and legal right to own and operate the properties which it now owns and operates and to carry on the lines of business in which it is now engaged, to the extent material to Guarantor's operations. The Guarantor has full power, authority and legal right to execute and deliver and to perform and observe the provisions of this Agreement.

5. The Guarantor is not in default in the performance of any material obligation, covenant, or condition in any agreement to which it is a party or by which it is bound, the default under which would have a material adverse effect on its and its subsidiaries (taken as a whole) business or condition, financial or otherwise. The Guarantor is not a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or assets, or financial condition. The Guarantor is not a party to or otherwise subject to any contract or agreement which restricts the right or ability of the Guarantor to execute this Agreement or the performance of any of its terms. Neither the execution nor delivery of this Agreement, nor fulfillment of nor compliance with its terms and provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Guarantor pursuant to, or require any consent, approval or other action by or any notice to or filing with any Tribunal (other than routine filings after the Closing Date with the Securities and Exchange Commission, any securities exchange and/or state blue sky authorities) pursuant to, the charter or By-Laws of the Guarantor, any award of any arbitrator, or any agreement, instrument or Law to which the Guarantor is subject.

6. The Board of Directors of the Guarantor has duly authorized, and the Guarantor has the corporate power necessary for, the execution and delivery of this Guaranty Agreement and the performance of its terms. No other consent of any other Person is required as a prerequisite to the validity and enforceability of this Agreement.

7. To the best of Guarantor's knowledge, the Guarantor is in reasonable compliance with all Laws, ordinances, rules, regulations and other legal requirements applicable to it and the business it conducts, the violation of which could or would have a material adverse effect on its business or condition, financial or otherwise. Neither the ownership of any capital stock of the Guarantor nor any continued role of any Person in the management or other affairs of the Guarantor, (i) to the best of Guarantor's knowledge results or could result in the Guarantor's material noncompliance with any Laws, ordinances, rules, regulations and other legal requirements applicable to the Guarantor, or (ii) could or would have a material adverse effect on the business or condition, financial or otherwise, of the Guarantor.

8. The Guarantor has filed all Federal, state and other income tax returns which are required to be filed and has paid all Taxes, as shown on said returns, and has paid all Taxes due or payable without returns and all assessments received to the extent that such Taxes or assessments have become due, except for filed extensions and Taxes being contested in good faith by appropriate proceedings, a list of which is attached hereto, marked Exhibit "B", and made a part hereof. All Tax liabilities of the Guarantor are adequately provided for on the books of the Guarantor including interest and penalties. No income tax liability of a material nature has been asserted by taxing authorities for Taxes in excess of those already paid. There is no proposed tax assessment against Guarantor and there is no basis for any such assessment except as disclosed on Exhibit "B".

O. A determination that any provision of this Guaranty is unenforceable or invalid shall not affect the enforceability or validity of any other provision.

P. The undersigned represents and warrants to the Lender that it is aware of the financial condition of the Debtor and acknowledges responsibility to monitor that financial condition as long as this Guaranty Agreement is outstanding, and it is not relying on Lender to provide information on the Debtor's financial condition, now or in the future.

Q. Any and all other documents now or hereafter creating, evidencing, securing and/or relating to Debtor's and/or Guarantor's indebtedness and obligations to Lender, including, but not limited to, this Agreement have been and/or will be negotiated, consummated and performed in Tulsa, Tulsa County,

Oklahoma, and are intended to be a contract made under the laws of the State of Oklahoma and to be construed in accordance with the laws of such State, and Guarantor hereby waives all objections to venue and jurisdiction of any state or federal court sitting in Tulsa County, Oklahoma, in any action instituted by the Lender by reason or arising out of the execution, delivery, performance or enforcement of this Agreement or any other documents relating to the indebtedness and obligations of Debtor and/or Guarantor to Lender.

Dated this 30th day of March, 1994.

LSB INDUSTRIES, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____ President

STATE OF OKLAHOMA)
) SS.
COUNTY OF)

This instrument was acknowledged before me on the ---- day of March, 1994 by ----- as ----- President of LSB Industries, Inc., a Delaware corporation.

Notary Public

My Commission Expires:
- -----

[SEAL]

EXHIBIT "A"

NONE

EXHIBIT "B"

Property Tax being contested by Koax Corp. and Climate
Master, Inc.