

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended September 30, 1994  
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OR

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

For The transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-7677  
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LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter  
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DELAWARE

73-1015226

-----  
State or other jurisdiction of  
incorporation or organization

I.R.S. Employer  
Identification No.

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

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

None

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Former name, former address and former fiscal year, if  
changed since last report.

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to  
such filing requirements for the past 90 days.

YES x NO

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The number of shares outstanding of the Registrant's voting Common Stock, as  
of November 8, 1994 is 13,060,046 shares excluding 1,558,590 shares held as  
treasury stock.

PART I

FINANCIAL INFORMATION

Company or group of companies for which report is filed: LSB Industries, Inc.  
and all of its wholly-owned subsidiaries.

The accompanying condensed consolidated balance sheet of LSB Industries, Inc.  
at September 30, 1994, the condensed consolidated statements of operations for  
the nine month and three month periods ended September 30, 1994 and 1993 and  
the consolidated statements of cash flows for the nine month periods ended  
September 30, 1994 and 1993 have been subjected to a review, in accordance  
with standards established by the American Institute of Certified Public  
Accountants, by Ernst & Young LLP, independent auditors, whose report with  
respect thereto appears elsewhere in this Form 10-Q. The financial statements  
mentioned above are unaudited and reflect all adjustments, consisting  
primarily of adjustments of a normal recurring nature, which are, in the  
opinion of management, necessary for a fair presentation of the interim  
periods. The results of operations for the nine months and three months ended  
September 30, 1994 are not necessarily indicative of the results to be  
expected for the full year. The condensed consolidated balance sheet at  
December 31, 1993, was derived from audited financial statements as of that  
date.

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Information at September 30, 1994 is unaudited)  
(Dollars in thousands)

ASSETS	September 30, 1994	December 31, 1993 (Note 1)
Current assets:		
Cash	\$ 6,286	\$ 2,781
Trade accounts receivable, net of allowance	49,396	49,533
Inventories:		
Finished goods	33,285	26,940
Work in process	8,136	9,643
Raw materials	11,479	11,801
	-----	-----
Total inventory	52,900	48,384
Supplies and prepaid items	6,522	5,459
	-----	-----
Total current assets	115,104	106,157
Property, plant and equipment, at cost	127,730	113,795
Accumulated depreciation	(58,520)	(53,269)
	-----	-----
Property, plant and equipment, net	69,210	60,526
Loan receivable, secured by real estate	13,968	13,968
Other assets	19,321	15,387
	-----	-----
	\$ 217,603	\$ 196,038
	=====	=====

(Continued on following page)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Continued)  
(Information at September 30, 1994 is unaudited)  
(Dollars in thousands)

LIABILITIES, PREFERRED AND COMMON STOCKS AND OTHER STOCKHOLDERS' EQUITY	September 30, 1994	December 31, 1993 (Note 1)
Current liabilities:		
Drafts payable	\$ 1,451	\$ 1,220
Accounts payable	37,707	22,645
Accrued liabilities	5,910	6,752
Current portion of long-term debt	8,907	9,763
	-----	-----
Total current liabilities	53,975	40,380
Long-term debt	66,714	20,508
Net liabilities of Financial Services		
Business sold in 1994 (Notes 1 and 2)	-	60,124
Contingencies (Note 7)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,610 shares issued and outstanding (1,637 in 1993)	153	155
Non-redeemable preferred stock, common stock and other stockholders' equity (Note 6):		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 920,000 shares issued	46,000	46,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,618,636 shares issued (14,514,056 in 1993)	1,462	1,451
Capital in excess of par value	37,365	37,120
Retained earnings (deficit)	18,158	(7,541)
	-----	-----
	104,985	79,030
Less treasury stock, at cost:		

Series 2 preferred, 5,000 shares (none in 1993)	200	-
Common Stock, 1,403,935 shares (840,085 in 1993)	8,024	4,159
Total non-redeemable preferred stock, common stock and other stockholders' equity	96,761	74,871
	\$ 217,603	\$ 196,038

(See accompanying notes)  
LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
Nine Months Ended September 30, 1994 and 1993  
(Dollars in thousands, except per share amounts)

	1994	1993 (Note 1)
Revenues:		
Net sales	\$ 190,954	\$ 177,798
Other income - net	3,281	3,685
	194,235	181,483
Costs and expenses:		
Cost of sales	149,131	132,991
Selling, general and administrative expense	35,584	30,489
Interest expense	5,081	5,778
Provision for environmental matter (Note 7)	400	-
Settlement of dispute	-	1,767
	190,196	171,025
Income from continuing operations before provision for income taxes	4,039	10,458
Provision for income taxes	277	820
	3,762	9,638
Income from continuing operations	3,762	9,638
Income from discontinued operations, net of income taxes (Notes 1 and 2)	584	1,201
Gain on sale of discontinued operations (Note 2)	24,200	-
Net income	\$ 28,546	\$ 10,839
Net income applicable to common stock (Note 4)	\$ 26,110	\$ 9,604
Average common shares outstanding (Note 4):		
Primary	14,275,885	13,058,718
Fully diluted	16,041,622	15,497,418
Earnings per common share (Note 4):		
Primary:		
Income from continuing operations	\$ 0.09	\$ 0.64
Net income	\$ 1.83	\$ 0.74
Fully diluted:		
Income from continuing operations	\$ 0.09	\$ 0.57
Net income	\$ 1.68	\$ 0.64

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
Three Months Ended September 30, 1994 and 1993  
(Dollars in thousands, except per share amounts)

	1994	1993 (Note 1)
Revenues:		
Net sales	\$ 58,689	\$ 57,332
Other income - net	1,450	1,342
	60,139	58,674
Costs and expenses:		
Cost of sales	46,454	43,878
Selling, general and administrative expense	12,988	11,136
Interest expense	1,688	1,608
	61,130	56,622

Income (loss) from continuing operations before provision (credit) for income taxes	(991)	2,052
Provision (credit) for income taxes	(78)	183
	-----	-----
Income (loss) from continuing operations	(913)	1,869
	=====	=====
Income from discontinued operations, net of income taxes (Notes 1 and 2)	-	555
	-----	-----
Net income (loss)	\$ (913)	\$ 2,424
	=====	=====
Net income (loss) applicable to common stock (Note 4)	\$ (1,718)	\$ 1,616
	=====	=====
Average common shares outstanding (Note 4):		
Primary	14,054,914	14,445,747
Fully diluted	14,054,914	15,121,431
Earnings per common share (Note 4):		
Primary:		
Income (loss) from continuing operations	\$ (0.12)	\$ 0.07
	=====	=====
Net income (loss)	\$ (0.12)	\$ 0.11
	=====	=====
Fully diluted:		
Income (loss) from continuing operations	\$ (0.12)	\$ 0.07
	=====	=====
Net income (loss)	\$ (0.12)	\$ 0.11
	=====	=====

(See accompanying notes)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
Nine Months Ended September 30, 1994 and 1993  
(Dollars in thousands)

	1994	1993
	-----	-----
		(Note 1)
Cash flows from continuing operations:		
Income from continuing operations	\$ 3,762	\$ 9,638
Adjustments to reconcile income from continuing operations to net cash provided (used) by continuing operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	5,250	4,061
Other	715	633
Provision for possible losses:		
Trade accounts receivable	391	172
Environmental matter	400	-
Gain of sales of assets	(1,117)	(1,710)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(253)	(12,021)
Inventories	(4,516)	4,605
Supplies and prepaid items	(1,063)	(2,482)
Other assets	(5,584)	(7,972)
Accounts payable	14,099	(374)
Accrued liabilities	(1,241)	(1,133)
	-----	-----
Net cash provided (used) by continuing operations	10,843	(6,583)
Cash flows from investing activities of continuing operations:		
Capital expenditures	(12,090)	(5,134)
Purchase of loans receivable	(2,877)	-
Proceeds from sales of real estate properties	4,071	5,687
Cash acquired in connection with acquisitions	-	1,232
	-----	-----
Net cash provided (used) by investing activities	(10,896)	1,785

(Continued on following page)

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(CONTINUED)

(Unaudited)  
 Nine Months Ended September 30, 1994 and 1993  
 (Dollars in thousands)

	1994	1993 (Note 1)
Cash flows from financing activities of continuing operations:		
Payments on long-term and other debt	\$ (6,275)	\$(17,629)
Long-term and other borrowings	2,676	-
Net change in revolving loans	47,101	(6,231)
Net change in receivables previously financed by discontinued operations	(31,844)	956
Net change in drafts payable	231	(1,427)
Dividends paid (Note 6):		
Preferred stocks	(2,433)	(1,110)
Common stock	(414)	(387)
Purchases of treasury stock (Note 6):		
Preferred stock	(200)	-
Common Stock	(3,865)	-
Net proceeds from issuance of stock (Note 6):		
Common	256	2,251
Preferred	-	44,019
	-----	-----
Net cash provided by financing activities of continuing operations	5,233	20,442
	-----	-----
Net increase in cash from continuing operations	5,180	15,644
Net decrease in cash from discontinued operations	(1,675)	(9,058)
	-----	-----
Net increase in cash from all activities	3,505	6,586
Cash at beginning of period	2,781	1,115
	-----	-----
Cash at end of period	\$ 6,286	\$ 7,701
	=====	=====

(See accompanying notes)

Note 1: The accompanying financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries at September 30, 1994. The accounts of its financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank"), which was sold on May 25, 1994 (see Note 2 below), have been reclassified as discontinued operations at December 31, 1993. Additionally, the condensed consolidated statements of operations for the nine month and three month periods ended September 30, 1993, have been restated to present the operations of Equity Bank as income from discontinued operations. The assets and liabilities of the Company's financial services subsidiary, classified as discontinued at December 31, 1993, are as follows:

	December 31, 1993
	-----
Assets:	(In thousands)
Cash and cash equivalents	\$ 8,906
Loans and mortgage backed securities, net	359,303
Other securities	7,806
Property and equipment, net	5,144
Excess of purchase price over net assets acquired, net	17,041
Other assets	3,273
	-----
	401,473
Liabilities:	
Deposits	332,511
Securities sold under agreement	

to repurchase	38,721
Federal Home Loan Bank advances	87,650
Accrued liabilities	2,715
	-----
	461,597
	-----
Net liabilities	\$ 60,124
	=====

Note 2: On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994, (the Acquisition Agreement) the Company sold its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser"). The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank. All regulatory and shareholder approvals necessary to complete the sale of Equity Bank were obtained prior to the closing of this transaction.

Under the Acquisition Agreement, the Company acquired 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 of approximately \$67.4 million. At the time of closing of the sale of Equity Bank, the Company was 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, for an amount equal to Equity Bank's carrying value of approximately \$13.9 million; (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure for an amount equal to Equity Bank's carrying value of approximately \$3.6 million (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 ) of \$6.9 million. In addition, the Company acquired certain other loans for \$2.7 million previously owned by Equity Bank.

The Company used the proceeds of the sale of Equity Bank, together with borrowings under its credit facilities, to purchase the Retained Corporations for approximately \$67.4 million, the Retained Assets for approximately \$17.5 million, certain other loans for approximately \$2.7 million and to repurchase its accounts receivable previously financed by Equity Bank for approximately \$6.9 million.

Under the Acquisition Agreement, the Company made certain representations and warranties. The Company also agreed under the Acquisition Agreement to indemnify the Purchaser and its wholly-owned subsidiary, Bank IV Oklahoma, National Association ("Bank IV"), against, among other things, (i) losses that may be sustained by them due to breach of any representations or warranties made by the Company in the Acquisition Agreement or failure by the Company to fulfill any agreement made by the Company in the Acquisition Agreement, provided losses by Fourth and Bank IV exceed \$1 million in the aggregate, net of income tax effect, and such liability by the Company shall not exceed \$25 million. The Company has further agreed to indemnify the Purchaser and Bank IV against certain liabilities which are not subject to the \$1 million deductible and the \$25 million maximum liability, including, but not limited to, environmental matters relating to the real estate contributed to Equity Bank at the time that the Company acquired Equity Bank. The representations and warranties made by the Company under the Agreement survive the closing of the sale of Equity Bank for a period of two (2) years, except certain tax-related representations and warranties which have a three (3) year survival period. In addition, there are no time limits (other than as provided by law) in connection with the indemnifications provided by the Company relating to certain environmental matters, a certain pending lawsuit, and a certain "frozen" 401-K Plan.

Note 3: At September 30, 1994, the Company has net operating loss ("NOL") carryforwards for tax purposes of approximately \$35 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$600,000, which expire beginning in 1994.

The Company's provision for income taxes for the nine months ended September 30, 1994 of \$.3 million are for current state income taxes and federal alternative minimum tax.

Note 4: Primary earnings per common share are based on the weighted average number of common shares and dilutive common equivalent shares outstanding during each period, after giving appropriate effect to preferred stock dividends.

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, as applicable, after appropriate adjustment for interest and related income tax effects on convertible notes payable.

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

Note 5: 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 contract provided for a total price of \$56 million with \$12 million to be retained by the customer, as the subsidiary's equity participation, which represented a minority interest in the customer. Of the balance of the contract price of \$44 million, \$13.9 million has been billed and collected by the Company. The remaining \$30.1 million is to be collected in 38 equal quarterly installments beginning December 31, 1994 of \$791,000, plus interest at a rate of 7.5% per annum.

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 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. During the second quarter of 1994, the Company received approximately \$250,000 in bearing products as partial payment on such notes. 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.

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 over six years, up to \$6 million of the subsidiary's former equity participation in the customer. In the event that the customer is unable to repurchase such equity participation, and therefore the Company's subsidiary is unable to collect such amount from the Purchaser of the Interest the parties may renegotiate and modify the agreement for the Company's subsidiary to purchase products from the customer.

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 are being 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. The cumulative effect of future revisions in the contract terms or total cost estimates will be reflected in the period in which changes become known.

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.

Note 6: The table below provides detail of activity in the Stockholders' Equity accounts for the nine months ended September 30, 1994:

	Common Stock	Non-redeemable Preferred Stock	Capital in excess of par Value	Retained Earnings (Deficit)	Treasury Stock	Total
	Shares	Par Value				
(In thousands)						
Balance at December 31, 1993	14,514	\$1,451	\$48,000	\$37,120	\$(7,541)	\$74,871
Net Income	-	-	-	-	28,546	28,546
Conversion of 18 shares of redeemable preferred stock to common stock	2	-	-	2	-	2
Exercise of stock options for cash	103	11	-	243	-	254
Dividends declared:						
Series B 12% preferred stock (\$9.00 per share)	-	-	-	(180)	-	(180)
Redeemable preferred stock (\$10.00 per share)	-	-	-	(16)	-	(16)
Common stock (\$.03 per share)	-	-	-	(414)	-	(414)
Series 2 preferred stock (\$2.44 per share)	-	-	-	(2,237)	-	(2,237)

Purchases of treasury stock:							
Common stock	-	-	-	-	-	(3,865)	(3,865)
Series 2 preferred stock	-	-	-	-	-	(200)	(200)
	(1)						
Balance at September 30, 1994	14,619	\$1,462	\$48,000	\$37,365	\$18,158	\$(8,224)	\$ 96,761
	=====	=====	=====	=====	=====	=====	=====

(1)

Includes 1,403,935 shares of the Company's Common Stock held in treasury. Excluding the 1,403,935 shares held in treasury, the outstanding shares of the Company's Common Stock at September 30, 1994 were 13,214,701.

Note 7: 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. In a settlement offer that was rejected by the Company, the Environmental Protection Agency ("EPA") did indicate that the Company was eligible for settlement as a de minimis party. 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, located in El Dorado, Arkansas, (the "Site") has been placed in the EPA's 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. 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 will be subject to enforcement action, which will include certain civil penalties. On July 18, 1994, the Company's subsidiary received from the State of Arkansas a report of multimedia inspection of the Site (the "Report"). The Report contains findings of violations of certain environmental laws and requests the Company's subsidiary to conduct further investigations to better determine the compliance status of and releases at the Site. The Company's subsidiary has been advised that the State of Arkansas is currently preparing an administrative consent agreement to outline specific activities necessary to bring the Site into compliance and to remediate identified releases. While the Company is at this time unable to determine the ultimate cost of compliance with the expected administrative consent agreement, the Company has determined the subsidiary's cost to be at least \$400,000, therefore the Company has included a provision for environmental costs of \$400,000 in the results of operations for the nine (9) month period ended September 30, 1994. Based on information presently available, the Company does not believe, as of the date of this report, that compliance with the administrative consent agreement, or the assessment of penalties, or the facility being placed in the System, should have a material adverse effect on the Company, the Company's subsidiary or the Company's financial condition, however, there are no assurances to that effect.
- 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 contends 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.

Note 8: Subsequent Events

A. On November 3, 1994, the Company received a commitment letter (the "Commitment") from an asset based lending institution for an asset based working capital revolver ("New Revolver") in an amount of approximately \$75 million for an initial term of three (3) years with multiple thirteen (13) month renewal periods under certain conditions. The facility being proposed, if completed, will be secured principally by the Company's accounts receivables, inventory, general intangibles, chattel paper and the capital stock of certain of the Company's subsidiaries. The Commitment is subject to the negotiation of a definitive agreement which will incorporate in more specific details the general terms and conditions of the commitment. Management expects to complete negotiations and have the New Revolver in place by the end of the fourth quarter of 1994; however, there are no assurances that such will happen. The Commitment proposes advance rates of 85% for eligible receivables and 60% for eligible inventories other than work-in-process. If the New Revolver is agreed to, along the terms presently being negotiated, it is anticipated that the borrowing availability under the line should be adequate to finance the current working capital requirements of the Company and its subsidiaries.

B. On November 4, 1994 the Company entered into an agreement to purchase eighty percent (80%) of the outstanding stock of a specialty sales organization to enhance the marketing of the Company's air conditioning products. The total purchase price to be paid by the Company is \$4 million, payable \$1.5 Million at closing and \$500,000, plus interest at 7% on the unpaid purchase price, annually for five (5) years. The Company expects to close this transaction in January, 1995 however, there are no assurances that such closing will be completed on such schedule.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's September 30, 1994 Condensed Consolidated Financial Statements. This discussion and analysis is intended to provide information about the Company's continuing operations. Accordingly, it contains only limited discussions of the Company's Financial Services Business, sold in 1994, which has been reported as a discontinued operation in the Company's Condensed Consolidated Financial Statements at September 30, 1994. See "Liquidity and Capital Resources" of this "Management's Discussion and Analysis", and Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion of the sale of Equity Bank.

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 and the Industrial Products Business.

Information about the Company's continuing operations in different industry segments for the nine months and three months ended September 30, 1994 and 1993 is detailed below.

	Nine Months		Three Months	
	1994	1993	1994	1993
	----	----	----	----
	(In thousands)			
	(Unaudited)			
Sales:				
Chemical	\$103,859	\$ 90,515	\$ 31,136	\$ 27,512
Environmental Control	52,977	51,465	17,727	17,900
Automotive Products	25,420	21,956	7,820	7,250
Industrial Products	8,698	13,862	2,006	4,670
	-----	-----	-----	-----
	\$190,954	\$177,798	\$ 58,689	\$ 57,332
	=====	=====	=====	=====
Gross profit:				
Chemical	\$ 20,479	\$ 22,401	\$ 5,304	\$ 5,911
Environmental Control	13,439	11,209	4,658	3,783
Automotive Products	6,188	7,488	1,886	2,501
Industrial Products	1,717	3,709	387	1,259
	-----	-----	-----	-----
	\$ 41,823	\$ 44,807	\$ 12,235	\$ 13,454
	=====	=====	=====	=====
Operating profit (loss):				
Chemical	\$ 11,130	\$ 15,549	\$ 2,564	\$ 3,605
Environmental Control	3,527	2,701	1,198	584
Automotive Products	(678)	2,306	(553)	529
Industrial Products	(2,103)	1,423	(1,400)	758
Other	2,181	2,037	998	414
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	14,057	24,016	2,807	5,890
General corporate expenses	(4,937)	(7,780)	(2,110)	(2,230)
Interest expense	(5,081)	(5,778)	(1,688)	(1,608)
Income (loss) from continuing	-----	-----	-----	-----

operations before provision (credit) for income taxes	\$ 4,039 =====	\$ 10,458 =====	\$ (991) =====	\$ 2,052 =====
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## RESULTS OF OPERATIONS

Nine months ended September 30, 1994 vs. Nine months ended September 30, 1993.

### Revenues

Total revenues for the nine months ended September 30, 1994 and 1993 were \$194.2 million and \$181.5 million, respectively (an increase of \$12.7 million). Interest and other income included in total revenues was \$3.3 million in 1994, compared to \$3.7 million for 1993. This decrease of \$0.4 million resulted primarily from insurance claim proceeds recorded in the first quarter of 1993. Consolidated net sales included in total revenues for the nine months ended September 30, 1994 were \$191.0 million, compared to \$177.8 million for the first nine months of 1993, an increase of \$13.2 million. This increase in sales resulted principally from; (i) increased sales in the Chemical Business of \$13.3 million, primarily due to favorable weather conditions for seasonal fertilizer sales and the higher price of ammonia being partially passed through to customers; (ii) increased sales in the Environmental Control Business of \$1.5 million, primarily due to an expanded customer base in 1994 and the continued recovery from the effects of a strike that took place in 1992 at the fan coil manufacturing plant of this business; (iii) increased sales in the Automotive Products Business of \$3.6 million due to an expanded customer base in 1994, and (iv) decreased sales in the Industrial Products Business of \$5.2 million, of which \$4.3 million relates to decreased sales to a foreign customer (see Note 5 to Notes to Condensed Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

### Gross Profit

Gross profit as a percent of net sales was 21.9% for the first nine months of 1994, compared to 25.2% for the first nine months of 1993. The decline in the gross profit percentage was due primarily to higher cost of the primary raw material (ammonia) in the Chemical Business. During the first nine months of 1994 the average cost of ammonia was approximately 35.3% higher than the average cost of ammonia during the first nine months of 1993. This higher cost was not fully passed on to customers in the form of price increases. Other factors which affected the gross profit percentage were improved gross profit after recovery from the effects of a strike in 1992 at the fan coil manufacturing plant of the Environmental Control Business that were still being experienced in the first nine months of 1993; and, decreased sales to a foreign customer in the Industrial Products Business which carried a high gross profit percentage.

### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 18.6% in the nine months ended September 30, 1994 and 17.1% in the first nine months of 1993. This increase in SG&A as a percent of sales was primarily due to: (i) decreased sales to a foreign customer in the Industrial Products Business with no corresponding reduction in SG&A costs; (ii) increased insurance costs in the Industrial Products Business resulting from settlement of certain claims; (iii) costs incurred in the heat pump segment of the Environmental Control Business related to acquisition of an OEM contract with a large customer; and (iv) low provision for bad debt expenses in 1993 in the Environmental Control Business compared to the provision in 1994. These factors were offset in part by a decrease in legal costs resulting from settlement of the customs matter in the second quarter of 1993 and settlement of a dispute with one of the Company's insurers in the first quarter of 1994, in addition to sales increases due to higher ammonia prices in the Chemical Business with no corresponding increase in SG&A costs.

### Interest Expense

Interest expense for the Company was approximately \$5.1 million during the nine months ended September 30, 1994 compared to approximately \$5.8 million during the nine months ended September 30, 1993. The decrease primarily resulted from lower average balances of borrowed funds.

### Income From Continuing Operations Before Taxes

The Company had income from continuing operations before income taxes of \$4.0 million in the first nine months of 1994 compared to \$10.5 million in the nine months ended September 30, 1993. The decreased profitability of \$6.5 million was primarily due to lower gross profit realized on sales in the Chemical Division due to unrecovered ammonia price increases in 1994 and decreased profit of \$1.3 million from the foreign sales contract as previously discussed. Also contributing to this decline is the \$0.4 million provision for environmental matter discussed in Note 7 of Notes to Condensed Consolidated Financial Statements and \$0.4 million in increased insurance costs in 1994 in

the Industrial Products Business.

#### Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the nine months ended September 30, 1994 and the nine months ended September 30, 1993 are for current state income taxes and federal alternative minimum taxes.

#### Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business excluding income and expenses of the Retained Corporations and the Retained Assets as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements. Income from discontinued operations, net of expenses, was \$0.6 million in the first nine months of 1994 compared to \$1.2 million in the first nine months of 1993.

#### Gain From Sale of Discontinued Operations

As more fully discussed in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company realized a gain of \$24.2 million from the sale on May 25, 1994 of its wholly-owned subsidiary Equity Bank, which gain is included in the company's results of operations for the nine months ended September 30, 1994.

Three months ended September 30, 1994 vs. Three months ended September 30, 1993.

#### Revenues

Total revenues for the three months ended September 30, 1994 and 1993 were \$60.1 million and \$58.7 million, respectively (an increase of \$1.4 million). Interest and other income included in total revenues was approximately \$1.4 million in both periods. Consolidated net sales included in total revenues for the three months ended September 30, 1994 were \$58.7 million, compared to \$57.3 million for the three months ended September 30, 1993, an increase of \$1.4 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of \$3.6 million, primarily due to the higher price of ammonia being partially passed through to customers; and, improved sales of Total Energy Systems Limited ("TES") which was acquired in July, 1993; (ii) increased sales in the Automotive Products Business of \$0.7 million due to an expanded customer base in 1994, and (iii) decreased sales in the Industrial Products Business of \$2.7 million, of which \$1.9 million relates to decreased sales to a foreign customer (see Note 5 to Notes to Condensed Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

#### Gross Profit

Gross profit as a percent of net sales was 20.8% for the third quarter of 1994, compared to 23.5% for the third quarter of 1993. The decline in the gross profit percentage was due primarily to higher cost of the primary raw material (ammonia) in the Chemical Business. During the third quarter of 1994 the average cost of ammonia was approximately 65.1% higher than the average cost of ammonia during the third quarter of 1993. This higher cost was not fully passed on to customers in the form of price increases. Other factors which affected the gross profit percentage were improved gross profit after recovery from the effects of a strike in 1992 at the fan coil manufacturing plant of the Environmental Control Business that was still being experienced in the third quarter of 1993; and, decreased sales in 1994 to a foreign customer which affected both the Industrial Products Business and the Automotive Products Business.

#### Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 22.1% in the three months ended September 30, 1994 and 19.4% in the three months ended September, 1993. This increase in SG&A as a percentage of net sales was attributable to: (i) decreased sales to a foreign customer in the Industrial Products Business with no corresponding reduction in administrative costs; (ii) increased insurance costs in the Industrial Products Business resulting from settlement of certain claims; and (iii) start-up costs related to a new subsidiary in the Industrial Products Business. These factors were offset in part by sales increases in the Chemical Business due to partial recovery of higher ammonia prices with no corresponding increase in SG&A.

#### Interest Expense

Interest expense for the Company was approximately \$1.7 million during the three months ended September 30, 1994 compared to approximately \$1.6 million during the three months ended September 30, 1993. The increase primarily resulted from higher average interest rates.

#### Income From Continuing Operations Before Taxes

The Company had a loss from continuing operations before income taxes of \$1.0 million in the third quarter of 1994 compared to income of \$2.1 million in the third quarter of 1993. The decreased profitability of \$3.1 million was primarily due to lower gross profit realized on sales in the Chemical Division, decreased profit of \$.5 million from the foreign sales contract and increased insurance cost of the Industrial Products Business of approximately \$.4 million.

#### Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company's provisions or credits for income taxes for the three months ended September 30, 1994 and the three months ended September 30, 1993 are for current state income taxes and federal alternative minimum taxes.

#### Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business excluding income and expenses of the Retained Corporations and the Retained Assets as discussed in Note 2 of Notes to Condensed Consolidated Financial Statements. Income from discontinued operations, net of expenses, was \$.6 million in the third quarter of 1993. There was no income from discontinued operations in the third quarter of 1994 due to the sale of Equity Bank in the second quarter of 1994.

#### 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.

**Sale of Equity Bank** - As previously discussed, the Company sold to Fourth Financial Corporation ("Fourth Financial") Equity Bank for Savings, F.A. ("Equity Bank") pursuant to the Acquisition Agreement, whereby the Company agreed to sell Equity Bank, which constituted the Financial Services Business of the Company. Pursuant to the Acquisition Agreement, Fourth Financial acquired all of the outstanding shares of capital stock of Equity Bank on May 25, 1994. Under the Acquisition Agreement, the Company acquired from Equity Bank prior to the completion of the sale of Equity Bank certain subsidiaries of Equity Bank ("Retained Corporations") that owned the assets contributed by the Company to Equity Bank at the time of the acquisition 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 such carrying value was approximately \$67.4 million. At the time of the closing of the sale of Equity Bank, a subsidiary of the Company acquired the Equity Tower Loan and other real estate owned by Equity Bank that were acquired by Equity Bank through foreclosure ("OREO"), which have collectively been previously defined as the "Retained Assets". The Retained Assets were 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 was approximately \$17.5 million. In addition, the Company acquired (i) certain loans owned by Equity Bank at book value or \$1.00 in the case of loans that had been charged off ("Other Loans") and (ii) certain other loans at Equity Bank's carrying value of \$4.6 million less a discount of \$1.9 million.

The Purchase Price paid by Fourth Financial for Equity Bank was approximately \$91.1 million, and was subject to determination and adjustment in accordance with the Acquisition Agreement. Of the approximately \$91.1 million, the Company used approximately \$67.4 million to repay certain indebtedness the Company incurred to finance the purchase from Equity Bank of the Retained Corporations. In addition, the Company used approximately \$17.5 million to purchase the Retained Assets. The Company was further required under the Acquisition Agreement to purchase from Equity Bank at the closing of the proposed sale the outstanding amount of Receivables (approximately \$7.0 million). The Company used approximately \$3 million of borrowings from the Bank IV Line of Credit discussed elsewhere in this Liquidity and Capital Resources section to purchase the balance of such Receivables and \$2.7 million of discounted loans (as discussed above) from Equity Bank. The Company has subsequently obtained seven year term financing to replace the temporary financing of the approximate \$2.7 million in discounted loans it purchased from Equity Bank.

The sale of Equity Bank pursuant to the Acquisition Agreement resulted in a pre-tax gain for financial reporting purposes for the Company of approximately \$24.2 million, based upon the Purchase Price of approximately \$91.1 million. The Company's tax basis in Equity Bank was 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 did not have any federal income tax consequences to either the Company or to the shareholders of the Company.

**Sources of funds** - As a result of the sale of Equity Bank, the capitalization of the Company improved considerably. Stockholders' equity is approximately \$97 million at September 30, 1994. The Company is also in the process of finalizing a comprehensive new debt capitalization program. The plan is to consolidate the current working capital requirements of the Company and its subsidiaries into one loan agreement instead of the three agreements that

currently exist and are described below. On November 3, 1994, the Company received a commitment letter (the "Commitment") from an asset based lending institution for an asset based working capital revolver ("New Revolver") in an amount of approximately \$75 million for an initial term of three (3) years with multiple thirteen (13) month renewal periods under certain conditions. The facility being proposed, if completed, will be secured principally by the Company's accounts receivables, inventory, general intangibles, chattel paper and the capital stock of certain of the Company's subsidiaries. The Commitment is subject to the negotiation of a definitive agreement which will incorporate in more specific details the general terms and conditions of the Commitment. Management expects to complete negotiations and have the New Revolver in place by the end of the fourth quarter of 1994; however, there are no assurances that such will happen. The Commitment proposes advance rates of 85% for eligible receivables and 60% for eligible inventories other than work-in-process. If the New Revolver is agreed to, along the terms presently being negotiated, it is anticipated that the borrowing availability under the line should be adequate to finance the current working capital requirements of the Company and its subsidiaries.

Present lines of credit prior to the proposed New Revolver being negotiated are:

- (1) As a result of the sale of Equity Bank, the Company's accounts receivable financing previously provided by Equity Bank had to be replaced. Fourth Financial through its Oklahoma banking subsidiary has provided a \$35 million line of credit to finance such receivables ("Line of Credit"). The Line of Credit provides for advance rates of 80% of accounts receivable and is for a short term, allowing time for a more comprehensive line of credit to be negotiated as discussed above. The outstanding borrowings at September 30, 1994 were \$27.5 million and the availability for additional borrowings was \$2.3 million. This line of credit terminates as of December 31, 1994. The outstanding borrowings at September 30, 1994 are classified as long-term debt based upon the application of the proceeds from the New Revolver as discussed above.
- (2) The Company and its subsidiaries (other than 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 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 November 30, 1994, but the Company believes the Agreement can be extended at that time to December 31, 1994 if the New Revolver has not been completed, although there are no assurances to that effect. At September 30, 1994, the availability based on eligible collateral exceeded the credit line. Borrowings (including letters of credit) under the Revolver outstanding at September 30, 1994, were \$7.2 million which is classified as long-term debt based upon the application of the proceeds from the New Revolver as discussed above. The Revolver requires reductions of principal equal to reductions as they occur in the underlying inventory times the advance rate.
- (3) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corp., which comprise the majority of the Company's Chemical Business ("Chemical"), are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended, provides for a seven year term loan of \$28.5 million ("Term Loan"), and a \$10 million asset based revolving credit facility ("Revolving Facility"). The balance of the Term Loan at September 30, 1994 was \$21.4 million. Annual principal payments on the Term Loan are \$7 million due in June, 1995; \$7 million due in June 1996 and a final payment of \$7.4 million due in March 1997. 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 financed by Fourth Financial from the maximum borrowing availability as defined in the Revolving Facility. This revolving facility terminates as of November 30, 1994. The Company believes that if it has not been able to complete the New Revolver by December 31, 1994, it will be able to continue borrowing under the revolver until December 31, 1994, although there are no assurances to that effect. At September 30, 1994 the borrowing base was fully borrowed and was classified as long-term debt based upon the application of the proceeds from the New Revolver as discussed above. The accounts receivable and inventory securing the revolving facility will be released when the revolving facility is paid off and the Company and its subsidiaries enter into the New Revolver discussed above. 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. Borrowings under the Revolving Facility are required to be reduced to zero for forty-five (45) consecutive days annually. Annual interest at the agreed to interest rates, if calculated on the \$30.9 million outstanding balance at September 30, 1994 would be approximately \$3.4 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; and (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, remains .65:1 or below.

#### Cash Flows

Net cash provided by continuing operating activities in the first nine months of 1994, after a net adjustment for non-cash income and expenses of \$5.6 million, was \$10.8 million. The net cash provided by continuing operating activities included the following changes in assets and liabilities: (i) accounts receivable increased \$0.3 million; (ii) accounts payable and accrued liabilities increased \$12.9 million; (iii) inventory increased \$4.5 million; and, (iv) supplies and prepaid items and other assets increased \$6.6 million. The increase in accounts receivable is due to higher sales in the Chemical and Automotive Products businesses, offset by decreased accounts receivable in the Environmental Control and Industrial Products businesses due to improved collections. The increase in accounts payable and accrued liabilities was due primarily to increased business activity in the Chemical and Automotive Products businesses, in addition to increases in the Chemical Business due to the higher cost of ammonia. The increase in inventory was due to purchases made in the Automotive Products Business to take advantage of favorable prices from certain vendors, increased ammonia cost in the Chemical Business, and increases in inventory at the businesses acquired in 1993 (TES Australia - July, 1993 and International Bearings, Inc. - December, 1993). The increase in supplies and prepaid items and other assets is primarily due to prepayments for insurance premiums, supplies, and other items in the Chemical Business, in addition to increased investment securities, loans made in connection with certain acquisition candidates, and an increase in costs and earnings in excess of billings on the foreign sales contract. Financing activities in the first nine months of 1994 included net borrowings of \$43.7 million used to offset reductions in accounts receivable sold of \$31.8 million resulting from termination of the accounts receivable financing arrangement with Equity Bank, in addition to dividend payments of \$2.8 million and treasury stock purchases of \$4.1 million. Cash flows from investing activities included capital expenditures for property, plant and equipment in the Chemical Business of \$9.9 million related to construction of an additional nitric acid plant which began in 1993 in addition to normal capital improvements, and capital expenditures of \$1.3 million in the Environmental Control Business primarily for acquisition of certain equipment to improve productivity and enhance the manufacturing processes of this business. Cash flows from investing activities also included the purchase of certain loans receivable for \$2.9 million in connection with the sale of Equity Bank and proceeds from the sale of real estate properties acquired in connection with the sale of Equity Bank of \$4.1 million.

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. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the Line of Credit and/or the New Revolver. 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.

During November 1993, the Company's Chemical Business acquired an additional concentrated nitric acid plant and related assets from a location in Illinois. The plant is being installed at the existing manufacturing plant site located in El Dorado, Arkansas. The Company anticipates that the total amount to be expended to acquire, move and install the plant and assets will be approximately \$16 million including \$1.6 million for new nitric acid railcars used to deliver the product to the customers. As previously discussed in the "cash Flows" section of this report, as of September 30, 1994, the Company had incurred approximately \$8.8 million of the estimated \$16 million. The Company expects the plant and asset installation to be complete and operational in early 1995.

On October 31, 1994, a subsidiary of the Company entered into a Loan and Security Agreement with a lender whereby the lender agreed to provide construction financing of approximately \$14 million for the installation of the Chemical Business' concentrated nitric acid plant and assets, discussed above, to be secured by such plant and assets. Subject to certain conditions being met, such construction financing may be converted to an eighty-four (84) month term loan at the end of the construction period. The lender has also agreed to provide approximately \$1.6 million of financing for the purchase of the nitric acid railcars discussed above and approximately \$1.5 million financing for a mixed acid facility which the Chemical Business plans to construct and begin operations during the second half of 1995. The subsidiary received the initial funding of \$5 million in construction funds on November 7, 1994. The receipt by the subsidiary of the remaining construction funds is dependent on, among other things, the Company completing negotiations and funding of the New Revolver discussed above. As previously noted, the Company believes that it will be successful in funding the New Revolver prior to

December 31, 1994, although there are no assurances that the Company will be able to do so.

Management believes that cash flows from operations and other sources, including the New Revolver 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 the additional concentrated nitric acid plant as discussed above.

In 1993, the Company's Board of Directors adopted a 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 January 1, 1994, to the stockholders of record as of the close of business on December 15, 1993. On May 23, 1994 the Company's Board of Directors declared a \$.03 per share cash dividend on the Company's outstanding shares of Common Stock, which was paid July 1, 1994, to stockholders of record as of the close of business on June 15, 1994.

On November 11, 1993 the Company's Board of Directors declared a \$12.00 a share annual cash dividend on each of the 2,000 outstanding shares 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 of \$240,000 on this series of preferred stock for 1994. On February 10, 1994 the Company's Board of Directors declared a (i) \$.81 a share quarterly cash dividend on each outstanding share of its Series 2 \$3.25 Convertible Exchangeable Class C Preferred Stock, paid March 15, 1994 to shareholders of record on March 1, 1994, and (ii) \$10.00 a share annual cash dividend on each of the approximate 1600 outstanding shares of its Convertible Noncumulative Preferred Stock (\$100 par), paid April 1, 1994 to stockholders of record on March 15, 1994. On May 23, 1994, the Company's Board of Directors declared a \$.81 per share quarterly cash dividend on each outstanding share of its Series 2 \$3.25 convertible exchangeable Class C Preferred Stock, paid June 15, 1994 to shareholders of record on June 1, 1994. On August 19, 1994 the Company's Board of Directors declared a \$.81 per share quarterly cash dividend on each outstanding share of its Series 2 \$3.25 convertible exchangeable class C Preferred Stock, paid September 15, 1994 to stockholders of record on September 1, 1994. The Company expects to continue the payment of such dividends on the dates that such are required to be paid in the future.

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 provided 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 represented a minority interest. During 1993 the Company's subsidiary exchanged its equity interest in the Buyer to a foreign nonaffiliated company for \$12 million in notes. Through the date of this report, the Company's subsidiary has received \$13.9 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, one principal payment of \$791,000 on March 31, 1994, one principal payment of \$791,000 on December 31, 1994 and quarterly, thereafter, until the contract is paid in full

The customer made the March 31, 1994 payment on April 20, 1994 and the Company expects that after the customer becomes operational, they will make future payments as they become due. See Note 5 of Notes to Condensed Consolidated Financial Statements.

Business Acquisitions - On July 27, 1994 the Company through a subsidiary loaned \$1.4 million to a French manufacturer of HVAC equipment. The agreements provide, among other things, that at the Company's option this loan can be converted from a loan into 80% of the outstanding stock of the French company on or after September 1, 1994. At this time the decision has not been made to exercise such option and the \$1.4 million is carried on the books as a note receivable.

On November 4, 1994 the Company entered into an agreement to purchase eighty percent (80%) of the outstanding stock of a specialty sales organization to enhance the marketing of the Company's air conditioning products. The total purchase price to be paid by the Company is \$4 million, payable \$1.5 Million at closing and \$500,000, plus interest at 7% on the unpaid purchase price, annually for five (5) years. The Company expects to close this transaction in January, 1995 however, there are no assurances that such closing will be completed on such schedule.

Additionally, the Company is performing due diligence on some other small companies that might result in acquisitions in 1994 or 1995. Any such acquisitions consummated will require additional financing which the Company believes can be obtained.

Settlement of Litigation - In 1994, the Company settled its litigation with one of its insurers for \$3.6 million, which was paid to the Company on March 11, 1994. Such amounts were accrued in the fourth quarter of 1993 to the extent that costs and expenses had been previously incurred.

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. Subsequently, the Company has decided to discontinue negotiations relating to the prospective customer located in the former Soviet Union. The Company continues negotiations regarding the customer in Poland. The Company expects to complete agreements which will include the sale of licenses, designs, tooling, machinery, equipment, technical information, proprietary expertise, and technical services. The total sales price for the contract is expected to be approximately \$25 million. The project is subject to completion of a definitive agreement between the foreign customer and the Company's subsidiary. There are no assurances that a definitive contract with the customer will be finalized.

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 September 30, 1994, the Company, had available NOL carryovers of approximately \$35 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 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.

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#### Independent Accountants' Review Report

Board of Directors  
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of September 30, 1994, the related condensed consolidated statements of operations for the nine-month and three-month periods ended September 30, 1994 and 1993, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 1994 and 1993. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1993, and the related consolidated statements of operations, non-redeemable preferred stock, common stock and other stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 15, 1994, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1993, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

PART II  
OTHER INFORMATION

## Item 1. Legal Proceedings.

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 1 of its Form 10-Q for the fiscal period ended June 30, 1994, which Item 1 is incorporated by reference herein.

## Item 4. Submission of Matters to a Vote of Security Holders

On August 18, 1994, the Company held its Annual Meeting of Stockholders (the "Meeting"). At the Meeting, the following shares were entitled to vote as a single class 13,580,191 shares of the Company's Common Stock, 20,000 shares of the Company's Series B Cumulative Convertible Preferred Stock, par value \$100, and 1,614.5 shares of the Company's Redeemable convertible Preferred Stock, par value \$100. At the Meeting, the stockholders elected or approved the following:

1. The following three (3) directors were reelected as members of the Board of Directors: Barry H. Golsen, David R. Goss and Jerome D. Shaffer M.D. At the Meeting, (i) Mr. Golsen was reelected, with 12,562,298 shares voting "For", 71,540 shares voting "Against" or to "withhold authority" and zero shares abstaining and broker non-votes, (ii) Mr. Goss was reelected, with 12,563,125 shares voting "For", 70,713 shares voting "Against" or to "withhold authority", and zero shares abstaining and broker non-votes, and (iii) Dr. Shaffer was reelected with 12,560,608 shares voting "For", 73,230 shares voting "Against" or to "withhold authority" and zero shares abstaining and broker non-votes.
2. Reappointment of Ernst & Young as the Company's independent auditors for 1994. Such reappointment was approved, with 12,571,348 shares voting "For", 52,713 shares voting "Against" or to "withhold authority" and 9,777 abstaining and broker non-votes.

## Item 6. Exhibits and Reports on Form 8K

(a)

Exhibits. The Company has included the following exhibits in this report:

## 4. Instruments defining the rights of security holders, including indentures

4.01 Twentieth Amendment to Loan Agreement, dated August 23, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.02 Twenty-first Amendment to Loan Agreement, dated September 16, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.03 Twenty-second Amendment to Loan Agreement, dated October 13, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.04 Twenty-third Amendment to Loan Agreement, dated October 24, 1994, among Congress, the Company, and certain subsidiaries of the Company.

4.05 Amendment dated September 29, 1994 to the Amended and Restated Secured Credit Agreement and the Second Amended and Restated Working Capital Agreement, both dated as of January 21, 1992 among El Dorado Chemical Company, Slurry Explosive Corporation, Connecticut Mutual Life Insurance Company, C.M. Life Insurance Company Mutual and Household Commercial Financial Services, Inc.

4.06 Second Amendment Agreement dated as of October 31, 1994 among El Dorado Chemical Company, Slurry Explosive Corporation Household Commercial Financial Services, Inc., Connecticut Mutual Life Insurance Company Mutual and C.M. Life Insurance Company Mutual

## 10. Material Contracts

10.1 Loan and Security Agreement dated October 31, 1994 between DSN Corporation and the CIT Group.

10.2 Commitment Letter dated November 3, 1994 between the Company and certain subsidiaries of the Company and Bank America Business Credit, Inc.

10.3 Stock Purchase Agreement dated November 4, 1994 between the Company and the shareholders of a specialty sales organization.

11.1 Statement Re: Computation of Earnings Per Share.

15.1 Letter Re: Unaudited Interim Financial Information.

27 Financial Data Schedule

(b) Reports on Form 8K. During the quarter ended September 30, 1994, the Company did not file any reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf on this 14th day of November, 1994.

LSB INDUSTRIES, INC.

By:

Tony M. Shelby, Sr. Vice President  
(Chief Financial Officer)

By:

Jimmie D. Jones, Vice President  
Controller (Chief Accounting Officer)

10q\10q-s94.tag

## PRIMARY EARNINGS PER SHARE COMPUTATION

	1994 quarter ended		
	March 31	June 30	Sept. 30
Shares for primary earnings per share:			
Weighted average shares:			
Common shares outstanding from beginning of period	13,673,971	13,659,691	13,555,191
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	360	-	180
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	6,833	24,846	2,549
Purchases of treasury stock; calculated on weighted average basis	(20,000)	(29,176)	(102,599)
	<u>13,661,164</u>	<u>13,655,361</u>	<u>13,455,320</u>
Common Stock equivalents:			
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	934,807	877,794	827,591
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(247,510)	(238,754)	(292,577)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	64,580
	<u>752,417</u>	<u>703,800</u>	<u>599,594</u>
	14,413,581	14,359,161	14,054,914
Earnings (loss) for primary earnings (loss) per share:			
Net earnings (loss)	\$2,203,665	\$27,254,968	\$(912,514)
Dividends on cumulative convertible preferred stocks:			
Series B	(76,145)	(60,000)	(60,000)
Series 2 Class C	(747,500)	(747,500)	(745,469)
	<u>\$1,380,020</u>	<u>\$26,447,468</u>	<u>\$(1,717,983)</u>
Earnings (loss) applicable to common stock	\$1,380,020	\$26,447,468	\$(1,717,983)
Earnings (loss) per share	\$ .10	\$1.84	\$(0.12)

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 2 of 6

## PRIMARY EARNINGS PER SHARE COMPUTATION

	Nine months ended Sept. 30, 1994
Net earnings applicable to common stock	\$26,109,505 =====
Weighted average number of common and common equivalent shares (average of three quarters above)	14,275,885 =====
Earnings per share	\$1.83 =====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 3 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

1993 quarter ended

	March 31	June 30	Sept. 30
Shares for primary earnings per share:			
Weighted average shares:			
Common shares outstanding from beginning of period	7,393,674	12,706,305	12,894,505
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	1,070	100	80
Common shares issued on conversion of convertible preferred stock; calculated on weighted average basis	1,304,070	-	-
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	19,500	114,951	392,170
Purchases of treasury stock; calculated on weighted average basis	-	-	(69,541)
Sale of stock; calculated on weighted average basis	5,843	-	-
	<u>8,724,157</u>	<u>12,821,356</u>	<u>13,217,214</u>
Common Stock equivalents:			
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	2,069,776	1,940,325	1,475,106
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(513,253)	(446,403)	(313,033)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640	66,460
	<u>1,624,333</u>	<u>1,560,562</u>	<u>1,228,533</u>
	<u>10,348,490</u>	<u>14,381,918</u>	<u>14,445,747</u>
	=====	=====	=====
Earnings for primary earnings per share:			
Net earnings	\$2,657,133	\$5,758,100	\$2,423,644
Dividends on cumulative convertible preferred stocks:			
Series B	(77,220)	(60,000)	(60,000)
Series 2 Class C		(290,183)	(747,500)
	<u>\$2,579,913</u>	<u>\$5,407,917</u>	<u>\$1,616,144</u>
	=====	=====	=====
Earnings applicable to common stock	<u>\$2,579,913</u>	<u>\$5,407,917</u>	<u>\$1,616,144</u>
	=====	=====	=====
Earnings per share	<u>\$ .25</u>	<u>\$ .38</u>	<u>\$ .11</u>
	=====	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 4 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

Nine months  
ended  
Sept. 30, 1993

Net earnings applicable to common stock	\$9,603,974
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	13,058,718
	=====
Earnings per share	<u>\$ .74</u>
	=====

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 5 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1994 quarter ended

	March 31	June 30	Sept. 30
Shares for fully diluted earnings per share:			
Weighted average shares outstanding for primary earnings per share	13,661,164	13,655,361	13,455,320
Shares issuable upon exercise of options and warrants	934,807	877,794	827,591
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(247,510)	(238,754)	(292,577)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	64,580
Common shares issuable upon conversion of convertible note payable	4,000	4,000	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:			
Series B	666,666	666,666	-
Series 2	-	3,956,000	-
	<u>15,084,247</u>	<u>18,985,827</u>	<u>14,054,914</u>
Earnings (loss) for fully diluted earnings (loss) per share:			
Net earnings (loss)	\$2,203,665	\$27,254,968	\$(912,514)
Interest on convertible note	180	180	-
Dividends on cumulative convertible preferred stocks:			
Series B	-	-	(60,000)
Series 2 Class C	(747,500)	-	(745,469)
Earnings (loss) applicable to common stock	<u>\$1,456,345</u>	<u>\$27,255,148</u>	<u>\$(1,717,983)</u>
Earnings (loss) per share	<u>\$ .10</u>	<u>\$1.44</u>	<u>\$(0.12)*</u>

Nine months  
ended  
Sept. 30, 1994

Net earnings	\$26,993,510
Weighted average number of common and common equivalent shares (average of three quarters above)	16,041,662
Earnings per share	\$1.68

\* Primary and fully diluted loss per share for the three months ended September 30, 1994 are the same because the fully diluted computation has an anti-dilutive effect.

LSB INDUSTRIES, INC.

Exhibit 11.1  
Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

1993 quarter ended

	March 31	June 30	Sept. 30
Shares for fully diluted earnings per share:			
Weighted average shares outstanding for primary earnings per share	8,724,157	12,821,356	13,217,214
Shares issuable upon exercise of options and warrants	2,069,776	1,940,325	1,475,106
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the			

average	(495,004)	(408,527)	(308,015)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	67,810	66,640	66,460
Common shares issuable upon conversion of convertible note payable	4,000	4,000	4,000
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:			
Series B	666,666	666,666	666,666
Series 1, net share held in treasury	3,748,470	-	-
Series 2	-	1,494,489	-
	<u>14,785,875</u>	<u>16,584,949</u>	<u>15,121,431</u>
	=====	=====	=====
Earnings for fully diluted earnings per share:			
Net earnings	\$2,657,133	\$5,758,100	\$2,423,644
Interest on convertible note	180	180	180
Dividends on cumulative preferred stocks	-	-	(747,500)
Earnings applicable to common stock	<u>\$2,657,313</u>	<u>\$5,758,280</u>	<u>\$1,676,324</u>
	=====	=====	=====
Earnings per share	<u>\$ .18</u>	<u>\$ .35</u>	<u>\$ .11</u>
	=====	=====	=====

Nine months  
ended  
Sept. 30, 1993

Net earnings	<u>\$10,091,917</u>
	=====
Weighted average number of common and common equivalent shares (average of three quarters above)	<u>15,497,418</u>
	=====
Earnings per share	<u>\$ .64</u>
	=====

1700 Liberty Tower  
100 North Broadway  
Oklahoma City, OK 73102  
Phone: 405 278 6800  
Fax: 405 278 6823

November 9, 1994

The Board of Directors  
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) of LSB Industries, Inc. for the registration of 2,850,000 shares of its common stock of our report dated November 9, 1994 relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which are included in its Form 10-Q for the quarter ended September 30, 1994.

Pursuant to Rule 436(c) of the Securities Act of 1933 our report is not a part of the registration statement prepared or certified by accountants within the meaning of Section 7 or 11 of the Securities Act of 1933.

Very truly yours,

Ernst & Young LLP

August 23, 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, 1994, 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, that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993, that certain Sixteenth Amendment to Loan Agreement, dated January 25, 1994, that certain Seventeenth Amendment to Loan Agreement, dated March 30, 1994 (the "Seventeenth Amendment"), that certain Eighteenth Amendment to Loan Agreement, dated May 20, 1994 (the "Eighteenth Amendment"), that certain Modification to Seventeenth Amendment to Loan Agreement, dated May 25, 1994 (the "Modification Agreement"), and the Nineteenth Amendment to Loan Agreement, dated June 29, 1994 ("Nineteenth Amendment"), hereinafter collectively, 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") LSB Financial Corp., LSB Leasing 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"), and Prime Financial Corp. (as to the Seventeenth Amendment, the Eighteenth Amendment, the Modification Agreement, and the Nineteenth Amendment), and Bank IV Oklahoma, N.A. (as to the Seventeenth Amendment, the Modification Agreement, and the Nineteenth Amendment).

August 23, 1994

Page 2

Borrowers and Guarantors have requested an extension of the termination date of their existing arrangements with Congress and an extension of the Selling Period and Congress is willing, subject to the terms and conditions set forth herein, to so extend such termination date of the existing financing arrangements with such termination date of the existing financing arrangements with Borrowers and Guarantors and such Selling Period 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 OF FINANCING ARRANGEMENTS. The date "August 31, 1994" in Section 9.1 of the Accounts Agreement, as heretofore amended, is hereby deleted and replaced with the date "September 30, 1994".

II. TERM OF SELLING PERIOD. The date "August 31, 1994" in Section 2.1 of the Seventeenth Amendment is hereby deleted and replaced with the date "September 30, 1994".

III. 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 (a) pay to Congress, in full, all outstanding and unpaid Obligations and (b) furnish cash collateral to Congress in an amount equal to (i) 115% of the face amount of all contingent Obligations consisting of all letters of credit, banker's acceptances, purchase guarantees and other financial accommodations (collectively, "Credits") issued and outstanding on the effective date of such termination or non-renewal PLUS (ii) an amount

Congress determines is reasonably necessary to secure Congress from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment (collectively, "Uncollected Payments"). 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. Congress shall be entitled to hold such cash collateral delivered to Congress with respect to each of the Credits until forty-five (45) days after the expiration date of each Credit, and for a period of forty-five (45) days following termination or non-renewal as to such contingent Obligations in respect of Uncollected Payments. Congress may apply the cash collateral to any such contingent Obligations which may become due by virtue of drawings or claims made pursuant to the Credits or for claims made against Congress in connection with the Uncollected Payments and shall release any remaining cash collateral to LSB upon the expiration of the applicable forty-five (45) day period referred to in this paragraph.

August 23, 1994  
Page 3

IV. 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.

V. 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 hereby mutually covenant and agree a set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

[SIGNATURES ON NEXT PAGE]

August 23, 1994  
Page 4

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 \_\_\_\_\_

August 23, 1994  
Page 5

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Title \_\_\_\_\_

August 23, 1994  
Page 5

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Title \_\_\_\_\_



September 16, 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, 1994, 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, that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993, that certain Sixteenth Amendment to Loan Agreement, dated January 25, 1994, that certain Seventeenth Amendment to Loan Agreement, dated March 30, 1994 (the "Seventeenth Amendment"), that certain Eighteenth Amendment to Loan Agreement, dated May 20, 1994 (the "Eighteenth Amendment"), that certain Modification to Seventeenth Amendment to Loan Agreement, dated May 25, 1994 (the "Modification Agreement"), the Nineteenth Amendment to Loan Agreement, dated June 29, 1994 ("Nineteenth Amendment"), and the Twentieth Amendment to Loan Agreement dated August 23, 1994 (the "Twentieth Amendment"), hereinafter collectively, 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") LSB Financial Corp., LSB Leasing 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"), and Prime Financial Corp. (as to the Seventeenth Amendment, the Eighteenth Amendment, the Modification Agreement, the Nineteenth Amendment, and the Twentieth Amendment), and Bank IV Oklahoma, N.A. (as to the Seventeenth Amendment, the Modification Agreement, the Nineteenth Amendment, and the Twentieth Amendment).

September 16, 1994

Page 2

Borrowers and Guarantors have requested an extension of the termination date of their existing arrangements with Congress and an extension of the Selling Period and Congress is willing, subject to the terms and conditions set forth herein, to so extend such termination date of the existing financing arrangements with such termination date of the existing financing arrangements with Borrowers and Guarantors and such Selling Period 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 OF FINANCING ARRANGEMENTS. The date "September 30, 1994" in Section 9.1 of the Accounts Agreement, as heretofore amended, is hereby deleted and replaced with the date "October 31, 1994".

II. TERM OF SELLING PERIOD. The date "September 30, 1994" in Section 2.1 of the Seventeenth Amendment is hereby deleted and replaced with the date "October 31, 1994".

III. 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 (a) pay to Congress, in full, all outstanding and unpaid Obligations and (b) furnish cash collateral to Congress in an amount equal to (i) 115% of the face amount of all contingent Obligations consisting of all letters of credit, banker's acceptances, purchase guarantees and other financial accommodations (collectively, "Credits") issued and outstanding on the effective date of such termination or non-renewal PLUS (ii) an amount Congress determines is reasonably necessary to secure Congress from loss,

cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment (collectively, "Uncollected Payments"). 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. Congress shall be entitled to hold such cash collateral delivered to Congress with respect to each of the Credits until forty-five (45) days after the expiration date of each Credit, and for a period of forty-five (45) days following termination or non-renewal as to such contingent Obligations in respect of Uncollected Payments. Congress may apply the cash collateral to any such contingent Obligations which may become due by virtue of drawings or claims made pursuant to the Credits or for claims made against Congress in connection with the Uncollected Payments and shall release any remaining cash collateral to LSB upon the expiration of the applicable forty-five (45) day period referred to in this paragraph.

September 16, 1994

Page 3

IV. 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.

V. 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 hereby mutually covenant and agree a set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

[SIGNATURES ON NEXT PAGE]

September 16, 1994

Page 4

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 16, 1994  
Page 5

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Title \_\_\_\_\_

September 16, 1994  
Page 5

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Title \_\_\_\_\_

October 13, 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, 1994, 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, that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993, that certain Sixteenth Amendment to Loan Agreement, dated January 25, 1994, that certain Seventeenth Amendment to Loan Agreement, dated March 30, 1994 (the "Seventeenth Amendment"), that certain Eighteenth Amendment to Loan Agreement, dated May 20, 1994 (the "Eighteenth Amendment"), that certain Modification to Seventeenth Amendment to Loan Agreement, dated May 25, 1994 (the "Modification Agreement"), the Nineteenth Amendment to Loan Agreement, dated June 29, 1994 ("Nineteenth Amendment"), the Twentieth Amendment to Loan Agreement, dated August 23, 1994 (the "Twentieth Amendment"), and the Twenty-First Amendment to Loan Agreement, dated September 16, 1994 (the "Twenty-First Amendment"), hereinafter collectively, 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"), LSB Financial Corp., LSB Leasing 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"), and Prime Financial Corp. (as to the Seventeenth Amendment, the Eighteenth Amendment, the Modification Agreement, the Nineteenth Amendment, the Twentieth Amendment and the Twenty-First Amendment), and Bank IV Oklahoma, N.A. (as to the Seventeenth Amendment, the Modification Agreement, the Nineteenth Amendment, the Twentieth Amendment and the Twenty-First Amendment).

LSB has requested that Congress modify the Loan Agreement and related loan documents (collectively, the "Loan Documents") in order to permit LSB to guaranty the obligations of DSN Corporation, a subsidiary of LSB ("DSN"), under or pursuant to certain financing arrangements being entered into between The CIT Group/Equipment Financing, Inc. ("CIT") as lender and DSN as borrower, for advances of principal up to a total \$15,000,000. Congress is willing to agree to such request, subject to the following terms (capitalized terms used herein, unless otherwise defined, shall have the meanings set forth in the Loan Agreement):

1. **Loan Documents Modification.** Notwithstanding anything contained in the Loan Documents to the contrary, Congress hereby consents to LSB's unconditionally guaranteeing on a unsecured basis to CIT all payment and performance obligations of DSN to CIT under or pursuant to the above-referenced financing arrangements and any extension or renewal thereof or modification or amendment thereto. The Loan Documents are hereby deemed amended as necessary to conform to the provisions set forth herein.
2. **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. In the event of a conflict between the terms of this Twenty-First Amendment and the Loan Agreement or other Financing Agreements, the terms of this Twenty-First Amendment will control.
3. **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 Twenty-First Amendment.

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 \_\_\_\_\_  
tq994x43.wpe

October 24, 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, 1994, 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, that certain Fifteenth Amendment to Loan Agreement, dated November 29, 1993, that certain Sixteenth Amendment to Loan Agreement, dated January 25, 1994, that certain Seventeenth Amendment to Loan Agreement, dated March 30, 1994 (the "Seventeenth Amendment"), that certain Eighteenth Amendment to Loan Agreement, dated May 20, 1994 (the "Eighteenth Amendment"), that certain Modification to Seventeenth Amendment to Loan Agreement, dated May 25, 1994 (the "Modification Agreement"), the Nineteenth Amendment to Loan Agreement, dated June 29, 1994 ("Nineteenth Amendment"), the Twentieth Amendment to Loan Agreement, dated August 23, 1994 (the "Twentieth Amendment"), and the Twenty-First Amendment to Loan Agreement, dated September 16, 1994 (the "Twenty-First Amendment"), and the Twenty-Second Amendment to Loan Agreement, dated October 13, 1994, hereinafter collectively, 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"), LSB Financial Corp., LSB Leasing 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"), and Prime Financial Corp. (as to the Seventeenth Amendment, the Eighteenth Amendment, the Modification Agreement, the Nineteenth Amendment, the Twentieth Amendment and the Twenty-First Amendment), and Bank IV Oklahoma, N.A. (as to the Seventeenth Amendment, the Modification Agreement, the Nineteenth Amendment, the Twentieth Amendment and the Twenty-First Amendment).

Borrowers and Guarantors have requested an extension of the termination date of their existing arrangements with Congress and an extension of the Selling Period and Congress is willing, subject to the terms and conditions set forth herein, to so extend such termination date of the existing financing arrangements with Borrowers and Guarantors and such Selling Period 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 of Financing Arrangements. The date "October 31, 1994" in Section 9.1 of the Accounts Agreement, as heretofore amended, is hereby deleted and replaced with the date "November 30, 1994".

II. Term of Selling Period. The date "October 31, 1994" in Section 2.1 of the Seventeenth Amendment is hereby deleted and replaced with the date "November 30, 1994".

III. 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 (a) pay to Congress, in full, all outstanding and unpaid Obligations and (b) furnish cash collateral to Congress in an amount equal to (i) 115% of the face amount of all contingent Obligations consisting of all letters of credit, banker's acceptances, purchase guaranties and letters of credit, banker's acceptances, purchase guaranties and other financial accommodations (collectively, "Credits") issued and outstanding on

the effective date of such termination or non-renewal plus (ii) an amount Congress determines is reasonably necessary to secure Congress from loss, cost, damage or expense, including reasonable attorneys' fees and legal expenses, in connection with any checks or other payments provisionally credited to the Obligations and/or as to which Congress has not yet received the final and indefeasible payment (collectively, "Uncollected Payments"). 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. Congress shall be entitled to hold such cash collateral delivered to Congress with respect to each of the Credits until forty-five (45) days after the expiration date of each Credit, and for a period of forty-five (45) days following termination or non-renewal as to such contingent Obligations in respect of Uncollected Payments. Congress may apply the cash collateral to any such contingent Obligations which may become due by virtue of drawings or claims made pursuant to the Credits or for claims made against Congress in connection with the Uncollected Payments and shall release any remaining cash collateral to LSB upon the expiration of the applicable forty-five (45) day period referred to in this paragraph.

IV. 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.

V. 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 hereby mutually covenant and agree as set forth herein (the covenants and agreements of the Borrowers and Guarantors being joint and several).

[SIGNATURES ON NEXT PAGE]

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 \_\_\_\_\_

[SIGNATURES CONTINUED ON NEXT PAGE]

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

ACKNOWLEDGED:

BANK IV OKLAHOMA, N.A.

By \_\_\_\_\_  
Title \_\_\_\_\_

PRIME FINANCIAL CORP.

By \_\_\_\_\_  
Title \_\_\_\_\_

tq994x44.wpe

September 29, 1994

Mr. James L. Wewers  
 President, El Dorado Chemical Company  
 P.O. Box 1373  
 Oklahoma City, Oklahoma 73101

Re: Amended and Restated Secured Credit Agreement dated as of January 21, 1992 (as amended, the "Secured Credit Agreement") among El Dorado Chemical Company ("EDC"), Slurry Explosive Corporation ("Slurry"), Connecticut Mutual Life Insurance Company, C.M. Life Insurance Company and Household Commercial Financial Services, Inc. ("HCFS"), and the Second Amended and Restated Working Capital Loan Agreement dated as of January 21, 1992 (as amended, the "Working Capital Agreement") between EDC, Slurry, and HCFS (collectively, the "Agreements").

Dear Mr. Wewers:

Reference is hereby made to the above-captioned Agreements. Unless otherwise defined herein or the context hereof otherwise requires, terms which are defined or defined by reference in the Agreements or any exhibit thereto shall have the same meanings when used in this letter as such terms have in the Agreements.

EDC has informed HCFS that the extremely high recent costs of ammonia, which EDC requires as a key raw material in its production process, and the extended duration of this pricing has had a negative impact on EDC's performance during the last 12 months. EDC has further indicated that these ammonia costs are anticipated to remain high for an unspecified additional period of time. As a result of this ammonia pricing environment, EDC has informed HCFS that it was not in compliance with the Fixed Charge Coverage Ratio covenant for the month of July as stipulated in Section 11.2 of the Secured Credit Agreement and Section 11B.2 of the Working Capital Agreement and does not anticipate being in compliance with these covenants during the next 6-12 months.

As requested by EDC, HCFS as Agent and Required Lender hereby amends the Agreements by replacing the tables in Sections 11.2 of the Secured Credit Agreement and 11B.2 of the Working Capital Agreement with the following table.

Period	Ratio
July 1, 1994 through June 30, 1995	2.00:1
July 1, 1995 through July 31, 1995	2.10:1
August 1, 1995 through August 31, 1995	2.20:1
September 1, 1995 through September 30, 1995	2.30:1
October 1, 1995 through October 31, 1995	2.40:1
November 1, 1995 and Thereafter	2.50:1

Subject to the terms and conditions herein, we are please to provide this accommodation to EDC. This amendment is limited to the specific matter set forth herein and does not in any other matter waive, amend, or alter the Agreements or other Loan Documents, the provisions of which shall remain in full force and effect.

Sincerely,

James J. Russell  
 Assistant Vice President

cc: Norm Thetford, Connecticut Mutual Life Insurance  
 Julia Sarron, Mayer Brown & Platt  
 G. Francis, HCFS  
 E. Szarkowicz, HCFS  
 File

SECOND AMENDMENT  
 TO  
 AMENDMENT AGREEMENT

THIS FIRST AMENDMENT TO AMENDMENT AGREEMENT, dated as of September 29, 1994 (this "Amendment"), 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 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. EDC, Slurry, HCFS and Prime are parties to an Amendment Agreement, dated March 30, 1994 (the "Amendment Agreement"), which amended the Working Capital Loan Agreement, the Credit Agreement, and that certain Agreement for Purchase of Receivables, dated as of March 29, 1994, as amended, between Prime and EDC.

D. The parties hereto hereby desire to amend the Amendment Agreement to reflect that the Amendment Agreement shall terminate on October 31, 1994.

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 Amendment and not otherwise defined herein shall have the meanings assigned thereto in the Working Capital Loan Agreement.

2. TERMINATION. Paragraph 9 of the Amendment Agreement is hereby amended by deleting the date "September 30, 1994" contained therein, as amended, and substituting in lieu thereof the date "October 31, 1994".

IN WITNESS WHEREOF, the parties hereto have caused this Amendment 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 \_\_\_\_\_

IHS:\K-M\LSB\HOUSEHOL\AMEND\AG.SA

THIS SECOND AMENDMENT AGREEMENT, dated as of October 31, 1994 (this "Agreement"), is among EL DORADO CHEMICAL COMPANY ("EDC"), SLURRY EXPLOSIVE CORPORATION ("Slurry"), HOUSEHOLD COMMERCIAL FINANCIAL SERVICES, INC. ("HCFS"), CONNECTICUT MUTUAL LIFE INSURANCE COMPANY ("Mutual") and C.M. LIFE INSURANCE COMPANY MUTUAL ("C.M. Life").

#### 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, Mutual and C.M. Life are parties to the Amended and Restated Secured Credit Agreement, dated as of January 21, 1992 (as heretofore or hereafter amended and supplemented, the "Credit Agreement").
- C. EDC, Slurry and HCFS are parties to a First Amendment to Amended and Restated Secured Credit Agreement dated as of June 30, 1993, which amends the Credit Agreement.
- D. EDC, Slurry, HCFS, Equity Bank for Savings, F.A. and Prime Financial Corporation ("Prime") are parties to an Amendment Agreement dated March 30, 1994 (the "Amendment Agreement"), which amended the Working Capital Loan Agreement, the Credit Agreement, and that certain Agreement for Purchase of Receivables, dated as of March 29, 1994, as amended, between Prime and EDC.
- E. EDC, Slurry, HCFS and Prime are parties to: (i) a First Amendment to Amendment Agreement dated as of August, 1994; and (ii) a Second Amendment to Amendment Agreement dated as of September 29, 1994, both of which amend the Amendment Agreement.
- F. EDC and Northwest Financial Corporation ("Northwest") are parties to a Partial Lease Termination Agreement (the "Termination Agreement") dated on or about October 31, 1994, which terminated that certain Lease Agreement dated March 7, 1988, between EDC, as tenant, and Northwest, as landlord, only with respect to two (2) tracts of real property (the "Premises") located in El Dorado, Arkansas, which Premises are more particularly described at Schedule "A" attached hereto.
- G. Northwest and DSN Corporation are parties to that certain Ground Lease Agreement dated on or about October 31, 1994 (the "DSN Lease"), wherein Northwest, as landlord, leased the Premises to DSN, as tenant.
- H. DSN and EDC are parties to: (i) that certain Ground Sublease Agreement of the Ground Lease dated on or about October 31, 1994 (the "EDC Sublease"), wherein DSN, as sublandlord, leased the Premises to EDC, as subtenant, for payment of approximately \$10.00 per year; (ii) that certain Consulting Agreement dated on or about October 31, 1994, wherein DSN agreed to provide certain services to EDC in connection with EDC's operation of the Premises for a payment of approximately \$282,504.00 per year; (iii) that certain DSN Plant Equipment Lease dated on or about October 31, 1994 (the "Equipment Lease"), wherein DSN, as landlord, leased the facilities, plant and equipment located on the Premises to EDC, as tenant, for payment of approximately \$2,526,168.00 per year.
- I. EDC and The CIT Group/Equipment Financing, Inc. are parties to that certain Acknowledgement and Consent to Collateral Assignment dated on or about October 31, 1994 (the "Consent").
- J. The parties hereto desire to amend the Working Capital Loan Agreement and the Credit Agreement in certain respects to reflect the entering into of the Termination Agreement, the EDC Sublease, the Consulting Agreement, the Equipment Lease and the Consent. The Termination Agreement, EDC Sublease, Consulting Agreement, Equipment Lease and Consent are collectively herein referred to as the "Agreements".

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 the this Agreement and not otherwise defined herein shall have the meanings assigned thereto in either or both the Working Capital Loan Agreement and the Credit Agreement.
2. Unconditional Purchase Obligations. Notwithstanding any prohibition contained in any of the Loan Documents, including, without implied limitation: (i) Section 11.6 of the Credit Agreement; or (ii) Section 11B.7 of the Working Capital Loan Agreement, HCFS hereby consents to EDC entering into the Agreements.
3. Transactions with Affiliates. Notwithstanding any prohibition contained in any of the Loan Documents, including, without implied limitation: (i) Section 11.11 of the Credit Agreement; and (ii) Section 11B.12 of the Working Capital Loan Agreement, HCFS, Mutual and C.M. Life hereby consent to EDC entering into the Agreements.

4. Northwest Leases. Notwithstanding any prohibition contained in any of the Loan Documents, including, without implied limitation, Section 11.16 of the Credit Agreement, HCFS, Mutual and C.M. Life hereby consent to EDC entering into the Termination Agreement.

5. Other Loan Documents. All other provisions of the Loan Documents not specifically modified by the foregoing are hereby deemed modified as necessary to reflect HCFS' consent to EDC entering into the Agreements. In the event of a conflict between the terms of this Agreement and any of the Loan Documents, the terms of this Agreement will control.

6. 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.

7. Condition Precedent. The effectiveness of this Second Amendment Agreement is conditioned on the execution by the respective parties of the Termination Agreement, the EDC Sublease, the Consulting Agreement, the Equipment Lease and the Consent.

8. Miscellaneous. Each Borrower hereby agrees to pay, or reimburse HCFS for, reasonable attorneys' fees and disbursements, incurred by HCFS in connection with this Second Amendment Agreement; all such costs and expenses shall be payable on demand. This Second Amendment Agreement shall be governed by the internal 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 and the Working Capital Loan Agreement, both as previously amended and as amended hereby, remain in full force and effect.

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 \_\_\_\_\_

CONNECTICUT MUTUAL LIFE INSURANCE COMPANY

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_

C.M. LIFE INSURANCE COMPANY

By \_\_\_\_\_  
Name \_\_\_\_\_  
Title \_\_\_\_\_



## LOAN AND SECURITY AGREEMENT

(DSN Plant)

Dated October 31, 1994

between

DSN CORPORATION,

as Borrower

and

THE CIT GROUP/EQUIPMENT FINANCING, INC.,

as Lender

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LOAN AND SECURITY AGREEMENT  
(DSN Plant)

This LOAN AND SECURITY AGREEMENT (the "Agreement"), dated October 31, 1994, is made and entered into by and between DSN CORPORATION, an Oklahoma corporation (the "Borrower"), and THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation (the "Lender").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and of any loans or other credit facilities now or hereafter made to Borrower by Lender, the parties hereto covenant and agree as follows:

ARTICLE 1  
DEFINITIONS

The following capitalized terms have the following meanings when used in this Agreement:

"Affiliate" means any of LSB, EDC, LSBC, Prime Financial Corp., Total Energy Systems, Ltd., Slurry Explosive Corporation, Universal Tech Corporation, LSB Holdings, Inc., and any other Person controlling or controlled by or under common control with LSB Industries, Inc. or any of their Subsidiaries, successors or assigns.

"Assignment of Construction Contract, Plans and Specifications" means the Assignment of Construction Contract Plans and Specifications in form and substance satisfactory to the Lender, wherein the Lender is assigned the Construction Contract and the Plans and Specifications as security for the Obligations.

"Bonding Company" means American Bonding Company, the company issuing payment and performance bond No. 9417875 in connection with the construction of the DSN Plant.

"Business Day" means any day which is not a Saturday, Sunday or day on which banks in New York are required or permitted to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" means: (i) all personal property referred to in Section 3.1; (ii) all real property interests of Borrower in the DSN Plant Location, the DSN Plant and the Ground Lease and the Ground Sublease; and (iii) all other property and interests in property, real or personal, now owned or leased or hereafter acquired or leased, which is hereafter pledged or assigned to Lender as collateral security for payment of any of the Obligations.

"Consent to Encumbrance" means that certain Consent to Encumbrance of Leasehold Estate and Landlord's Waiver of even date herewith executed by Northwest Financial Corporation and Borrower in favor of Lender.

"Construction Consultant" means Brown & Root, Inc., and any subsequent consultant, selected by Lender as Construction Consultant under Section 2.2(c) hereof.

"Construction Contract" means, collectively, that certain correspondence dated November 22, 1993 and November 24, 1993, between EDC and Systems Contracting Corporation, which has been assigned to Borrower, together with all other correspondence with Systems Contracting Corporation and all other construction contracts and equipment purchase contracts related to the construction of the DSN Plant.

"Construction Period" means the period commencing on the date hereof and ending on the first to occur of: (i) March 31, 1995 or (ii) the DSN Plant Completion Date.

"Consulting Agreement" means the Consulting Agreement dated October 31, 1994 between EDC and DSN relating to the DSN Plant.

"Contractor" means Systems Contracting Corporation and each other Person who has entered into a Construction Contract with, or which has been assigned to, Borrower.

"Contractors' Consents" means, collectively, the Contractor's Consent and Certification executed by each Contractor in favor of Lender.

"Default" means any Event of Default or event which, with notice or passage of time or both, would constitute an Event of Default.

"Disbursement Schedule" means the disbursement schedule and budget annexed to this Agreement as Exhibit "D", in form and substance acceptable to Lender.

"Disclosure Schedule" means the disclosure schedule annexed to this Agreement as Exhibit "A".

"DSN Plant" means Borrower's direct strong nitric acid plant located at the DSN Plant Location.

"DSN Plant Equipment Lease" means that lease dated to be effective as of the date hereof between Borrower as lessor and EDC as lessee with respect to the DSN Plant and including the Equipment relating thereto.

"DSN Plant Completion Date" means the date on which Lender reasonably determines that all of the following have occurred: (a) Borrower and EDC shall have certified to Lender in writing that the DSN Plant has been fully constructed and completed in substantial accordance with the Plans and Specifications and is in operation, that the DSN Plant as completed complies with applicable zoning, building and land use laws, and that the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the Consulting Agreement are in full force and effect; (b) the Construction Consultant shall have confirmed to Lender that construction of

the DSN Plant has been completed in substantial accordance with the Plans and Specifications, and that direct connection has been made to all pipelines, supply lines, and all water, gas, sewer, telephone and electrical facilities necessary for the operation and use of the DSN Plant, (c) a valid notice of completion has been filed for record in the Office of the County Recorder for the County in which the DSN Plant is located, (d) all inspections by any applicable governmental entities necessary to permit the start-up of the DSN Plant have been completed and all necessary certificates and approvals for occupation and operation of the DSN Plant have been obtained, and (e) the period for filing mechanics' and materialmen's liens has expired without any material liens having been filed or recorded or lien waivers have been obtained from contractors which performed more than \$50,000 of work or provided more than \$50,000 of materials, or, where applicable, Lender's Title Policy has fully insured against mechanics' or materialmen's liens.

"DSN Plant Location" means the location of the DSN Plant at El Dorado, Union County, Arkansas, more particularly described in Exhibit "C."

"EDC" means El Dorado Chemical Company, an Oklahoma corporation.

"Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidance, orders and consent decrees relating to hazardous substances, discharges, releases or disposals of pollutants, solid waste or hazardous materials, or any other environmental matters applicable to the Borrower's business, the DSN Plant or the DSN Plant Location. Such laws and regulations include the Resource Conservation and Recovery Act, 42 U.S.C. section 6901 et seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. section 9601 et seq., as amended; the Toxic Substances Control Act, 15 U.S.C. section 2602 et seq., as amended; the Clean Water Act, 33 U.S.C. section 466 et seq., as amended; the Clean Air Act, 42 U.S.C. section 7401 et seq., as amended; state and federal superlien and environmental cleanup programs; and U.S. Department of Transportation regulations. The terms "hazardous substance" and "release" shall have the meanings specified in the Federal Comprehensive Environmental Responsibility Cleanup and Liability Act of 1980, as the definition of such terms may be subsequently modified, supplemented or amended ("CERCLA") and the terms "solid waste" and "disposal" shall have the meanings specified in the Federal Resource Conservation and Recovery Act of 1976, as the definition of such terms may be subsequently modified, supplemented or amended ("RCRA"; provided, however, that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment; and provided, further, however, that to the extent a parcel of real property is situated in a state or other jurisdiction in which the applicable laws may establish a meaning for "hazardous substance," "release," "solid waste," or "disposal" which is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply.

"Equipment" means all now or hereafter acquired equipment (as that term is defined in the UCC) now or hereafter located at the DSN Plant or relating to the DSN Plant, including machinery, data processing hardware and software, furniture, fixtures, trade fixtures, leasehold improvements, office equipment, strong acid plant equipment, storage tanks, strong acid building structure, compressor building, refrigeration facilities, piping, valves, plant equipment, machinery, electronics, instrumentation, panels, control systems and other tangible personal property and all accessions, accretions, replacements and additions to Equipment, and all other component and auxiliary parts used or to be used in connection with or attached to any of the same, and all manuals, drawings, instructions, warranties and rights with respect thereto wherever any of the foregoing is located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" means any event so described in Section 8.1.

"Fair Market Value" means the price that a knowledgeable buyer would be willing to pay a knowledgeable seller, neither being under any duress to buy or sell and both having reasonable knowledge of relevant facts, for the machinery and equipment in place and in operation, taking advantage of all leasehold and site improvements designed to facilitate its operation, with the seller accurately and completely representing the existing condition and operability of the machinery and equipment to the buyer. Consideration is given to each asset's contribution to the operating facility, or the contribution of all the assets as a whole, whichever appropriately addresses production capabilities of the plant. It is assumed that all specially designed and built machinery and equipment will continue to be utilized in the manner for which it was originally intended.

"Financial Statement" means any financial statement given to the Lender pursuant to Section 6.1.

"Fiscal Year" means, as to any Person, such Person's fiscal year for financial accounting purposes. The Borrower's current Fiscal Year

ends on December 31, 1994.

"Funding Date" means the date on which the initial advance is made.

"GAAP" means, as of any date of determination, generally accepted accounting principles consistently applied during each interval and from interval to interval.

"Ground Lease" means the lease agreement dated as of October 31, 1994 between the Borrower and Northwest Financial Corporation pursuant to which Northwest Financial Corporation granted Borrower the right to occupy the real property associated with the DSN Plant and to construct, use, occupy and sublease the DSN Plant at the DSN Plant Location.

"Ground Sublease" means the sublease dated October 31, 1994 of the Ground Lease from DSN to EDC.

"Guarantor" means any Person who has executed a Guaranty in favor of the Lender with respect to the Obligations, including LSB and LSBC.

"Guaranty" means each continuing guaranty executed and delivered by LSB, LSBC and any other Guarantor in form and substance acceptable to Lender guarantying the Obligations.

"Hazardous Substance" means any substance, material or waste (including petroleum and petroleum products) which is or becomes designated, classified or regulated as being "toxic" or "hazardous" or a "pollutant," or which is or becomes similarly designated, classified or regulated, under any Environmental Laws.

"Indebtedness" means, as to any Person, (a) all indebtedness of such Person for borrowed money, (b) that portion of the obligations of such Person under capital leases which is properly recorded as a liability on a balance sheet of that Person prepared in accordance with GAAP, (c) any obligation of such Person that is evidenced by a promissory note or other instrument representing an extension of credit to such Person, whether or not for borrowed money, or any obligation of such Person for the deferred purchase price of property or services (other than trade or other accounts payable in the ordinary course of business in accordance with terms customary to DSN or its Affiliates), (d) any obligation of such Person that is secured by a Lien on assets of such Person, whether or not that Person has assumed such obligation or whether or not such obligation is non-recourse to the credit of such Person, but only to the extent of the fair market value of the assets so subject to the Lien, (e) obligations of such Person arising under acceptance facilities or under facilities for the discount of accounts receivable of such Person and (f) obligations of such Person for unreimbursed draws under letters of credit issued for the account of such Person.

"Late Charge Rate" shall mean a rate per annum equal to the higher of 3% over the applicable interest rate set forth in Section 2.4 or 18%, but not to exceed the highest rate permitted by applicable law.

"Leasehold Mortgage" means the leasehold mortgage, in form and substance satisfactory to Lender, wherein Lender is granted a first priority Lien in Borrower's right, title and interest in the DSN Plant Location, the DSN Plant, the Ground Lease, and the Ground Sublease.

"Libor Rate" means the rate of interest equal to the 30-day London Interbank Offered Rate. The Libor Rate shall be that which is reported and published in The Wall Street Journal for the 15th day of each month (if the 15th day is not a day for which The Wall Street Journal reports the Libor Rate, then on the first preceding day for which The Wall Street Journal reports the Libor Rate), and shall become effective as of the first day of the calendar month succeeding such determination and shall continue in effect to, and including, the last day of such calendar month. If The Wall Street Journal ceases to be published, or ceases to publish the Libor Rate, then the Libor Rate shall be that which is reported and published on the day specified above in any similar publicly available source designated by Lender.

"Lien" means any mortgage, deed of trust, pledge, deed to secure debt, hypothecation, assignment, encumbrance, lien (statutory or other), security interest or other security agreement, including any conditional sale or other title retention agreement. "Lien" includes reservations, exceptions, easements, leases and other restrictions and encumbrances affecting real property. For purposes hereof a Person shall be deemed to own property acquired or held pursuant to a conditional sale or similar security arrangement.

"Loan" shall have the meaning assigned in Section 2.1.

"Loan Documents" means, collectively:

- a. this Agreement
- b. the Note
- c. the DSN Plant Equipment Lease

- d. the Assignment of the DSN Plant Equipment Lease
- e. the acknowledgment and Consent to Assignment of the DSN Plant Equipment Lease
- f. sufficient UCC-1 Financing Statements for filing in Arkansas and Oklahoma
- g. the Leasehold Mortgage with Assignment to Leases and Rents
- h. the Guaranty (LSB)
- i. the Guaranty (LSBC)
- j. the Consent to Encumbrance
- k. Request for Advance
- l. the Assignment of Construction Contract, Plans and Specifications
- m. the Tenant Subordination Agreement
- n. the Contractors' Consents

and any other opinions, resolutions, certificates, documents or agreements of any nature or type heretofore or hereafter executed or delivered by Borrower, Affiliates or Guarantors to Lender pursuant to this Agreement or any Loan Document in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated or extended.

"LSB" means LSB Industries, Inc., a Delaware corporation.

"LSBC" means LSB Chemical Corp., an Oklahoma corporation.

"Mixed Acid Plant Loan" means that certain loan in the original principal amount of approximately \$1,075,200 to be made by Lender to Borrower pursuant to the Mixed Acid Plant Loan Documents.

"Mixed Acid Plant Loan Documents" means that certain Loan and Security Agreement (Mixed Acid Plant) which the parties intend to prepare and execute between Lender and Borrower, and all other "Loan Documents" described therein, relating to a loan by Lender to Borrower to finance the acquisition and construction of a mixed acid plant in North Carolina.

"Note" means the promissory note which evidences the Loan, substantially in the form of Exhibit "B".

"Obligations" means and includes the aggregate of the unpaid principal balance of the Loan and all accrued interest thereon, and all other loans, indebtedness, debts, liabilities, obligations, interest, fees, premiums, guarantees, amounts, indemnities, reimbursements, covenants and duties owing by the Borrower to the Lender under any one or more of the Loan Documents, of every kind and description (whether or not evidenced by any note or other instrument and whether or not for the payment of money), direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising. "Obligations" include: (i) all interest, fees, charges or other costs and payments that the Borrower is required to pay to the Lender under or as a result of the Loan Documents or by law and (ii) all costs and expenses described in Section 2.7 or otherwise required to be paid by the Borrower to the Lender pursuant to any Loan Document.

"Pension Plan" means any pension plan as defined in Section 3(2) of ERISA which is a multi employer plan or a single employer plan as defined in Section 4001 of ERISA and subject to Title IV of ERISA and which is: (i) a plan maintained by the Borrower, or any Subsidiary or any Related Company; (ii) a plan to which the Borrower, or any Subsidiary or any Related Company contributes or is required to contribute; (iii) a plan to which the Borrower, or any Subsidiary or any Related Company was required to make contributions at any time during the five calendar years preceding the date of this Agreement; or (iv) any other plan with respect to which the Borrower, or any Subsidiary or any Related Company has incurred or may incur liability, including contingent liability, under Title IV of ERISA, either to such plan or to the Pension Benefit Guaranty Corporation.

"Permitted Liens" means: (i) Liens for taxes not yet payable or being contested in good faith and by appropriate proceedings diligently pursued, provided that the reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor; (ii) mechanics' and similar liens incurred in the ordinary course of business or in the construction of the DSN Plant, not to exceed, at any given time, an aggregate of \$150,000.00, securing non-overdue obligations or for which an adequate bond has been posted; (iii) Liens in favor of the Lender; (iv) Liens described on the Disclosure Schedule as such Disclosure Schedule is in effect on the date hereof; and (v) all exceptions and Liens identified in the Title Policy.

"Person" means any individual, trust, firm, partnership, corporation or any other form of public, private or governmental entity or authority.

"Plans and Specifications" means those Plans and Specifications related to the construction of the DSN Plant, which Plans and Specifications must be acceptable to Lender.

"Proceeds" means all products and proceeds (as defined in the UCC) of any Collateral, and all proceeds of any such proceeds, including

all awards for taking by eminent domain, all proceeds of fire or other insurance and all proceeds obtained as a result of any legal action or proceeding with respect to any Collateral.

"Rail Car Loan" means that certain loan in the original principal amount of approximately \$1,169,800, made by Lender to Borrower pursuant to Rail Car Loan Documents.

"Rail Car Loan Documents" means that certain Loan and Security Agreement (Rail Car) which the parties intend to prepare and execute between Lender and Borrower, and all other "Loan Documents" described therein, relating to a loan by Lender to Borrower to acquire ten new nitric acid rail cars.

"Related Company" means any member of any controlled group of corporations (as defined in the Code) of which the Borrower is a party, or any trade or business (whether or not incorporated) which together with the Borrower would be treated as a single employer under Section 4001 of ERISA.

"Reportable Event" shall have the meaning assigned to that term in Title IV of ERISA, including a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a creation of operations described in Section 4062(e) of ERISA.

"Request for Advance" means a certificate executed and delivered by Borrower in form acceptable to Lender which contains all of the information as described in Section 2.2(b) hereof.

"Security Interest" collectively means the Liens created for the benefit of the Lender pursuant to the Loan Documents.

"Subsidiary" means any present or future corporation of which more than 50% of the outstanding stock having by its terms the ordinary voting power to elect a majority of the board of directors, managers or trustees of such corporation is at the time, directly or indirectly through one or more intermediaries, owned or controlled by the Borrower and/or one or more of its Subsidiaries, irrespective of whether or not, at the time, stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency. If at any time, and only for so long as, the Borrower has no Subsidiaries, provisions of this Agreement which refer to Subsidiaries shall be of no force and effect insofar as they pertain to Subsidiaries although they shall remain in full force and effect as to all other Persons in question.

"Tenant Subordination Agreement" means that certain Subordination, Nondisturbance, Estoppel and Attornment Agreement dated October 31, 1994, executed by EDC and Borrower in favor of Lender.

"Term Out Period" has the meaning assigned to such term in Section 2.3(b) of this Agreement.

"Title Policy" means the policy of title insurance referred to in Section 2.9 hereof.

"Treasury Rate" means the rate per annum equal to the yield to maturity for the U.S. Treasury Security having a remaining term to maturity closest to five (5) years as at (and shall be fixed as of) the close of business on the third Business Day prior to the first day of the Term Out Period, as such yield to maturity is reported on page 5 ("U.S. Treasury and Money Markets") of the information ordinarily provided by Telerate Systems Incorporated (provided that if Telerate Systems Incorporated ceases to report such information, then such information shall be taken from any publicly available source of similar data designated by Lender).

"UCC" means the Uniform Commercial Code (or any successor statute) as from time to time in effect in any applicable jurisdiction.

## ARTICLE 2 THE LOAN

Section 2.1 The Loan. On the basis of the covenants, agreements and representations of Borrower contained herein and subject to the terms and conditions hereinafter set forth, Lender agrees to lend to Borrower and Borrower agrees to borrow from Lender a sum not to exceed the principal amount of TWELVE MILLION SEVEN HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$12,750,000.00) (the "Loan"), the proceeds of which are to be disbursed by Lender exclusively for the payment of the following costs and expenses as hereinafter provided: (i) costs and expenses incurred in connection with the construction of the DSN Plant; (ii) other costs and expenses incidental to the DSN Plant; and (iii) costs and expenses incurred in connection with the Loan and Borrower's undertakings hereunder, which proceeds shall be disbursed in accordance with the Disbursement Schedule and as follows:

(a) Recordation Disbursements. Upon recordation of the Leasehold Mortgage, provided that the title insurer has issued or irrevocably committed in writing to issue to Lender the Title Policy, Lender shall disburse to the Persons entitled thereto the amounts (if

acceptable to Lender) necessary to pay all or portions of: (i) out of pocket costs, charges, expenses and legal fees incurred by (A) Lender and payable by Borrower hereunder or (B) Borrower in connection with title charges and premiums, tax and lien service charges, recording fees, escrow fees, real property taxes and assessments, and insurance premiums payable in connection with the Loan; and (ii) other DSN Plant costs and expenses theretofore incurred by Borrower, all in accordance with the applicable provisions of the Disbursement Schedule.

(b) Course-of-Construction Disbursements. Subsequent to recordation of the Leasehold Mortgage and subject to the provisions of this Agreement, including without limitation the provisions contained in Section 2.2 hereof, Lender shall disburse to Borrower, or if reasonably deemed necessary by Lender, Lender shall disburse directly to such Persons as have actually supplied labor, materials or services in connection with or incidental to the construction of the DSN Plant, and subject to the applicable retention percentage set forth in the Construction Contract, such sums as are required to be used and which shall be used only for the payment of (i) the costs and expenses of any of Borrower's undertakings in this Agreement, the Note, the Leasehold Mortgage or any of the other Loan Documents, (ii) interest on borrowings under the Note, (iii) the costs and expenses of Lender which are payable by Borrower or reimbursable by Borrower as set forth herein, and (iv) the costs and expenses of the labor and materials used in constructing the DSN Plant and costs and expenses incidental thereto, with all disbursements under this Agreement to be made in accordance with the applicable provisions of the Disbursement Schedule.

#### Section 2.2 Disbursement Methods.

(a) Notwithstanding any other terms of this Agreement, the disbursements under the Loan shall be capped at \$5,000,000 until such time as LSB and certain of its subsidiaries shall have in full force and effect, a new \$75,000,000 revolving credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender.

(b) Request for Advance. From time to time, but not more frequently than twice per month, Borrower shall furnish to Lender, separately with respect to each request for any disbursement of proceeds of the Loan, a Request for Advance duly signed and sworn to with all blanks appropriately filled in, setting forth such details concerning construction of the DSN Plant as Lender shall require, including (i) a detailed breakdown of the applicable percentages of completion and costs of the various phases of construction of the DSN Plant, showing the amounts expended to date for such construction and the amounts then due and unpaid, an itemized estimate of the amount necessary to complete construction of the DSN Plant in its entirety, and a certification by Borrower and Mr. Leo Hilinski or his designee that construction of the DSN Plant to the date of such certificate complies with the Plans and Specifications; (ii) a list of the names and addresses of all materials dealers, laborers and subcontractors to whom payments are due under such Request for Advance; and (iii) if required by Lender, receipted invoices or bills of sale and unconditional partial releases of lien (on forms approved by Lender) from each materials dealer, laborer and subcontractor who has done work or furnished materials for construction of the portion of the DSN Plant covered by each such Request for Advance acknowledging acceptance of such payment in satisfaction of Borrower's obligations. A Request for Advance must be for an amount not less than \$500,000. Lender may disburse a part of the funds requested if it approves part but not all of the Request for Advance.

(c) Construction Consultant. Throughout the course of construction of the DSN Plant, Lender will employ, at Borrower's sole cost and expense, Construction Consultant or Consultants who shall review as agent for Lender all construction activities undertaken in regard to the DSN Plant, which Construction Consultant(s) shall certify or otherwise indicate to Lender that construction of the DSN Plant to the date of each Request for Advance and certificate of Borrower is as set forth in the Request for Advance and certificate submitted by Borrower, that such construction substantially complies with the Plans and Specifications and that the progress of construction is such that the construction of the DSN Plant will be completed within the Construction Period, with each such certificate and indication from such inspector or inspectors to be a further condition precedent to Lender's approval of Borrower's then submitted Request for Advance. Lender may change Construction Consultants or modify the terms of its agreement with any Construction Consultant, if deemed reasonably necessary by Lender.

(d) Disbursements; Deficiencies. The proceeds of the Loan disbursed under this Agreement shall be evidenced by the Note and shall be secured by the Borrower's interest in the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the other Collateral, and all such proceeds shall be disbursed, as aforesaid, directly to and to reimburse such Persons, or to Borrower to

reimburse such Persons as have actually supplied labor, materials or services in connection with or incidental to construction of the DSN Plant, or to reimburse Borrower in the event Borrower shall have already paid such Persons. In no event shall Lender be required to disburse any amount which, in Lender's reasonable opinion, will either (i) reduce the total undisbursed amount of the Loan below the amount necessary to pay for the balance of the work, labor and materials necessary fully to complete construction of the DSN Plant in accordance with the Plans and Specifications, or (ii) reduce the undisbursed amount of Loan proceeds allocated to the cost category described in any paragraph contained in the Disbursement Schedule below the amount which Lender reasonably deems sufficient to pay in full the costs to which such amount is allocated. In the event any amount in a cost category of the Disbursement Schedule is deficient, and Borrower has not made alternative payment arrangements for the costs in question, then upon ten (10) days' written notice from Lender, Borrower shall furnish Lender with paid invoices, bills and receipts indicating that Borrower has paid, from Borrower's own funds, for the costs of completing the construction of the DSN Plant or the costs in the cost category in question, as the case may be, in a sufficient amount to make the undisbursed amount of the Loan or the undisbursed portion thereof under the cost category in question sufficient to pay for the entire balance of the costs of completing the construction of the DSN Plant or the entire balance of the costs in such cost category, but only if such work has been performed and materials have been provided.

(e) Limitations on Disbursements. Disbursements of Loan proceeds shall be made by Lender only to defray costs actually incurred by Borrower and in accordance with the Disbursement Schedule. Disbursements on account of the direct costs of constructing the DSN Plant shall be limited to the lesser of (i) the actual cost to Borrower of work and labor performed on the DSN Plant and materials incorporated into the DSN Plant or suitably stored at the DSN Plant Location or (ii) the actual value (as determined by Lender in its reasonable discretion) of said work and labor performed and materials stored; disbursements on account of indirect or "soft" costs relating to the construction of the DSN Plant, the Loan, the preparation of the Plans and Specifications, and all of the other transactions contemplated hereby shall be limited to the actual amounts of such costs as indicated by invoices, statements, vouchers, receipts or other written evidence satisfactory to Lender.

(f) Continuation and Date-Down Endorsements. After recordation of the Leasehold Mortgage and as a condition precedent to each disbursement under the Loan after the initial advance, Borrower shall, at its own cost and expense, deliver or cause to be delivered to Lender from time to time such continuation and date-down endorsements to be attached to the Title Policy in form and substance satisfactory to Lender, as Lender deems necessary to insure the priority of the Leasehold Mortgage as a valid first priority lien on the DSN Plant Location and the DSN Plant as of the date of and including the amount covered by each such disbursement, and Borrower agrees to furnish to the title insurer such surveys and other information as are reasonably required by Lender or the title insurer to enable the title insurer to issue such endorsements to Lender.

(g) Change Orders. Borrower shall not permit any amendments or modifications of the Plans and Specifications, the Construction Contract or any subcontracts, or the performance of any work pursuant to such amendments or modifications, which individually exceed \$250,000 or, when added to the cumulative amount of all net increases in the prices payable under the Construction Contract and all such subcontracts resulting from all such amendments and modifications theretofore permitted by Borrower, would result in a net increase in the total price payable under all such subcontracts in excess of \$750,000.

(h) Other General Conditions. No Request for Advance will include (i) any amounts previously disbursed hereunder, (ii) any costs not approved, certified or verified as provided above, (iii) any costs for which payment reimbursement was previously requested by Borrower and for which proof of payment has been requested but not yet received by Lender, and/or (iv) any real estate taxes, mechanics' liens, security interests, claims or other charges against the Collateral, or any interest, fees or other costs which Borrower may have failed to pay in accordance with this Agreement or the other Loan Documents. If Lender considers that its best interest and the best interest of the completion of the construction lies in accelerating the amounts to be advanced hereunder, it shall be entitled to do so, and no such advance shall be deemed to be a waiver of any condition contained herein.

Section 2.3 Repayment of the Loan. The Borrower promises to repay the Loan as follows:

(a) During the Construction Period, monthly interest payments on outstanding principal balance of the Loan at the applicable rate set forth in Section 2.4 shall be paid to Lender commencing December 1, 1994 and on the first day of each month

thereafter.

(b) The principal balance outstanding under the Note, and all accrued and unpaid interest, and all other Obligations owing under any of the Loan Documents shall be due and payable in full on the date on which the Construction Period terminates; provided, however, that if the Construction Period ends on the DSN Plant Completion Date, then the Loan shall be converted to a term Loan and shall be extended for a period (the "Term Out Period") commencing on the day immediately succeeding the last day of the Construction Period and ending on the date which is eight-four (84) months after such date, subject to the following terms and conditions:

(i) no uncured Default has occurred and is continuing, and no material adverse change in the business, financial condition or operations of Borrower, any Guarantor or EDC shall have occurred;

(ii) any undisbursed Loan proceeds existing at the end of the Construction Period shall be cancelled, and Borrower shall have no further right to request or receive any further disbursements of Loan proceeds, provided, that this limitation shall not apply if Borrower demonstrates to Lender that additional conforming costs and expenses have been incurred in connection with the DSN Plant and Lender approves such additional costs and expenses for payment from such undisbursed Loan Proceeds prior to the commencement of the Term Out Period;

(iii) Lender shall have determined, based upon an appraisal of the DSN Plant conducted at Borrower's sole expense by an independent appraiser selected by Lender, that the Fair Market Value of the DSN Plant and the Equipment equals or exceeds the outstanding principal balance of the Loan. This shall be performed and completed not later than January 1, 1995;

(iv) LSB and certain of its subsidiaries shall have entered into a new \$75,000,000 credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender;

(v) commencing on the first day of the first month which begins not less than 31 days after the last day of the Construction Period and thereafter on the first day of each subsequent month, Borrower shall pay to Lender during the Term Out Period in eighty-four (84) consecutive, equal monthly payments of principal and interest, calculated by fully amortizing the outstanding principal balance of the Loan as of the commencement of the Term Out Period over an 84-month period at the applicable interest rate set forth in Section 2.4; and

(vi) the principal balance outstanding under the Note, and all accrued and unpaid interest not sooner paid when due under the Note, and all other Obligations of Borrower owing under any and all of the Loan Documents, shall be due and payable in full on the last day of the Term Out Period.

(c) In the event the Loan is not converted to a term Loan because Borrower has chosen to finance the DSN Plant with a lender other than Lender, not due to any default by Lender, then in addition to all other sums owing on the date on which the Construction Period ends, Borrower shall pay to Bank a termination fee equal to five percent (5%) of the outstanding principal balance of the Loan as of the date on which the Construction Period ends.

The Borrower's obligation to pay all amounts payable hereunder is absolute and unconditional and shall not be affected by any circumstance of any character whatsoever, including (i) any setoff, counterclaim, recoupment, defense, abatement or reduction or any right which the Borrower may have against the Lender, the manufacturer or supplier of any of the Equipment or anyone else for any reason whatsoever; (ii) the invalidity, enforceability or disaffirmance of this Agreement or any other Loan Document related hereto; or (iii) the prohibition of or interference with the use or possession-by the Borrower of all or any part of the DSN Plant Location or the Equipment, for any reason whatsoever.

Section 2.4 Interest Charges. During the Construction Period, the outstanding principal balance of the Loan shall bear interest at a rate per annum equal to the Libor Rate plus 3.10%. During the Term Out Period, the outstanding principal balance of the Loan shall bear interest at a per annum rate equal to the Treasury Rate plus 2.70%. In each instance, interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.5 Late Charge Rate. In the event the Borrower fails to pay any amount hereunder when due, the amount due shall bear charges thereon calculated at the Late Charge Rate. At any time when any Event of Default has occurred, irrespective of any cure periods, and continues for

over ten (10) days, the Borrower will pay interest on the Loan at the Late Charge Rate.

Section 2.6 Maximum Interest. In no event shall the interest charged with respect to the Obligations exceed the maximum amount permitted under applicable law. Notwithstanding anything to the contrary herein or elsewhere, if at any time the rate of interest called for hereunder or under the Note or other Loan Document (the "Stated Rate") exceeds the highest rate of interest permissible under any applicable law (the "Maximum Lawful Rate"), then for so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the Stated Rate is less than the Maximum Lawful Rate, the Borrower shall, to the extent permitted by law, continue to pay interest at the Maximum Lawful Rate until such time as the total interest received by the Lender is equal to the total interest which the Lender would have received had the Stated Rate been (but for the operation of this provision) the interest rate payable. Thereafter, the interest rate payable shall be the Stated Rate unless and until the Stated Rate again exceeds the Maximum Lawful Rate, in which event this provision shall again apply.

Section 2.7 Expenses. The Borrower agrees to pay on demand all reasonable out of pocket costs and expenses (including reasonable legal, appraisal, accounting, auditing and similar fees) incurred at any time, before or after the Obligations are paid in full, in connection with (i) the enforcement, attempted enforcement, amendment or termination of this Agreement or any of the other Loan Documents, the performance of any of the Borrower's duties under this Agreement and the other Loan Documents or any exercise by Lender of its rights and remedies under this Agreement or any other of the Loan Documents, including in connection with a reorganization or bankruptcy reorganization of the Borrower or any Affiliate; (ii) the filing or recordation of all documents or instruments relating to the Collateral; (iii) realizing upon or protecting any Collateral and enforcing and collecting any Obligations or guaranty thereof; and (iv) any Default or Event of Default. The Borrower also agrees to reimburse the Lender, on the Funding Date, for its legal fees for outside counsel plus any appraisal fees, recording and search fees and related expenses, including travel and other out of pocket expenses of the Lender's agents and its counsel, incurred by it in connection with the preparation, negotiation, execution, closing and delivery of the Loan Documents.

Section 2.8 Prepayment. No prepayment of the Loan shall be permitted during the Construction Period or prior to the date which is forty-two (42) months after the date on which the Term Out Period begins. Thereafter, provided no Default has occurred and is continuing, the Borrower may prepay the Loan in whole, but not in part, on the first day of any month, upon at least thirty (30) Business Days' prior written notice to the Lender. Such prepayment of the Loan shall be accompanied by the payment of all principal, all accrued but unpaid interest on the Loan to the date of prepayment and all outstanding and unpaid costs, fees and expenses. In addition, the prepayment of the Loan shall be made with a prepayment fee in an amount equal to the greater of (a) two percent (2.0%) of the outstanding principal balance of the Loan being prepaid, or (b) the excess, if any, of (i) the present value of the principal and interest payments which would have been payable during the remainder of the Term Out Period in the absence of the prepayment, using a discount rate equal to one percent (1.0%) plus the yield to maturity, as of the Third Business Day prior to the date on which the prepayment is made, on U.S. Treasury Securities having a remaining term to maturity closest to the remaining average life of the Loan, as such yield to maturity is reported on page 5 ("U.S. Treasury and Money Markets") of the information ordinarily provided by Telerate Systems Incorporated, over (ii) the principal amount being prepaid.

Section 2.9 Conditions of Lending. The obligation of the Lender to make the initial and any subsequent advance under the Loan is subject to the prior satisfaction (or waiver in writing and signed by Lender in its sole discretion) of each of the following conditions precedent:

(a) Representations and Warranties. The representations and warranties made by the Borrower and the Guarantors in the Loan Documents and any certificate, document or financial or other written statement furnished at any time under or in connection herewith shall be true and correct in all material respects on and as of the date given and on and as of the date of the Funding Date as if made on and as of such date and otherwise in exactly the same language.

(b) Compliance. The Borrower shall have complied and shall then be in compliance with all the terms, covenants and conditions of the Loan Documents.

(c) No Default. No Default shall have occurred and be continuing.

(d) No Material Adverse Change. No material adverse change shall have occurred with respect to the business, financial condition or operations of the Borrower since the financial statement

of LSB dated December 31, 1993 and the Lender shall have received a certificate from the Chief Executive Officer of the Borrower to that effect; and no material adverse change shall have occurred with respect to the business, financial condition or operations of EDC or any Guarantor, as may be determined by Lender in the exercise of its reasonable discretion.

(e) Delivery of Documents. Each of the Loan Documents, the Ground Lease, the DSN Plant Equipment Lease and the Ground Sublease shall have been executed and delivered to the Lender in form and substance satisfactory to the Lender and shall be in full force and effect.

(f) No Change In Law. No change in state or federal law shall have been enacted or proposed which would make the Loan unlawful to the Lender.

(g) Review of Real Property Records. Prior to the initial advance the Lender shall have reviewed and approved the real property records and encumbrances relating to the DSN Plant Location, including the Ground Lease and the Ground Sublease.

(h) Landlord/Mortgagee Waivers. Prior to the initial advance the Borrower shall have provided to the Lender such Landlord/Mortgagee Waivers, in form, substance and number as may be reasonably required by the Lender.

(i) Mortgage and Title Insurance. Prior to the initial advance, the Lender shall have received the Leasehold Mortgage encumbering Borrower's interest under the Ground Lease and the Ground Sublease, in form and priority as may be acceptable to the Lender in its sole discretion, and the Leasehold Mortgage shall have been recorded and any recording fees and any Arkansas intangible recording tax shall have been paid in full. The Lender shall also have received an ALTA lender's policy of title insurance, issued by a title insurer acceptable to Lender, in form, amount and with such priority and endorsements as the Lender may reasonably require, including:

- (i) Coverage against mechanics' liens;
- (ii) An endorsement insuring the continuing priority of subsequent advances;
- (iii) A single tax parcel endorsement; and
- (iv) Proof that all real estate taxes for the Premises due and owing as of the Closing Date have been paid.

(j) Opinions of Counsel. Prior to the initial advance the Lender shall have received an opinion of legal counsel for Borrower, LSB, LSBC and EDC, in form and substance satisfactory to the Lender and its counsel, which opinion will include, among other things, opinions affirming the Borrower's authority to enter into this Agreement, the perfection and priority of the Security Interest, LSB's and LSBC's authority to enter into the Guaranties and EDC's authority to enter into the DSN Plant Equipment Lease and the Ground Lease, the Ground Sublease, and the enforceability of the Loan Documents.

(k) Environmental Compliance. Not later than ten (10) days prior to the initial advance, the Lender shall have received and found satisfactory an environmental report on the DSN Plant location in form acceptable to the Lender. Subject to Borrower's environmental representations and warranties, Lender acknowledges that an acceptable report has been received by Lender.

(l) Bond. The Bonding Company shall have named Lender as an additional insured.

(m) Consultant's Construction Report. Lender shall have received a report from the Construction Consultant regarding such matters as Lender may reasonably request.

(n) Permits. Lender and the Construction Consultant shall have received evidence that Borrower has obtained all necessary governmental approvals, permits and other approvals (or no impediment exists to them being timely obtained) for completion and operation of the DSN Plant and other improvements to be constructed pursuant to the Plans and Specifications, including building, site plan, and such other permits or approvals as are requested by Lender, and that all such permits and approvals are or are expected to be in full force and effect, with no appeal of the granting of any thereof having been made.

(o) Contractor's Consents. Lender shall receive a complete copy of the fully executed Contractor's Consents, if any, which shall permit assignment thereof to Lender and its successors and assigns and shall recognize Lender as a permitted assignee of

such Construction Contract.

(p) UCC Searches. Prior to the initial advance Lender shall have received UCC searches for Oklahoma and Arkansas reflecting Lender's first priority lien in the personal property Collateral.

(q) Loan Fee and Expenses. The Borrower shall have paid in full the up front fee referenced in Section 2.12 hereof and, from the initial funding, the expenses referenced in Section 2.7 hereof.

(r) Certificate of Good Standing and Tax Clearances. Prior to the initial advance the Lender shall have received certified copies indicating the Borrower is in good standing under the laws of its state of incorporation and qualified to do business in the states where it does business and such tax clearance certificates as may be required by the Lender.

(s) Proceedings. All proceedings and actions shall have been taken in connection with the transactions contemplated by this Agreement, and all documents contemplated in connection herewith shall be satisfactory in form and substance to the Lender and its counsel.

(t) Evidence of Insurance. Prior to the initial advance the Lender shall receive evidence of all insurance required by the terms of this Agreement and the Loan Documents.

(u) Termination of Liens. Prior to the initial advance the Lender shall have received duly executed UCC termination statements and other instruments in form and substance satisfactory to the Lender, as shall be necessary to terminate and satisfy any Liens on the Collateral except for Permitted Liens.

(v) Certificate of Incumbency of Borrower. Prior to the initial advance Lender shall have received a certificate of incumbency of Borrower signed by the Borrower's Secretary or Assistant Secretary, which certificate shall certify the names of the officers of the Borrower authorized to execute any Loan Documents and any other related documents on behalf of Borrower, together with the signatures of such officers, and Lender may conclusively rely on such certificate until receipt of a further certificate of the Secretary or Assistant Secretary of Borrower cancelling or amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(w) Resolutions of Borrower. Prior to the initial advance Lender shall have received a certified copy of all corporate proceedings of Borrower evidencing that all action required to be taken in connection with the authorization, execution, delivery, and performance of this Agreement, the other Loan Documents, the Lease and the DSN Plant Equipment Lease, and the transactions contemplated hereby and thereby, has been duly taken.

(x) Certificate of Incumbency of Each Guarantor. Prior to the initial advance Lender shall have received a certificate of incumbency of each Guarantor signed by such Guarantor's Secretary or Assistant Secretary, which certificate shall certify the names of the officers of such Guarantor authorized to execute the Guaranty and any other related documents on behalf of such Guarantor, together with the signatures of such officers, and Lender may conclusively rely on such certificate until receipt of a further certificate of the Secretary or Assistant Secretary of such Guarantor cancelling or amending the prior certificate and submitting the signatures of the officers named in such further certificate.

(y) Resolutions of Each Guarantor. Prior to the initial advance Lender shall have received a certified copy of all corporate proceedings of each Guarantor evidencing that all action required to be taken in connection with the authorization, execution, delivery and performance of the Guaranty to be executed by such Guarantor, and the transactions contemplated thereby, has been duly taken.

(z) References. Prior to the initial advance Lender shall have received, reviewed and found satisfactory bank and customer references for EDC and each Guarantor.

(aa) \$75,000,000 Credit Facility. Prior to the initial advance, LSB and certain of its subsidiaries shall have received and accepted an executed commitment to lend, and shall be in the process of completing a new \$75,000,000 credit facility with BankAmerica Business Credit or affiliate thereof on terms and conditions reasonably acceptable to Lender.

(ab) Other Required Documentation. Borrower shall execute and/or deliver such other documents, instruments, agreements or items as Lender may reasonably require.

Section 2.10 Place and Form of Payments. Unless the Lender

otherwise directs in writing, all payments and prepayments permitted or required by any Loan Document shall be made in immediately available funds and not later than the time necessary for good funds to be credited on the same day received at the Lender's account in accordance with the instructions annexed hereto as Rider 2.10 or to such other location as the Lender shall hereafter designate to the Borrower in writing. Whenever any payment is stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest or fees.

Section 2.11 Hold Back. Lender will hold back construction fund advances in an amount of \$2,500,000 until such time as Lender shall have determined, based upon an appraisal of the DSN Plant performed at Borrower's sole cost and expense by an independent appraiser selected by Lender, that the Fair Market Value of the DSN Plant is at least equal to \$12,750,000.

Section 2.12 Commitment Fee. In consideration of the Lender's commitment to enter into this Agreement, the Mixed Acid Plant Loan Documents and the Rail Car Loan Documents, the Borrower acknowledges that the Lender has previously received a non-refundable fee in the amount of \$124,950, paid in connection with the Lender's proposal and commitment.

### ARTICLE 3 SECURITY FOR THE OBLIGATIONS

Section 3.1 Grant of Security Interest. As collateral security for the prompt and due payment and performance of the Obligations and all Indebtedness of Borrower to Lender under the Mixed Acid Plant Loan Documents and the Rail Car Loan Documents, the Borrower hereby assigns to the Lender and grants to the Lender a continuing lien on and security interest in all of the Borrower's right, title and interest in and to the following property, present or future, tangible or intangible, now owned or existing or hereafter acquired or arising:

(a) All documents, instruments, rentals and other rights to payment relating to the DSN Plant, the DSN Plant Equipment Lease, the Ground Lease, the Ground Sublease and the Consulting Agreement and all other agreements, contracts, chattel paper, contract rights, rights to payment and insurance policies and surety bonds relating thereto, and the Plans and Specifications and all Construction Contracts, and all proceeds of all of the foregoing;

(b) All general intangibles, trade secrets, computer programs, software, customer lists, trademarks, trade names, patents, licenses, copyrights, technology, processes, proprietary information, and insurance proceeds relating to the DSN Plant;

(c) All books and records, including books of account and ledgers of every kind and nature, all electronically recorded data relating to Borrower or the business thereof, all receptacles and containers for such records, and all files and correspondence relating to the DSN Plant;

(d) All Equipment, goods, including all inventory, machinery, tools, molds, dies, furniture, furnishings, fixtures, trade fixtures, motor vehicles and all other goods used in connection with or in the conduct of Borrower's business relating to the DSN Plant;

(e) All accessions, appurtenances, components, repairs, repair parts, spare parts, replacements, substitutions, additions, issue and/or improvements to or of or with respect to any of the foregoing;

(f) All rights, remedies, powers and/or privileges of Borrower with respect to any of the foregoing; and

(g) Any and all Proceeds and products of any of the foregoing, including all money, rentals, accounts, general intangibles, deposit accounts, documents, instruments, chattel paper, goods, insurance proceeds, and any other tangible or intangible property received upon the sale or disposition of any of the foregoing.

Except in the ordinary or normal course of its operations in Section 7.6 herein, Borrower has no right to dispose of or sell any of the above-described Collateral.

Section 3.2 Continuing Obligation. Except with respect to those Permitted Liens and those liens which by law are accorded a first priority, the Borrower shall take all action necessary to grant the Lender a valid first priority lien on and security interest in all Collateral on the Funding Date, and to maintain at all times the validity, enforceability, perfection and first priority of the Security Interest. Until the Obligations are fully paid and satisfied, the Borrower will at all times do, make, execute, deliver, record, register or file all such financing statements, fixture filings, deeds of trust, mortgages, assignments, certificates, charges, instruments, acts, pledges, assignments

and transfers (or cause the same to be done) and will deliver to the Lender such instruments constituting or evidencing the Collateral, as the Lender may request, to assure, continue or establish the validity, enforceability, perfection and first priority (except for Permitted Liens) of the Security Interest. To the extent permitted by applicable law, the Borrower hereby authorizes the Lender to: (i) sign Borrower's name and on behalf of such Borrower to execute and file mortgages, deeds of trust, financing statements, and notices of lien necessary to protect or perfect the security interest granted herein in any or all of the Collateral and (ii) file a carbon, photocopy or other reproduction of this Agreement or any of the other Loan Documents as a financing statement in each case which the Lender, in its discretion, deems necessary or desirable to perfect or maintain the perfection of the Security Interest.

#### ARTICLE 4 ADMINISTRATION OF THE COLLATERAL

Section 4.1 The Equipment. The Borrower, at its own cost and expense, will keep, or cause EDC to keep, the Equipment in good operating condition and repair, except for normal wear and tear, and will not waste or destroy, or allow EDC to waste or destroy, such Equipment, or any part thereof, or be negligent in the care and use thereof and will make all necessary replacements thereof and repairs thereto. The Borrower shall promptly inform the Lender of any material additions to such Equipment and of any material loss, damage, or destruction of such Equipment. The Borrower will not permit any Equipment to become a fixture to any real property or an accession to any other personal property, unless the Lender has a first priority perfected Security Interest in such real or personal property or has been provided with such waivers or consents as the Lender may reasonably require. The Borrower shall, promptly upon the Lender's request, deliver to Lender any and all evidence of ownership of such Equipment.

Section 4.2 No Lender Liability. The Lender shall have no duty of care with respect to any Collateral unless and until it takes the same into its own possession or control. The Lender shall be deemed to have satisfied its duty of due care with respect to Collateral in its custody and control if it accords to such Collateral treatment substantially equal to the treatment the Lender accords its own property, or if the Lender takes such action with respect to the Collateral as the Borrower requests in writing, but no failure to comply with any such request nor any omission to do any such act requested by the Borrower shall be presumptively deemed, from that failure or omission, an absence of reasonable care. The Lender shall not be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof, unless caused by the Lender's gross negligence or willful misconduct. The Lender does not, by anything contained herein or in any other Loan Document or otherwise, assume any obligation of the Borrower under the Ground Lease, the Ground Sublease, or the DSN Plant Equipment Lease or any other contract or agreement assigned to Lender or in which Lender is granted a security interest, and the Lender shall not be responsible in any way for the performance by the Borrower of any of the terms and conditions thereof.

#### Section 4.3 Use of Equipment; Identification.

(a) The Borrower shall use the Equipment in a careful and proper manner, will comply with and conform to all governmental laws, rules and regulations relating thereto, and will cause the Equipment to be operated properly or in substantial accordance with the manufacturer's or supplier's instructions or manuals and only by competent and duly qualified personnel.

(b) The Borrower shall not move any of the Equipment from the DSN Plant Location without the prior written consent of CIT.

(c) Upon Lender's written request and at the Borrower's sole expense, the Borrower shall attach to each item of Equipment a notice satisfactory to Lender disclosing Lender's security interest in such item of Equipment.

#### ARTICLE 5 REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into this Agreement and to make the Loan, the Borrower represents and warrants to the Lender as set forth below. The representations and warranties of the Borrower contained in this Article V and otherwise herein and in any other Loan Document shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Lender and shall survive the execution and delivery of this Agreement and the other Loan Documents and the making of the Loan.

Section 5.1 Organization and Qualification. The Borrower is duly incorporated and organized and is validly existing as a corporation in good standing under the laws of the State of Oklahoma, with all power (corporate or otherwise) to own or lease and operate the DSN Plant and its

other properties and assets and to carry on its business in the manner in which such business is now conducted. The Borrower is duly licensed and qualified to do business and is in good standing in the state of Arkansas and in every other state where failure to be so licensed or qualified and in good standing would have a material adverse effect on its business, properties or assets.

Section 5.2 Concerning the Loan Documents. The Borrower has the power to authorize, execute and deliver the Loan Documents to which Borrower is a party, to incur and perform its Obligations hereunder and thereunder, and, as applicable, to grant the Security Interest. The Borrower has duly taken all necessary corporate action to authorize the execution, delivery and performance of such Loan Documents, and no consent, approval or authorization of, or declaration or filing with, any governmental or other public body, or any other Person (including without limitation any stockholders, trustees or holders of Indebtedness of the Borrower), is required in connection with such authorization, execution, delivery and performance by the Borrower or the consummation of the transactions contemplated hereby or thereby. Such Loan Documents have been duly authorized, executed and delivered by or on behalf of the Borrower, and constitute the legal, valid and binding Obligations of the Borrower and are enforceable against the Borrower in accordance with their respective terms.

Section 5.3 Guaranties. Each Guarantor has the power to authorize, execute and deliver its Guaranty and to incur and perform its obligations under its Guaranty. Each Guarantor has duly taken all necessary corporate action to authorize the execution, delivery and performance of its Guaranty, and no consent, approval or authorization of, or declaration or filing with, any governmental or other public body, or any other Person (including without limitation any stockholders, trustees or holders of Indebtedness of such Guarantor), is required in connection with such authorization, execution, delivery and performance by such Guarantor. Each Guarantor's Guaranty has been duly authorized, executed and delivered by or on behalf of such Guarantor, and constitutes the legal valid and binding obligations of such Guarantor and is enforceable against such Guarantor in accordance with its terms.

Section 5.4 Equipment. All Equipment is in good operating order and condition and repair, except for ordinary wear and tear, is used or useful in the business of the Borrower and is readily moveable without harm or damage. The invoices previously delivered to the Lender by the Borrower respecting the Equipment are genuine, true and accurate, and the descriptions and locations of the Equipment set forth in the Disclosure Schedule are true, complete and accurate.

Section 5.5 The DSN Plant. Construction of the DSN Plant is in full compliance with all requirements of the DSN Plant Equipment Lease and the Ground Lease; the description of the DSN Plant Location in Exhibit "C," and the description of the Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease in Article 1 above is accurate and complete. The Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease are valid and enforceable in accordance with their respective terms and are in full force and effect. Neither the Borrower nor any other party to the Ground Lease, the Ground Sublease or the DSN Plant Equipment Lease is in default of its obligations thereunder or has delivered or received any notice of default under the Lease or the Equipment Lease (as applicable) which default has not been waived or cured.

Section 5.6 Title to the DSN Plant and Equipment; Security Interest. Except for the Security Interest and Permitted Liens and all items set forth in the Title Policy, under the Ground Lease and subject to the right of quiet enjoyment under the Ground Sublease and the DSN Plant Equipment Lease, the Borrower has good, and merchantable title to the DSN Plant and all Equipment and other Collateral, and neither the DSN Plant nor any of such Equipment nor any other Collateral is or will be subject to any Lien. The provisions of the Loan Documents create legal, valid and enforceable security interests in and liens on the DSN Plant and all Equipment and other Collateral, and the Loan Documents and such UCC and real property filings create a perfected and continuing first priority security interest upon the DSN Plant and all the Equipment and other Collateral securing the Obligations, and are enforceable against the Borrower and all third parties.

Section 5.7 Financial Condition. The Borrower has furnished to the Lender LSB's consolidated and consolidating financial statements as of December 31, 1993, accompanied by the report of LSB's independent certified public accountants, which statements present fairly in all material respects the consolidated and consolidating financial position of LSB and its consolidated Affiliates as of the date thereof. Such financial statements have been prepared in accordance with GAAP. From the date of such financial statements to the date of the execution of this Agreement, there has not been any material adverse change from the financial condition reflected in such financial statements or in the Borrower's business or condition since the date thereof. As of the date hereof, the Borrower has no direct or contingent material liabilities which are not provided for or reflected in such financial statements.

Section 5.8 Litigation. There are no actions, suits, proceedings or investigations pending or, to the knowledge of the Borrower,

threatened against or affecting the Borrower or EDC as it may affect the Ground Lease, the Ground Sublease or the DSN Plant Equipment Lease, nor to the knowledge of Borrower is there any basis therefor on the date of this Agreement.

Section 5.9 Disclosure. No representation or warranty made by the Borrower hereunder and no written information, exhibit, report, document or certificate furnished by or on behalf of the Borrower or any Affiliate to the Lender in connection with this Agreement, contained or will contain, as of its date or as of the Funding Date, any material misstatement of fact or omits, as of its date, to state a material fact or any fact necessary to make the statements contained therein not misleading. There is no fact known to the Borrower that materially adversely affects or that, insofar as the Borrower can now reasonably foresee, may materially adversely affect, the condition, financial or otherwise, operations, properties or prospects of the Borrower and Affiliates, or the ability of the Borrower to carry out its Obligations under any Loan Document.

Section 5.10 Tax Returns and Payments. The Borrower has filed all federal, state and local tax returns and other reports which it was required by law to file on or prior to the date hereof and has paid all taxes, assessments, fees and other governmental charges and penalties and interest, if any, payable against it or its property, income or franchise, that are due and payable, and Borrower does not have any knowledge of any actual or proposed deficiency or additional assessment in connection therewith. The charges, accruals and reserves on the books of Borrower in respect of federal, state and local taxes for all open years, and for the current fiscal year, make adequate provision for all unpaid tax liabilities for such periods.

Section 5.11 Compliance with Other Instruments. Neither the Borrower nor EDC is in violation of any material term or provision of its certificate of incorporation or by-laws, or of any material mortgage, indenture, contract, agreement, instrument, or other undertaking to which the Borrower or EDC is a party or which purports to be binding on Borrower or EDC, or any of the assets of Borrower or EDC (including the Ground Lease, the Ground Sublease and the DSN Plant Equipment Lease), or, except as disclosed to Lender pursuant to Section 5.14 hereof, of any judgment, decree, order or any material statute, rule or governmental regulation applicable to it. The execution, delivery and performance of this Agreement and the other Loan Documents do not and will not violate or otherwise conflict with any such term or provision or result in the creation of any security interest, lien, charge or encumbrance upon any of the Collateral, except the Security Interest.

Section 5.12 Pension Plans. The Borrower has not participated in any "prohibited transactions", as defined in Section 4975 of the Internal Revenue Code, that could subject the Borrower to any tax or penalty imposed by said Section 4975 (other than prohibited transactions that have been "corrected", as defined in said Section 4975). Since the effective date of the Employee Retirement Income Security Act of 1974, as from time to time amended ("ERISA"), the Borrower has not incurred any "accumulated funding deficiency", as such term is defined in Section 302 of ERISA (other than any accumulated funding deficiency that has been "corrected", as defined in Section 4971(c)(2) of the Internal Revenue Code.

Section 5.13 Labor Relations. To the best knowledge of Borrower after due inquiry, Borrower and EDC are in material compliance with the Fair Labor Standards Act with respect to the DSN Plant. To the best knowledge of Borrower after due inquiry, neither the Borrower nor EDC, with respect to the DSN Plant, is engaged in any unfair labor practice. To the best knowledge of Borrower after due inquiry, there are: (i) no unfair labor practice complaints pending or, to the best knowledge of the Borrower, threatened against the Borrower or EDC and no grievance or arbitration proceedings arising out of or under collective bargaining agreements are so pending or, to the best knowledge of the Borrower, threatened; (ii) no strikes, work stoppages or controversies pending or threatened between the Borrower or EDC and any of their employees (other than employee grievances arising in the ordinary course of business); and (iii) no union representation questions exist with respect to the employees of the Borrower or EDC and no union organizing activities taking place which would have a material adverse effect on the financial condition, results of operations or business of the Borrower or EDC;

Section 5.14 Environmental Laws. Except as disclosed by Borrower to Lender by delivery to Lender of copies of documents publicly filed with the Securities and Exchange Commission, a report of the Arkansas Department of Pollution and Control and Ecology to EDC dated July 18, 1994, an environmental report of Woodward Clyde regarding the DSN Plant Location, and correspondence from Borrower and Affiliates regarding the DSN Plant Location (all collectively referred to as "Environmental Disclosure Documents"), to the best knowledge of Borrower after due inquiry, as of the date hereof (a) the operations of the Borrower or EDC (with respect to the DSN Plant) comply in all material respects with all applicable Environmental Laws; (b) none of the operations of the Borrower or EDC (with respect to the DSN Plant) is subject to any judicial or administrative proceeding alleging the violation of any Environmental Laws; (c) none of the operations of the Borrower or EDC (with respect to the DSN Plant) is the subject of federal or state investigation evaluating whether any remedial action is needed to respond to a release of any Hazardous

Substance into the environment; (d) neither the Borrower nor EDC (with respect to the DSN Plant) has filed any notice under any federal or state law indicating past or present treatment, storage or disposal of a Hazardous Substance or reporting a spill or release of a Hazardous Substance into the environment; and (e) neither the Borrower nor EDC (with respect to the DSN Plant) has any known material contingent liability in connection with any release of any Hazardous Substance into the environment. The materiality standard used in this Section 5.14 shall be exceeded if the facts giving rise to a breach or breaches of the representations or warranties contained herein might result in liability in excess of \$1,000,000 in the aggregate.

Section 5.15 Trade Names. Other than as disclosed on the Disclosure Schedule, the Borrower, during the past five years, has not used any corporate name other than its present corporate name (which is set forth in the introductory paragraph of this Agreement) and has not been known by or used any fictitious, trade or "doing business" name.

Section 5.16 Subsidiaries. The Disclosure Schedule contains a correct and complete list of the name and relationship to the Borrower of each and all of the Borrower's Subsidiaries, if any, and the location of the chief executive office of each Subsidiary.

Section 5.17 Loans and Affiliate Payments. The Disclosure Schedule fully and completely sets forth all notes and Indebtedness together with the amount and schedule of any material payments owed by Borrower to officers, directors, stockholders and Affiliates of Borrower.

Section 5.18 Permits, Licenses. Borrower possesses all material permits, franchises, contracts and licenses required and owns or has the right to use all trademarks, trade names, patents and fictitious name rights necessary to enable it to conduct the business in which it is engaged without conflict with the rights of others.

Section 5.19 Broker's or Transaction Fees. Borrower has no obligation to any Person for any finder's, broker's or investment banker's fee in connection with the transactions contemplated hereby.

Section 5.20 Taxpayer ID No. and Chief Executive Office. Borrower's taxpayer identification number is 731456545. Borrower's chief executive office is located at 16 South Penn, Oklahoma City, OK 73107, and Borrower's principal place of business is located in Oklahoma City.

Section 5.21 No Default. No Default has occurred under this Agreement.

#### ARTICLE 6 AFFIRMATIVE COVENANTS

The Borrower covenants and agrees that, so long as all or any portion of the Obligations remain unpaid or unsatisfied, it will, at its own cost and expense:

Section 6.1 Financial and Other Information. Promptly furnish to the Lender or its agents all such financial or other information as the Lender shall reasonably request, and, at the request of the Lender, notify its auditors and accountants that the Lender is authorized to obtain such information directly from them. Without limitation of the foregoing, the Borrower will furnish to the Lender in such detail as the Lender shall request:

(a) Not later than 120 days after the close of each Fiscal Year of the Borrower, unaudited balance sheets of the Borrower as at the end of such Fiscal Year and related unaudited statements of income, expense and retained earnings and statements of cash flow of the Borrower for such year, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting in all material respects the financial position of the Borrower and the results of operations of the Borrower for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements shall be accompanied by a certificate of the chief financial officer or chief accounting officer of Borrower.

(b) Not later than 90 days after the close of each fiscal quarter of Borrower, unaudited balance sheets of the Borrower as at the end of such period, and unaudited statements of income and expense from the beginning of the Fiscal year to the end of each such period, for the Borrower, all in reasonable detail, fairly presenting in all material respects the financial position and results of operations of the Borrower, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(e). Such statements shall be accompanied by a certificate of the chief financial officer or accounting officer of Borrower stating that, based upon such examination or investigation as such officer shall have deemed necessary to enable him to render an informed opinion in respect thereof, to the best of his knowledge and belief the financial statements are materially correct and no Default exists under this Agreement and is continuing except for those, if any, described in such certificate in reasonable detail.

(c) Not later than 120 days after the close of each Fiscal Year of EDC, audited consolidated and unaudited consolidating balance sheets of EDC and its consolidated Subsidiaries as at the end of such Fiscal Year and related audited consolidated and unaudited consolidating audited statements of income, expense and retained earnings and statements of cash flow of EDC and its consolidated Subsidiaries for such year, all in reasonable detail, fairly presenting in all material respects the financial position of EDC and its consolidated Subsidiaries and the results of operations of EDC and its consolidated Subsidiaries for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements required hereunder shall be examined and accompanied by a report of independent certified public accountants which shall not contain any qualifications or exceptions as to scope.

(d) Not later than 90 days after the close of each fiscal quarter of EDC, unaudited consolidated and consolidating balance sheets of EDC and its consolidated Subsidiaries as at the end of such period, and consolidated and consolidating statements of income and expense from the beginning of the Fiscal Year to the end of each such period, for EDC and its consolidated Subsidiaries, all in reasonable detail, fairly presenting in all material respects the consolidated and consolidating financial position and results of operations of EDC and its consolidated Subsidiaries, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(c) above, and certified to be materially correct by the chief financial officer or the chief accounting officer of EDC.

(e) Not later than 120 days after the close of each Fiscal Year of LSB, LSB's 10K Report filed with the Securities and Exchange Commission, the audited consolidated and unaudited consolidating balance sheets of LSB and its consolidated Affiliates as at the end of such Fiscal Year and related audited consolidated and unaudited consolidating statements of income, expense and retained earnings and audited statements of cash flow of LSB and its consolidated Affiliates for such year, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position of LSB and its consolidated Affiliates and the results of operations of LSB and its consolidated Affiliates for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements required hereunder shall be examined and accompanied by a report of independent certified public accountants which shall not contain any qualifications as to scope; and such report shall also be accompanied by a certificate of such accountants stating that in the course of performing their examination such accountants did not become aware of the existence of any default under this Agreement, except for those, if any, described in such certificate in reasonable detail. In addition, the chief financial officer or accounting officer of LSB shall provide a certificate which shall also include a statement by such officer that no breach, default or event of default has occurred and is continuing under any document to which LSB or any consolidated Affiliate is a party that evidences any Indebtedness of LSB or any such Affiliate which exceeds, individually or together with any related Indebtedness, \$5,000,000, or if any such breach, default or event of default has occurred, explaining the nature of such breach, default or event of default and the status thereof. Such certificate shall also include a statement from such officer that LSB is in compliance with all covenants contained in this Agreement relating to the financial condition of LSB, and such statement shall be accompanied by the calculations of such financial covenants.

(f) Not later than 90 days after the close of each fiscal quarter of LSB, LSB's 10Q Report filed with the Securities and Exchange Commission and the unaudited consolidated balance sheets of LSB and its consolidated Affiliates as at the end of such period, and unaudited consolidated statements of income and expense from the beginning of the Fiscal year to the end of each such period, for LSB and its consolidated Affiliates, all in reasonable detail, fairly presenting in all material respects the consolidated financial position and results of operations of LSB and Affiliates, in each case, prepared in accordance with GAAP and consistent with the audited financial statements required pursuant to Section 6.1(e) above. Such statements shall be accompanied by a certificate of the chief financial officer or the chief accounting officer of LSB stating that, based upon such examination or investigation as such officer shall have deemed necessary to enable him to render an informed opinion in respect thereof, to the best of his knowledge and belief, such financial statements are materially correct and no Default under this Agreement exists and is continuing except for those, if any, described in such certificate in reasonable detail. Such certificate shall also include a statement from such officer that LSB is in compliance with all financial covenants contained in this Agreement relating to the financial condition of LSB, and such statement shall be accompanied by the actual calculations of such financial covenants.

(g) Promptly after the Borrower or any Affiliate

receives the same, copies of management letters provided to the Borrower by its independent certified public accountants;

(h) Promptly after their preparation, copies of any and all proxy statements, financial statements, and reports which the Borrower, or LSB or EDC sends to its shareholders or holders of its Indebtedness, and copies of any and all periodic special reports, as well as registration statements, filed by the Borrower, LSB or EDC with the Securities and Exchange Commission or similar State authority;

(i) Deliver to the Lender within 30 days of the end of each quarter, a compliance certificate signed by the Borrower's Chief Financial Officer or the Chief Accounting Officer certifying that the Borrower is in compliance with all of the terms and conditions of the Agreement and that no Default exists.

(j) Such additional information as the Lender may from time to time reasonably request regarding the financial and business affairs of the Borrower or any Subsidiary or Guarantor and which are kept in the ordinary course of business.

Section 6.2 Access. At all reasonable times, and from time to time, permit the Lender or its agents to inspect the Collateral and to audit, examine and make extracts from or copies of any of its books, ledgers, reports, correspondence and other records.

Section 6.3 Taxes. Promptly pay and discharge all taxes, assessments and other governmental charges prior to the date on which same are past due, establish adequate reserves for the payment of such taxes, assessments and other governmental charges, make all required withholding and other tax deposits, and, upon request, provide the Lender with receipts or other proof that any or all of such taxes, assessments or governmental charges have been paid in a timely fashion; provided, however, that nothing contained herein shall require the payment of any tax, assessment or other governmental charge so long as its validity is being contested in good faith and by appropriate proceedings diligently conducted.

Section 6.4 Maintenance of Properties; Insurance. At the Borrower's sole cost and expense, defend all Collateral against the claims or demands of all other parties; keep the Collateral in good operating condition and repair and in compliance with all laws (except normal wear and tear); and insure all Equipment, the DSN Plant and DSN Plant Location against risk, in coverage, form and amount satisfactory to the Lender with a carrier reasonably acceptable at all times to Lender with no greater deductible amount than \$250,000 per occurrence. Insurance on the Equipment, the DSN Plant and the DSN Plant Location shall be in an amount equal to the greater of the full replacement value thereof, or 100% of the outstanding balance of the Loan. The Borrower shall also maintain (a) builder's all risk completed value hazard insurance covering 100% of the replacement cost of the DSN Plant and Equipment during the course of construction in the event of fire, lightning, windstorm, earthquake, vandalism, malicious mischief and all other risks normally covered by "all risk" policies in the area where the DSN Plant is located (including loss by flood if the DSN Plant is located in an area designated as subject to the danger of flood); (b) product liability insurance in an amount customary for the businesses conducted by the Borrower; and (c) general public liability insurance in an amount satisfactory to Lender, but in no event less than Fifteen Million Dollars (\$15,000,000) per occurrence, for bodily injury and property damage. The Borrower and EDC shall also maintain workers' compensation insurance in accordance with Borrower's and EDC's usual practices. Each insurance policy shall be endorsed in favor of the Lender as additional loss payee in form and substance satisfactory to the Lender, and provide that any proceeds payable thereunder will be paid to the Borrower and the Lender as their interest may appear. Each policy shall provide that if such insurance is cancelled for any reason whatsoever, or if any substantial change is made in the coverage which affects the Lender, or if such insurance is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to the Lender until 30 days after receipt by the Lender of written notice from the carrier thereof. The Borrower hereby directs all insurers under such policies to pay all proceeds with respect to losses of Collateral to the Borrower and to Lender. With respect to occurrences giving rise to insurance proceeds paid with respect to losses, the Lender shall, so long as no uncured Default exists, release such proceeds to the Borrower after receipt of evidence of satisfactory repair, replacement or reconstruction of the assets subject to such casualty.

Section 6.5 Business. Take all necessary steps to preserve its corporate existence and its right to conduct business in all state in which the nature of its business or the ownership of its property requires such qualification.

Section 6.6 Compliance. Use reasonable efforts to comply in all material respects with all applicable laws and duly observe all valid requirements of all applicable governmental authorities, including all statutes, rules and regulations relating to public and employee health and safety and social security and withholding taxes. The Borrower may contest or dispute any taxes, assessments or impositions in good faith, so long as such contest or dispute does not result in the creation or incurring of any

liens against the Lender's Collateral and the Borrower maintains adequate reserves as required under GAAP for the satisfaction of the disputed tax, assessment or imposition.

Section 6.7 Litigation. Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, promptly notify the Lender in writing of any action, suit, proceeding, or counterclaim against, or of any investigation of, the Borrower, the DSN Plant Location or any of the Collateral, if: (i) the outcome of such litigation, proceeding, counterclaim, or investigation would materially and adversely affect the Collateral or the finances or operations of Borrower or EDC; or (ii) such litigation, proceeding, counterclaim, or investigation questions the validity of this Agreement or any other Loan Document or any action taken or to be taken pursuant thereto. Borrower shall furnish to the Lender such information regarding any such litigation, proceeding, counterclaim, or investigation as the Lender shall request.

#### Section 6.8 Environmental Laws.

(a) Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, give written notice to Lender immediately upon receipt of any notice that (i) the operations of the Borrower or EDC with respect to the DSN Plant are not in material compliance with requirements of applicable Environmental Laws; (ii) the Borrower or EDC with respect to the DSN Plant is subject to federal or state investigation evaluating whether any remedial action is needed to respond to the release of any Hazardous Substance into the environment which would have a material adverse effect on Borrower; or (iii) any properties or assets of the Borrower or EDC with respect to the DSN Plant are subject to an Environmental Lien. As used herein, "Environmental Lien" means a lien in favor of any governmental entity for (A) any liability under any Environmental Laws, or (B) damages arising from or costs incurred by such governmental entity in response to a release of a Hazardous Substance into the environment.

(b) Except as disclosed in the Environmental Disclosure Documents referred to in Section 5.14, without limiting the generality of any of the Borrower's other covenants and agreements, the operations of the Borrower or EDC with respect to the DSN Plant shall at all times comply in all material respects with all applicable Environmental Laws. The materiality standard used in this Section 6.8 shall be exceeded if the facts giving rise to a breach or breaches of the covenant herein is likely to result in liability in excess of \$500,000 in the aggregate.

Section 6.9 Notices. Promptly notify the Lender in writing of any Default or of any default by any party under any Construction Contract, the Ground Lease, Ground Sublease, the DSN Plant Equipment Lease, the Consulting Agreement, or as required by Sections 6.7 and 6.8 of this Agreement. The failure of the Borrower to promptly give the Lender such notice of any Default of which it is aware, shall, at the Lender's option, eliminate any cure period for such Default.

Section 6.10 Tangible Net Worth. LSB shall maintain at all times, on a consolidated basis, a minimum tangible net worth of \$80,000,000 after subtracting treasury stock and \$92,800,000 before subtracting treasury stock. Notwithstanding the foregoing, the tangible net worth after subtracting treasury stock shall not be less than \$83,000,000 at December 31, 1995 and \$85,000,000 at December 31, 1996 and thereafter. The term tangible net worth is defined as total stockholders' equity, after deducting any treasury stock, less all assets that are considered intangible assets under GAAP (including but not limited to goodwill, patents, trademarks, certain deferred charges (as approved by Lender) and customer lists).

Section 6.11 Change of Ownership. LSB shall at all times hold not less than one hundred percent (100%) of each class of stock of LSBC and, at all times, LSBC shall hold, directly or indirectly, one hundred percent (100%) of each class of stock of the Borrower.

Section 6.12 Use of Proceeds. Use the proceeds of the Loan for construction and equipment costs, fees and expenses in accordance with Article 2 hereof.

Section 6.13 Books. Keep proper books of record and account in which full, true and correct entries in accordance with GAAP will be made of all dealings or transactions in relation to its business and activities.

### ARTICLE 7 NEGATIVE COVENANTS

So long as all or any portion of the Obligations remains unpaid, the Borrower covenants and agrees that, without the Lender's prior written consent, which consent will not be unreasonably withheld, the Borrower shall not:

Section 7.1 Corporate Structure. Merge, reorganize or

consolidate with or acquire any Person or make any investment in the securities of any Person.

Section 7.2 Dividends, Distributions, Redemptions. Declare or pay any dividends or other distributions upon any stock or make any distribution of the Borrower's property or assets or redeem, retire, purchase or otherwise acquire, directly or indirectly, the Borrower's stock.

Section 7.3 Loans, Investments, Affiliate Payments, Salaries. Make any loans or other advances of money (other than compensation) to any Person; make any payments to any officers, directors, stockholders or Affiliates on any existing loans except as set forth on the Disclosure Schedule or pursuant to the Ground Lease or Administrative Services Agreement between Borrower and LSB, or payments to LSB for the Borrower's pro rata share of taxes with respect to the Borrower's business, or permit the annual compensation and all other direct and indirect remuneration to its officers to increase more than fifteen percent (15%) per year.

Section 7.4 Change in Business, Structure or Business Location. Make any material change in the capital structure or any of Borrower's business objectives, purposes and operations; engage, directly or indirectly, in any business other than ownership of the DSN Plant, the railcars acquired with the Rail Car Loan, the Mixed Acid Plant financed by the Mixed Acid Plant Loan, and all items related thereto; or change the location of its chief executive office without thirty days' prior written notice to Lender.

Section 7.5 Guaranties. Borrower shall not guaranty or otherwise, in any way, become liable with respect to the Indebtedness or liabilities of any Person.

Section 7.6 Sale of Property. Offer to sell, convey, assign, transfer, exchange, lease (except pursuant to the DSN Plant Equipment Lease, the Ground Sublease or to the extent permitted in the Mixed Acid Plant Loan Documents or the Rail Car Loan Documents) or otherwise dispose of any Collateral, or, on an annual basis, any other real or personal property having a value in excess of \$25,000, except sales of supplies, equipment and inventory in the ordinary course of the Borrower's business and trade-ins on new purchases, provided that Lender shall have a first priority perfected lien on any new purchases of property.

Section 7.7 Prepayment. Borrower shall not prepay any Indebtedness, except the Obligations in accordance with this Agreement.

Section 7.8 Liens. Create, incur, assume or suffer to exist any Lien upon any Collateral, the DSN Plant Equipment Lease or the Ground Lease, except Liens in favor of the Lender and Permitted Liens and the DSN Plant Equipment Lease, the Ground Sublease and the Consulting Agreement.

Section 7.9 Negative Pledge on Leases. Pledge, encumber, transfer or assign any of its right, title or interest in any of the real property Collateral relating to the DSN Plant Location.

Section 7.10 Pension Plans. To the knowledge of Borrower, with respect to all Pension Plans: (a) incur any liability to the Pension Benefit Guaranty Corporation; (b) participate in any prohibited transaction involving any of such plans or any trust created thereunder which would subject the Borrower to a tax or penalty on prohibited transactions imposed under Code Section 4975 or ERISA; (c) fail to make any contribution which it is obligated to pay under the terms of such plan; (d) allow or suffer to exist any occurrence of a Reportable Event, or any other event or condition which presents a risk of termination by the Pension Benefit Guaranty Corporation of any such plan; or (e) incur any withdrawal liability with respect to any multiemployer Pension Plan which is not fully bonded.

Section 7.11 Borrower's Name. Change Borrower's corporate name or use any trade name or style unless the Borrower shall first give the Lender thirty days prior written notice of the change in question.

Section 7.12 Changes to DSN Plant Documents. Make any alterations, amendments or modifications of any provisions of (a) the DSN Plant Equipment Lease, (b) the Ground Lease, (c) the Ground Sublease, (d) the Consulting Agreement, or (e) the Administrative Services Agreement dated September 19, 1994 between LSB and the Borrower.

Section 7.13 Other Debts. Except for Permitted Liens, Borrower shall not have outstanding or incur any direct or contingent Indebtedness (other than those to Lender) or lease obligations (other than the Ground Lease, DSN Plant Equipment Lease and Ground Sublease) or to become liable for the Indebtedness of others without Lender's written consent. This does not prohibit:

(a) Acquiring goods, supplies, services or merchandise on normal trade credit, or payroll obligations or obligations under the Administrative Services Agreement between LSB and Borrower;

(b) Endorsing negotiable instruments received in the usual course of business;

(c) Debts, lines of credit and leases in existence on the date of this Agreement and disclosed to Lender on the Disclosure Schedule; or

(d) Taxes, Indebtedness associated with the construction of the DSN Plant and lawsuits.

Section 7.14 Transactions with Affiliates. Not to enter transactions with any Affiliate on terms less favorable than those available to Borrower from persons or entities not affiliated with Borrower except:

- (a) taxes on consolidated tax returns;
- (b) the DSN Plant Equipment Lease;
- (c) the Ground Lease;
- (d) the Ground Sublease;
- (e) the Consulting Agreement; and
- (f) the Administrative Services Agreement.

None of the agreements in this Section 7.14(b) through (f) may be amended or modified with Lender's prior written consent.

#### ARTICLE 8 DEFAULT

Section 8.1 Events of Default. The occurrence of any one or more of the following events for any reason whatsoever shall constitute an Event of Default:

- (a) Any failure to pay any of the Obligations when due;
- (b) Any representation or warranty made by the Borrower in any Loan Document or in any Financial Statement or other certificate furnished by the Borrower or any Affiliate at any time to the Lender shall prove to be untrue in any material respect as of the date on which made;
- (c) Except with respect to cure periods as otherwise set forth herein or therein, default shall occur in the observance or performance of any of the other covenants and agreements contained in any Loan Document and Borrower has not cured such default within ten (10) days of Borrower's receipt of written notice identifying such failure, or if any such agreement, instrument or document shall terminate or become void or unenforceable without the written consent of Lender and Borrower refuses to execute valid and enforceable substitute documents;
- (d) The DSN Plant Completion Date has not occurred prior to the end of the Construction Period;
- (e) Any Event of Default under the Mixed Acid Plant Loan Documents, the Rail Car Loan Documents and Borrower has not cured such Event of Default within any cure period provided therein;
- (f) Any default by the Borrower under any material agreement or instrument with any third party (other than an agreement or instrument evidencing the lending of money) if such default continues for thirty (30) days after such breach first occurs;
- (g) Any default by the Borrower in any payment on any indebtedness or obligation owed to any trade creditor in excess of \$100,000 in the aggregate beyond any period of grace provided with respect thereto and Borrower is not contesting same in good faith and diligently;
- (h) Any uncured default beyond any applicable grace period by LSB or any of its Subsidiaries under any agreement or instrument evidencing any loan, extension of credit or other Indebtedness of LSB or any of its Subsidiaries in an amount equal to or greater than \$5,000,000;
- (i) Any material part of the Collateral shall be nationalized, expropriated, condemned, seized or otherwise appropriated, or custody or control of such Collateral or of the Borrower shall be assumed by any public authority or any court of competent jurisdiction at the instance of any public authority;
- (j) One or more judgments for the payment of money aggregating an excess of \$1,000,000 (if not adequately covered by insurance) shall be rendered against the Borrower or EDC and there is a failure to pay or to bond and stay enforcement of such judgment and commence appropriate proceedings to appeal such judgment within the applicable appeal period or, after such appeal is filed, Borrower or

EDC fails to diligently prosecute such appeal or such appeal is denied;

(k) The Borrower, EDC or any Guarantor shall: (i) file a voluntary petition in bankruptcy or file a voluntary petition or an answer or otherwise commence any action or proceeding seeking reorganization, arrangement or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing, or consent to, approve of, or acquiesce in, any such petition, action or proceeding; (ii) apply for or acquiesce in the appointment of a receiver, assignee, liquidator, sequestrator, custodian, trustee or similar officer for it or for all or a substantial part of its property; (iii) make an assignment for the benefit of creditors; or (iv) admit in writing that is unable generally to pay its debts as they become due;

(l) An involuntary petition shall be filed or an action or proceeding otherwise commenced seeking reorganization, arrangement or readjustment of the Borrower's EDC's or any Guarantor's debt or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state or federal, now or hereafter existing; or a receiver, assignee, liquidator, sequestrator, custodian, trustee or similar officer for the Borrower or EDC or any Affiliate or any Guarantor or for all or a substantial part of their property shall be appointed involuntarily; or a warrant of attachment, execution or similar process shall be issued against any substantial part of the property of the Borrower, EDC or any Guarantor; and any of the foregoing remain undismissed or undischarged for a period of 60 days;

(m) The Borrower, EDC or any Guarantor shall file a certificate of dissolution under applicable state law or shall be liquidated, dissolved or wound-up or shall commence or have commenced against it any action or proceeding for dissolution, winding-up or liquidation, or shall take any corporate action in furtherance thereof without Lender's prior written consent;

(n) The Security Interest shall cease to be a valid and perfected first priority security interest in any material portion of the Collateral then in existence and Borrower refuses to or cannot promptly cure any deficiency and restore the Lender's valid and first perfected priority security interest;

(o) A material default shall occur in any Construction Contract, the Consulting Agreement, the DSN Plant Equipment Lease, the Ground Lease or the Ground Sublease and same are not being contested diligently and in good faith, or the DSN Plant Equipment Lease, the Lease, or the Ground Sublease shall expire or otherwise terminate or become unenforceable;

(p) any Guarantor revokes or terminates any guaranty relating to the Obligations or defaults under the terms of any such guaranty; or

Section 8.2 Rights Upon Default. Upon the occurrence and during the continuance of any Event of Default:

(a) The Lender may declare all the Obligations not otherwise due to be forthwith due and payable, (provided that, in the case of the occurrence of any Event of Default described in Sections 8.1(i) or (j), all the Obligations shall forthwith become due and payable without such declaration) whereupon the unpaid amount of the Obligations (including any applicable prepayment penalty) shall become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. Upon such acceleration, Lender shall not be obligated to advance any further funds relating to the custodian of the DSN Plant.

(b) Notwithstanding the foregoing in Section 8.2(a) but subject to the provisions of Section 9.10, the effect of an event described in Section 8.1(a) as an occurrence of an Event of Default shall be after Lender gives notice of such payment Default to Borrower and Borrower shall not have paid such amount within three (3) days of such Notice. The effect as an Event of Default of any other event described in Section 8.1 may be waived by Lender in writing.

(c) In addition to all other rights provided herein or at law, the Lender shall have all of the rights and remedies of a secured party under the UCC and all of the rights and remedies granted under each of the Loan Documents. At any time when an Event of Default has occurred and is continuing, the Lender may enter any premises where the Collateral is located, take physical possession of the Collateral or any part thereof, and maintain such possession on the Borrower's premises or remove any or all of the Collateral to such other place or places as the Lender desires in its sole discretion. If the Lender exercises its right to take possession of any Collateral upon the occurrence and during the continuance of any Event of Default, the Borrower, upon the Lender's demand, will

assemble the Collateral and at the Lender's option, make it available to the Lender at the Borrower's premises at which it is located or deliver it to such place or places as the Lender directs. The Borrower hereby waives to the full extent permitted by law all rights to notice and hearing prior to the Lender's exercise of its rights to take possession of the Collateral without judicial process or to replevy, claim and deliver, attach or levy upon the Collateral ex parte. The Lender shall not be under any obligation to marshal any assets in favor of the Borrower or any other party or against or in payment of any or all of the Obligations.

(d) The Lender may sell and deliver any or all of the Collateral at public or private sale, for cash, upon credit or otherwise, at such prices and upon such terms as the Lender, in its sole discretion, deems advisable, all in accordance with the applicable provisions of the UCC including the standard of commercial reasonableness.

(e) The requirement of reasonable notice with respect to a disposition of the Collateral shall be met if such notice is mailed both by regular and certified mail, postage prepaid to the Borrower at the address as set forth herein at least ten days before the time of the event of which notice is being given. Subject to the provisions of any applicable Loan Document or law governing the enforcement of liens or security interests, the Lender may be the purchaser at any public sale, and to the extent permitted by applicable law, at any private sale, free from any right of redemption, which the Borrower also waives.

(f) The Proceeds of any sale of any of the Collateral shall be applied first to all costs and expenses of sale, including attorneys' fees, and second to the payment (in whatever order the Lender elects) of all of the Obligations. The Lender will return any excess Proceeds to the Borrower, subject to the claims of any other parties with an interest in the Collateral or the Proceeds, and the Borrower shall remain liable to the Lender for any deficiency. If any Collateral is sold by the Lender upon credit or for future delivery, the Lender shall not be liable for the failure of the purchaser to pay for such Collateral, and in such event the Lender may resell the same.

(g) The Lender may exercise any right or remedy it may have at law or in equity with respect to the Obligations or the subject matter of this Agreement. The rights and remedies provided for herein are cumulative and not exclusive of any other of such rights and remedies or any other rights or remedies provided by law.

(h) Upon any Default, and during any applicable cure period, Lender shall not be obligated to make any further advances or Loans to Borrower.

#### ARTICLE 9 MISCELLANEOUS

Section 9.1 Survival. All agreements, representations and warranties contained in this Agreement or made in writing by or on behalf of the Borrower in connection with the transactions contemplated hereby shall survive the execution and delivery of this Agreement, notwithstanding any investigation at any time made by the Lender.

Section 9.2 Waiver of Notices. No notice to or demand on the Borrower which the Lender is not required hereunder or by law to give but nevertheless may elect to give shall entitle the Borrower to any other or further notice or demand in the same, similar or other circumstances.

Section 9.3 Assignment. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto; provided, however, that no interest herein may be assigned by the Borrower without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any interest in the Obligations or any part thereof. In the event of any such assignment by the Lender, the Borrower agrees that such assignment by the Lender shall be free from any set-off, counterclaim defense or other claim that any such Borrower may have against such assignee, without waiving any claim such Borrower may have against the Lender. The terms "Lender" and "Borrower" as used herein shall include the respective successors and assigns of such parties.

Section 9.4 Complete Agreement Modification. This Agreement is intended by the Borrower and the Lender to be the final, complete and exclusive expression of the agreement between them and supersedes all prior agreements and understandings regarding the DSN Plant. No modification, rescission, waiver, release or amendment of any provision of this Agreement shall be made, except by a written agreement signed by the Borrower and a duly authorized officer of the Lender.

Section 9.5 Applicable Law. This Agreement and the Loan Documents (except to the extent, if any, expressly provided to the contrary

in any Loan Document) shall be governed by, construed, applied and enforced in accordance with the laws of the State of New York.

#### Section 9.6 Indemnification.

(a) If after receipt of any payment of all or any part of the Obligations, the Lender is for any reason compelled to surrender such payment to any person or entity, because such payment is determined to be void or voidable as a preference, impermissible setoff, or a diversion of trust funds, or for any other reason, Borrower's Obligations under the Note shall continue in full force and the Borrower shall indemnify and hold the Lender harmless for, the amount of such payment surrendered. The provisions of this Section shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Section and shall be deemed to have been conditioned upon such payment having become final and irrevocable. The provisions of this Section shall survive the termination of this Agreement.

(b) The Borrower hereby indemnifies and holds the Lender, and its directors, officers, agents, employees and counsel, harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind (except claims brought by the Borrower against the Lender for breach of this Agreement of the Loan Documents) including without limitation, court costs and attorneys' fees imposed on or incurred by or asserted against any of them, whether direct, indirect or consequential arising out of or by reason of any litigation, investigations, claims, or proceedings whether based on any federal, state or local laws or other statutes or regulations commenced or threatened, which arise out of or are in any way based upon the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement or any other Loan Document, or any undertaking or proceeding relating to any of the transactions contemplated hereby or by any act, omission to act, event or transaction related or attended thereto, except this indemnification shall not apply to any losses, liabilities, damages, injuries, costs, expenses and claims caused by the gross negligence or willful misconduct of Lender.

(c) The Borrower hereby indemnifies the Lender and agrees to hold the Lender harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever (including, without limitation, court costs and attorneys' fees) which at any time or from time to time may be paid, incurred or suffered by, or asserted against the Lender for, with respect to, or as a direct result of the violation by the Borrower of the Environmental Laws or any laws or regulations relating to Hazardous Substance, treatment, storage, disposal, generation and transportation, air, water and noise pollution, soil or ground or water contamination, the handling, storage or release into the environment of Hazardous Substance, or with respect to, or as a direct or indirect result of the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission or release from, properties utilized by the Borrower or EDC with respect to the DSN Plant in the conduct of their respective business into or upon any land, the atmosphere, or any watercourse, body of water or wetland, of any Hazardous Substance (including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under the Environmental Laws).

(d) Without limiting any of the foregoing, if, by reason of any suit or proceeding of any kind, nature or description against the Borrower, which, in the Lender's sole discretion makes it advisable for the Lender to seek counsel for protection and preservation of its Liens, security or assets or to defend its own interest, such reasonable expenses and counsel fees shall be allowed to the Lender. The foregoing indemnity shall survive the payment of the Obligations and the termination of this Agreement. All of the foregoing costs and expenses shall be part of the Obligations and secured by the Collateral.

Section 9.7 Stamp or other Tax. Should any stamp, excise, sales, use or other tax, including mortgage, conveyance, deed, intangible or recording taxes become payable in respect of this Agreement, or any other Loan Document, any Obligations, or any Collateral, or any modification hereof or thereof, the Borrower shall pay the same (including interest and penalties, if any) and shall hold the Lender harmless with respect thereto, except for income taxes of Lender as a result thereof.

Section 9.8 Captions. The captions of the various sections of this Agreement have been inserted only for purposes of convenience; such captions are not a part of this Agreement and shall not be deemed in any manner to modify, explain, enlarge or restrict any provision hereof.

Section 9.9 Notices. All notices or other communications which are required or permitted hereunder to be given to any party shall be in writing and shall be deemed sufficiently delivered if delivered



hereto or thereto.

Section 9.19 No Oral Agreements; Entire Agreement. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT, INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT, ARE NOT ENFORCEABLE. TO PROTECT BORROWER AND LENDER FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS REACHED BY BORROWER AND LENDER COVERING SUCH MATTERS ARE CONTAINED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, WHICH AGREEMENT AND OTHER LOAN DOCUMENTS ARE A COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENTS BETWEEN BORROWER AND LENDER, EXCEPT AS BORROWER AND LENDER MAY LATER AGREE IN WRITING TO MODIFY THEM. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EMBODY THE ENTIRE AGREEMENT AND UNDERSTANDING BETWEEN THE PARTIES HERETO AND SUPERSEDE ALL PRIOR AGREEMENTS AND UNDERSTANDINGS (ORAL OR WRITTEN) RELATING TO THE SUBJECT MATTER HEREOF. THIS AGREEMENT AND EACH OTHER LOAN DOCUMENT WAS DRAFTED WITH THE JOINT PARTICIPATION OF THE RESPECTIVE PARTIES THERETO AND SHALL BE CONSTRUED NEITHER AGAINST NOR IN FAVOR OF ANY PARTY, BUT RATHER IN ACCORDANCE WITH THE FAIR MEANING THEREOF.

Section 9.20 Venue and Jurisdiction. THIS AGREEMENT AND ANY OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK. BORROWER HEREBY IRREVOCABLY CONSENTS AND AGREES THAT ANY LEGAL ACTION, SUIT OR PROCEEDING ARISING OUT OF OR IN ANY WAY IN CONNECTION WITH THIS AGREEMENT MAY BE INSTITUTED OR BROUGHT IN THE COURTS OF THE STATE OF NEW YORK, IN THE COUNTY OF NEW YORK, OR THE UNITED STATES DISTRICT COURTS FOR THE SOUTHERN DISTRICT OF NEW YORK, AS LENDER MAY ELECT, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, BORROWER HEREBY IRREVOCABLY ACCEPTS AND SUBMITS TO, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF ANY SUCH COURT, AND TO ALL PROCEEDINGS IN SUCH COURTS. BORROWER IRREVOCABLY CONSENTS TO SERVICE OF ANY SUMMONS AND/OR LEGAL PROCESS BY REGISTERED OR CERTIFIED UNITED STATES AIR MAIL, POSTAGE PREPAID, TO BORROWER AT THE ADDRESS SET FORTH IN SECTION 9.9 HEREOF, SUCH METHOD OF SERVICE TO CONSTITUTE, IN EVERY RESPECT, SUFFICIENT AND EFFECTIVE SERVICE OF PROCESS IN ANY SUCH LEGAL ACTION OR PROCEEDING. NOTHING IN THIS AGREEMENT SHALL AFFECT THE RIGHT TO SERVICE OF PROCESS OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR LIMIT THE RIGHT OF LENDER TO BRING ACTIONS, SUITS OR PROCEEDINGS IN THE COURTS OF ANY OTHER JURISDICTION. BORROWER FURTHER AGREES THAT FINAL JUDGMENT AGAINST IT IN ANY SUCH LEGAL ACTION, SUIT OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION, WITHIN OR OUTSIDE THE UNITED STATES OF AMERICA, BY SUIT ON THE JUDGMENT, A CERTIFIED OR EXEMPLIFIED COPY OF WHICH SHALL BE CONCLUSIVE EVIDENCE OF THE FACT AND THE AMOUNT OF LIABILITY.

Section 9.21 Waiver of Trial by Jury. THE PARTIES TO THIS AGREEMENT ACKNOWLEDGE THAT JURY TRIALS OFTEN ENTAIL ADDITIONAL EXPENSES AND DELAYS NOT OCCASIONED BY NONJURY TRIALS. THE PARTIES TO THIS AGREEMENT AGREE AND STIPULATE THAT A FAIR TRIAL MAY BE HAD BEFORE A STATE OR FEDERAL JUDGE BY MEANS OF A BENCH TRIAL WITHOUT A JURY. IN VIEW OF THE FOREGOING, AND AS A SPECIFICALLY NEGOTIATED PROVISION OF THIS AGREEMENT, EACH PARTY TO THIS AGREEMENT EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the date first above written.

"Borrower"

DSN CORPORATION, an Oklahoma corporation

By \_\_\_\_\_

\_\_\_\_\_  
[Printed Name & Title]

"Lender"

THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation

By \_\_\_\_\_

\_\_\_\_\_  
[Printed Name & Title]

Agreed as to Article 6:

LSB INDUSTRIES, INC.,  
a Delaware corporation

By \_\_\_\_\_

\_\_\_\_\_  
[Printed Name & Title]

EXHIBIT "A"

Disclosure Schedule

EXHIBIT "B"

Promissory Note

EXHIBIT "C"

Legal Description of DSN Plant Location

EXHIBIT "D"

Disbursement Schedule

tq994x46.wpe

November 3, 1994

Tony M. Shelby  
Senior Vice President - Chief Financial Officer  
LSB Industries, Inc.  
16 South Pennsylvania  
Oklahoma City, Oklahoma 73107

Re: COMMITMENT LETTER

Dear Mr. Shelby:

You have requested that we consider extending six separate financing arrangements with LSB Industries, Inc. ("LSB") and certain of its subsidiaries (hereinafter referred to individually as "Borrower" and collectively as "Borrowers") in order to provide for their on-going working capital needs and for repayment of their existing credit facilities. Subject to and upon the terms and conditions hereinafter set forth, BankAmerica Business Credit, Inc. ("Lender") is pleased to provide to the Borrowers a total revolving credit facility of up to \$75,000,000 ("Total Credit Facility") on the following terms and conditions:

1. REVOLVING CREDIT FACILITY:

(a) CREDIT FACILITIES AND BORROWERS: There shall be six separate revolving credit facilities (each hereinafter referred to as a "Facility" and collectively as the "Facilities") in the following amounts to the following Borrowers:

FACILITY	FACILITY AMOUNT	BORROWERS
Facility One	\$ 7,000,000	LSB (and Affiliate Guarantors as listed on Exhibit "A")
Facility Two	\$ 15,000,000	L&S Bearing Co.
Facility Three	\$ 8,000,000	Climate Master, Inc.
Facility Four	\$ 7,000,000	International Environmental Corporation
Facility Five	\$ 8,000,000	Summit Machine Tool Manufacturing Corp. ("Summit")
Facility Six	\$ 15,000,000	El Dorado Chemical Company ("EDC") and Slurry Explosive Corporation ("Slurry")

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Notwithstanding the amounts set forth under the heading "Facility Amount", and except as otherwise provided with respect to LSB, Borrowers are not limited to the specific Facility Amount if they would otherwise have sufficient Availability to exceed such Facility Amounts, but in no event will the Loans outstanding to all Borrowers exceed \$75,000,000 in the aggregate. With respect to LSB, the Facility Amount shall never be more than \$8,400,000.

(b) AMOUNT OF REVOLVING CREDIT FACILITY: Each Facility shall provide for advances of up to (i) eighty-five percent (85%) of the net amount of eligible accounts receivable of the applicable Borrowers and (ii) sixty percent (60%) of eligible inventory of the applicable Borrower, valued at the lower of cost (on a FIFO basis) or market value. Collections of accounts (other than proceeds from the sale or other disposition of Borrowers' fixed assets, i.e. equipment and real estate) would be transferred daily to Lender from one or more restricted or lock box accounts and would be credited to the loan balances of the appropriate Borrower one (1) business day after receipt of good funds by Lender. Advances to all Borrowers with respect to eligible accounts receivables that are more than 180 days from the invoice date shall not exceed the lesser of (i) \$1,500,000 or (ii) five percent (5%) of the gross eligible accounts receivable availability under the Total Credit Facility. Advances made under each Facility with respect to eligible inventory shall not exceed the following amounts:

FACILITY	INVENTORY ADVANCE AMOUNT
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Facility One	\$ 3,500,000
Facility Two	\$ 7,000,000
Facility Three	\$ 3,500,000
Facility Four	\$ 3,500,000
Facility Five	\$ 3,500,000
Facility Six	\$ 15,000,000

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Notwithstanding the amounts set forth under the heading "Inventory Advance Amount", Borrowers are not limited to the specific Inventory Advance Amount if they would otherwise have sufficient Availability based on Eligible Inventory to exceed such Inventory Advance Amount, but in no event will the Loans outstanding to all Borrowers based on Eligible Inventory exceed \$37,500,000 in the aggregate.

(c) ELIGIBLE COLLATERAL: Collateral eligibility and the establishment of reasonable reserves against borrowing availability shall be determined by Lender in its reasonable discretion, provided, however, that the following accounts shall in any event be ineligible: (i) accounts past due for more than 90 days if their terms are 90 days or less, (ii) accounts past due for more than 30 days if their terms are between 91 and 360 days, (iii) intercompany accounts, (iv) note receivables (other than as part of chattel paper in which Lender has a perfected security interest), (v) foreign accounts that would otherwise be eligible but which are in excess of five percent (5%) of the gross eligible account receivables, without consideration of the foreign accounts, and (vi) non-trade receivables and, provided further that the following inventory shall be ineligible: i) slow moving, (ii) work-in-progress, (iii) fifty percent (50%) of inventory classified as "components" other than the "components" at Climate Master, Inc. and International Environmental Corp., (iv) inventory in transit (unless such inventory is covered by insurance and is owned by Borrower and in which Lender has a perfected security interest), (v) service parts, (vi) used parts, (vii) returns, (viii) defective, (ix) off-site, (x) finished goods reserves as shown on the books of the Borrowers, (xi) containers, and (xii) "trade-in inventory" except that the trade-in equipment inventory of Summit may be eligible provided, however, that Lender will only advance 25% against such inventory with all such advances not to exceed \$500,000 in the aggregate at any one time.

(d) LETTERS OF CREDIT: Lender shall upon the Borrowers' request, and subject to the existence of sufficient Availability with respect to the requesting Borrower, cause to be issued for the Borrowers' account, merchandise/documentary letters of credit and standby letters of credit. The aggregate undrawn face amount of the letters of credit issued under all Facilities to all Borrowers shall not exceed at any one time outstanding \$11,000,000 in the aggregate. One hundred percent (100%) of the aggregate undrawn face amount of outstanding letters of credit will be reserved against availability.

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The expiration date of the documentary letters of credit issued under each Facility shall not exceed 180 days, but in no event extend beyond the Maturity Date. The Expiration date of the standby letters of credit may exceed 180 days.

2. MATURITY DATE: The Facilities shall mature three years from the closing date ("Maturity Date") and all obligations shall then be due and payable, provided however, that the Loan Agreement may be automatically renewed and the Maturity Date extended for

successive 13-month terms if no event of default has occurred and is continuing and as long as neither party has given the other party notice of termination at least 60 days prior to the end of the then current term.

3. INTEREST RATES:

- (a) INTEREST RATE: The unpaid balance on the revolving loans outstanding under each Facility shall bear interest at a rate equal to:
- (i) a fluctuating per annum rate equal to one-half percent (.50%) in excess of the Reference Rate as quoted from time to time by Bank of America NT & SA, San Francisco, California ("Bank of America") ("Reference Rate Loans"); or
  - (ii) at Borrower's option, 2.875 percent (2.875%) plus the LIBOR rate for 90-day loans as quoted from time to time by Bank of America ("LIBOR Loans"). Each LIBOR Loan shall be for a \$5,000,000 minimum amount, and shall be subject to certain restrictions relating to terms and incremental amounts.

All interest shall be calculated on the basis of a 360 day year for actual days elapsed. Interest on all loans shall be payable monthly on the first day of each month.

- (b) DEFAULT RATE: If any such default occurs under any Facility, then, from the date such event of default occurs until it is cured, the Borrowers under each Facility shall pay interest on the unpaid balance of the revolving loans at a per annum rate two percent (2%) greater than the rate of interest specified above and the letter of credit fee shall be increased by two percent (2%).

- (c) REFERENCE RATE: "Reference Rate" means the rate of interest publicly announced from time to time by Bank of America as its reference rate. It is a rate set by Bank of America based upon various factors, including Bank of America's costs and desired return, general economic conditions, and other factors, and it is used as a reference point for pricing some loans. However, Bank of America may price loans at, above, or below the reference rate.

4. FEES: Borrowers shall pay to Lender the following fees:

- (a) CLOSING FEE: A one time closing fee ("Closing Fee") for each Facility equal to .50 percent of the applicable Facility Amount (\$375,000 in the aggregate) which shall be fully earned and payable at closing.
- (b) UNUSED LINE FEE: An unused line fee, payable monthly, for each Facility at the rate per annum equal to half percent (.5%), on the difference between (a) the Facility Amount for each Facility and (b) the sum of (i) the average daily unpaid balance of the revolving loans outstanding under such Facility during the month with the unpaid balance calculated by applying payments immediately upon receipt, and (ii) the average daily balance of the letters of credit outstanding during the month.
- (c) LETTER OF CREDIT FEES: The Borrowers under each Facility shall pay monthly to Lender a fee equal to one percent (1.0%) per annum of the face amount of all outstanding letters of credit. Borrowers shall also pay to Lender all commissions and processing fees incurred by Lender on the Borrowers' behalf in arranging for the opening and maintenance of the letters of credit, including all charges of the issuing bank.
- (d) EARLY TERMINATION FEE: In the event that any Facility is for any reason whatsoever terminated prior to the initial term, the Borrowers under each Facility shall pay Lender an early termination fee in the amounts set forth below, in order to compensate Lender for its reasonable expenses and its loss of anticipated profits. If the effective date of the termination of the Facilities occurs in the first year of the term, then the early termination fee for each Facility shall be three percent (3.0%) of the average daily

balance of the loans and letters of credit outstanding during the 180 days (or any portion thereof) preceding the effective date of termination; in the second year, the early termination fee shall be two percent (2.0%) of the average

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daily balance of the loans and letters of credit outstanding during the 180 days preceding the effective date of termination; and in the third year, the early termination fee shall be one percent (1.0%) of the loans and letters of credit outstanding during the 180 days preceding the effective date of termination. If at the time of prepayment any LIBOR Loans are outstanding, then the Borrowers shall pay to Lender additional sums to compensate for the cancellation of part or all of the LIBOR financing. Prior to an Event of Default which is continuing, the Borrower may prepay at any time all outstanding Obligations due hereunder without penalty or premium if (i) Lender under any condition or for any reason changes the advance rates relating to Eligible Accounts or Eligible Inventory from that set forth in the definition of Availability, or (ii) as a result of or in connection with or arising out of a public offering by LSB of its securities (equity or debt) after the closing date, the Borrower desires to prepay any of the Obligations or terminate the Loan Agreement.

5. COLLATERAL: All loans, advances, obligations, liabilities and indebtedness of the Borrowers to Lender shall be secured by valid, perfected and enforceable, first priority liens upon and security interests in all of the Borrowers' present and future accounts, contract rights, instruments, documents, chattel paper, general intangibles, patents, trademarks, trade names, inventory, and all capital stock of the Borrowers (other than LSB, EDC and Slurry) and certain affiliates and guarantors, including, but not limited to, the Affiliate Guarantors. The parties agree that the capital stock of DSN Corporation, Prime Financial Corporation and its subsidiaries, and LSB Holdings, Inc. and its subsidiaries other than the subsidiaries who are Affiliate Guarantors) will not be pledged to Lender. In addition, Lender shall have the right to take possession of all chattel paper but regardless of whether Lender exercises such right, no Borrower will pledge or deliver such chattel paper to other third parties without Lender's prior written consent thereto. All of the Facilities shall be coterminous, cross-collateralized and cross-guaranteed with each other, except that the Borrowers under Facility Six shall not guarantee and the collateral thereunder shall not secure the other Facilities. In addition, it is agreed and understood by Lender that certain general intangibles have previously been pledged by EDC and Slurry to Household Commercial Financial Services, Inc. ("Household Bank") and may not be pledged to Lender so long as loans are outstanding by Household Bank to EDC and Slurry.

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6. GUARANTEES. The Borrowers under each Facility, other than the Borrowers under Facility Six, shall guarantee the obligations of the Borrowers under the other Facilities. The obligations of LSB and the other Borrowers to Lender shall be secured by secured guarantees (the "Affiliate Guarantees") from the entities listed on Exhibit A (the "Affiliate Guarantors"). The Affiliate Guarantees shall contain grants of security interests in the same type of collateral as is described in Section 5 of this letter. In addition, each Affiliate Guarantor shall execute a note and security agreement in favor of LSB (the "Guarantor Chattel Paper") and LSB shall pledge and deliver to Lender all such Guarantor Chattel Paper.
7. CONDITIONS PRECEDENT: The extension of the aforementioned financing arrangement by Lender would necessarily be subject to the fulfillment of a number of conditions, including, but not limited to, the following:
- (a) The execution and delivery, in form and substance acceptable to Lender and its counsel, of Lender's customary agreements, documents, guarantees, instruments, financing statements, landlords' waivers, consents, documents indicating compliance with all applicable federal and state

environmental laws and regulations, evidences of corporate authority, certificates, insurance certificates evidencing that Borrower has obtained insurance in amounts satisfactory to Lender, opinions of counsel and such other writings to confirm and effectuate the financing arrangements as may be required by Lender and its counsel.

- (b) The loan and security agreement for each Facility shall contain financial covenants, acceptable to Lender, with respect to leverage ratio, minimum tangible net worth, and maximum capital expenditures, together with such other representations, warranties, and covenants deemed appropriate by Lender for this transaction, including restrictions on certain distributions, loans, advances, management fees, and similar transfers of funds or other assets by Borrowers and an agreement by Borrowers to pay all legal fees and audit and appraisal expenses incurred by Lender together with an allocated charge of \$500 per day per auditor, with audits no more than three times per year prior to an Event of Default to be charged to Borrower's account. Any additional audits prior to an Event of Default will be at Lender's expense. The loan agreement shall, without limitation, (i) permit transfer of funds by and among the Borrowers and Affiliate Guarantors, but advances and

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distributions, excluding lease payments by Borrowers to Prime Financial Corporation ("Prime") and DSN Corporation, by Borrowers to affiliates of LSB (other than Borrowers and Affiliate Guarantors) shall not exceed \$200,000 in the aggregate during any one year, (ii) prohibit the Borrowers from making acquisitions having a cost in excess of \$2,000,000 per transaction or in excess of \$10,000,000 in the aggregate during any one year period without the consent of Lender, and (iii) prohibit the Borrowers from financing any acquisition without the consent of Lender. In addition, as long as no event of default has occurred and has not been cured or otherwise waived to Lender's satisfaction LSB may make the currently-scheduled dividends relating to or in connection with or arising out of any and all series of LSB's preferred stock issued and outstanding as of the date hereof and the payments by LSB of an annual cash dividend on its Common Stock in an amount equal to \$.06 a share payable on a semi-annual basis. The Loan Agreement between Lender, EDC and Slurry shall contain additional financial covenants which will be the same as those set forth in the Amended and Restated Secured Credit Agreement dated as of January 21, 1992 among El Dorado, Slurry, Connecticut Mutual Life Insurance Company, C.M. Life Insurance Company and Household Bank.

- (c) Except as disclosed in that Special Report to LSB Shareholders dated September 15, 1994, no material adverse change shall have occurred, as determined by Lender in its sole discretion, in the business, operations, or profits of any of the Borrowers since the financial statements dated June 30, 1994.
- (d) There shall exist no action, suit, investigation, litigation, or proceeding pending or threatened in any court or before any arbitrator or governmental instrumentality by Borrower, and no material breach under any material agreement or contract to which any Borrower or Affiliate Guarantor is a party that (i) would have a material adverse effect on the business, condition (financial or otherwise), operations, performance, or properties of the Borrowers and Affiliate Guarantors taken as a whole or which could impair the ability of the Borrowers and Affiliate Guarantors taken as a whole to perform satisfactorily under the proposed financing arrangement, or (ii) in Lender's judgment, would materially affect the transaction.

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- (e) Lender and its counsel shall have received satisfactory opinions of counsel to the Borrowers, as to the transactions contemplated hereby (including, without limitation, the opinions of such local counsel as lender may reasonably require with respect to the Collateral and the perfection of

Lender's Lien thereupon and security interest therein).

- (f) Receipt by Lender of policies of insurance, with terms of coverage and endorsements as may be required by Lender and its counsel.
- (g) The Borrowers under each Facility shall have agreed to deposit all funds relating to the Collateral collected by it into one or more blocked accounts controlled by Lender and to wire transfer all funds so deposited to Lender each day for application to the outstanding loans.
- (h) Execution by Lender of inter-creditor agreements with Household Bank the terms of which shall be satisfactory to Lender in its sole discretion.
- (i) Prime shall lend to the Borrowers, simultaneously upon receipt, an amount equal to all lease payments made by the Borrowers to such entities. The loans shall be subject to such terms as are acceptable to Lender and such loans may not be repaid while the Facilities are outstanding.
- (j) Receipt by Lender from Prime, in favor of Lender, of an agreement in recordable form not to pledge the mortgage and note that it holds relating to the real property commonly known as the Equity Tower located in Oklahoma City, Oklahoma unless the funds are turned over to LSB.
- (k) Lender's satisfaction with the indemnities given by LSB to Bank IV in connection with the sale by LSB to Bank IV of Equity Bank.
- (l) Receipt by Lender of all indemnity agreements between any of the Borrowers and third parties for the benefit of the Borrowers with respect to any environmental contamination of any of the premises occupied or operated by any of the Borrowers or any subsidiary of LSB, including all indemnity agreements given by Monsanto Corporation in favor of the Borrowers, and the terms of such indemnities shall be satisfactory to Lender.

LSB Industries, Inc.  
November 3, 1994  
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- (m) Receipt by Borrowers of part of the initial proceeds from a \$12,750,000 loan which is part of a \$15,000,000 Capax facility to be provided to Borrowers by CIT, on terms and conditions acceptable to Lender.
  - (n) Review, to the satisfaction of Lender, of Borrowers' potential liability relating to environmental matters at the CERCLIS-listed site located at El Dorado, Arkansas.
  - (o) As of the Closing Date and after taking into account all loans made to Borrowers by Lender and letters of credit issued for the benefit of Borrowers and subject to Borrowers' accounts payable being substantially current, Borrowers collectively shall have remaining availability of at least ten percent (10%) of the initial Availability that existed prior to the making of such loans and the issuing of such letters of credit.
8. EXPENSES: All out-of-pocket fees and expenses incurred by Lender in connection with its review, and its due diligence, such as reasonable legal, audit and appraisal expenses, together with an allocated charge of \$500 per day per auditor, shall be paid by the Borrowers whether or not the transaction herein contemplated is consummated. The Borrowers are obligated to make continuing deposits to reimburse out of pocket costs upon the request of Lender.
9. DISCLOSURE: Unless approved by Lender in advance, this letter may not be delivered or disclosed to any third party except those who are in a confidential relationship to the Borrowers such as Borrowers' legal counsel, accountants, or financial advisors.
10. TERMINATION FEE: In the event that the transaction is not consummated for any reason whatsoever, Lender shall be entitled to retain the full amount of all deposits as compensation for administrative costs incurred and damages sustained. In addition, if Borrowers decline for any reason to borrow from Lender in accordance with the terms of this letter, Borrowers shall pay Lender \$50,000 as a termination fee.

11. INDEMNIFICATION: By acceptance of this letter, the Borrowers jointly and severally agree to indemnify and hold Lender, its affiliates and Lender's and such affiliates' directors, officers, employees, agents, attorneys and consultants, harmless from and against any and all losses, claims, damages, liabilities and expenses (including fees and disbursements of counsel) that may be incurred by or asserted against any such indemnities in connection with or arising out of any documentation, investigation, litigation or proceeding, and whether or not such financing transaction is consummated or any future documentation executed; PROVIDED HOWEVER, that no person shall have the right to be so indemnified hereunder for matters arising solely from its own willful misconduct or bad faith or gross negligence.
12. ARBITRATION: If this letter or any of the matters relating hereto should become the subject of a dispute between us, any such dispute, including any claim based on or arising from an alleged tort, shall at the request of any party, be determined by arbitration conducted in accordance with the United States Arbitration Act under the commercial Rules of the American Arbitration Association and shall be conducted within the Los Angeles County, California. Judgment upon the arbitration award may be entered in any court having jurisdiction.
13. DAMAGES AND AMENDMENTS: The Borrowers waive any claim for consequential damages. This letter may not be modified or amended except in writing executed by all parties hereto.
14. THIRD PARTIES: This letter is solely for the benefit of Borrowers and may not be relied on by any other party without the prior written consent of Lender.
15. GOVERNING LAW: This letter agreement shall be governed by California law.

This letter supersedes and replaces all previous communications between the parties, written or oral. This letter must be executed and returned to Lender by no later than 5 p.m. Pasadena, California time, November 3, 1994, or Lender's commitment in accordance with the foregoing shall automatically terminate.

This letter, unless previously terminated as above provided, shall expire at 5 p.m. Pasadena, California time, November 30, 1994, unless extended in writing by Lender in its sole discretion.

We look forward to working with you in the weeks ahead.

Sincerely,

BankAmerica Business Credit, Inc.

By:

Joyce White, Senior Vice President

ACCEPTED this 3rd day of November, 1994

LSB Industries, Inc. for itself and the other Borrowers

By:  
Tony M. Shelby,  
Senior Vice President - Chief Financial Officer

EXHIBIT "A"

Guaranty and Security Agreements

- a. Universal Tech Corporation
- b. L&S Automotive Products, Co.
- c. Climatex, Inc.
- d. Total Energy Systems, Ltd.
- e. LSB Chemical Corp.
- f. LSB Bearing Corp.
- g. International Bearing, Inc.
- h. LSB Extrusion Co.
- i. Rotex Corporation
- j. Tribonetics Corporation
- k. Summit Machine Tool Systems, Inc.
- l. Hercules Energy Manufacturing Corporation
- m. Morey Machinery Manufacturing Corporation
- n. CHP Corporation
- o. Koax Corp.
- p. APR Corporation
- q. Summit Machine Tool, Inc. Corporation

all collectively referred to as the "Affiliate Guarantors".

This Stock Purchase Agreement ("Agreement") is made and entered into effective as of the 14th day of November, 1994 by and between \_\_\_\_\_, an individual ("\_\_\_\_\_"), \_\_\_\_\_, an individual ("\_\_\_\_\_"), \_\_\_\_\_, an individual ("\_\_\_\_\_") (\_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ are hereinafter collectively referred to as the "Shareholders"), \_\_\_\_\_, \_\_\_\_\_ and LSB Industries, Inc., a Delaware corporation ("LSB").

R E C I T A L S:

WHEREAS, the Shareholders own: (a) one hundred percent (100%) of the equity shares of \_\_\_, and (b) one hundred percent (100%) of the equity shares of \_\_\_;

WHEREAS, \_\_\_ is currently authorized to issue 10,000 shares of common stock and such common stock is the only class of stock issued and is the only stock of \_\_\_ with voting rights;

WHEREAS, \_\_\_ is currently authorized to issue 2,500 shares of common stock and such common stock is the only class of stock issued and is the only stock of \_\_\_ with voting rights;

WHEREAS, a total of 10,000 shares of \_\_\_ common stock are currently issued and outstanding;

WHEREAS, a total of 1,500 shares of \_\_\_ common stock are currently issued and outstanding;

WHEREAS, \_\_\_\_\_ owns twenty percent (20%), \_\_\_\_\_ owns forty percent (40%), and \_\_\_\_\_ owns forty percent (40%), of \_\_\_;

WHEREAS, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ each own thirty-three and one-third percent (33-1/3%) of \_\_\_;

WHEREAS, commencing upon the closing of this Agreement, the Shareholders have agreed to the employment terms with \_\_\_ set forth in the Employment Agreement attached hereto as Exhibit "A";

WHEREAS, LSB desires to purchase a total of eighty percent (80%) of shares of \_\_\_, upon the terms and conditions set forth in this Agreement, so as to allow LSB to become the owner of eighty percent (80%) of all issued and outstanding common stock of \_\_\_;

WHEREAS, \_\_\_ and the Shareholders have, executed and agreed to a Stock Purchase Agreement for \_\_\_\_\_ purchase of one hundred percent (100%) of all issued and outstanding common stock of \_\_\_ (the "\_\_\_ Stock Purchase Agreement"), which purchase is to be consummated simultaneously with the Closing of this Agreement.

WHEREAS, \_\_\_ and LSB have executed that certain Loan Agreement dated September 15, 1994 (the "Loan Agreement"), under which Loan Agreement LSB may make advances at its sole discretion to \_\_\_ up to \$1.5 Million (the "Loan").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Shareholders and LSB agree as follows:

1. Recitals. The recitals set forth above shall be deemed a part of this Agreement and are incorporated herein by reference.

2. Stock Purchase.

2.1 Purchase. Subject to the terms and conditions contained herein, the Shareholders hereby agree to sell to LSB and LSB agrees to purchase from the Shareholders 8,000 shares of \_\_\_\_\_ common stock (constituting 80% of the shares of \_\_\_) (hereinafter collectively referred to as the "Subject Shares"), from the following individual Shareholders in accordance with the following schedule:

Shareholder	Number of ____ Shares Subject to Purchase
_____	3,200
_____	3,200
_____	1,600
TOTAL (80% of all outstanding shares)	8,000

For the purposes of this Agreement, the term "Participation Percentage" shall mean the following percentages for each of the Shareholders:

Shareholder	Participation Percentage
-------------	--------------------------

_____	40%
_____	40%
_____	20%
TOTAL	100%

2.2 Closing Date. The Closing of purchase and sale of the Subject Shares under this Agreement shall occur on or before the later of November 15, 1994 or three (3) days after LSB's financing with BankAmerica closes, but in no event later than December 15, 1994 (the "Closing" or the "Closing Date"); provided, however, if Closing does not occur on or before November 15, 1994, LSB shall pay Shareholders \$100,000 as a down payment against the amounts to be paid at Closing.

2.3 Closing. At the Closing of LSB's purchase of the Subject Shares, the Shareholders shall deliver to LSB the certificate(s) evidencing the Subject Shares, together with assignments separate from the certificate(s) endorsed in favor of LSB or its designee. The Subject Shares shall be duly authorized, non-assessable, validly issued and delivered to LSB free and clear of all liens, restrictions, claims and/or agreements of any kind. At the Closing, the Shareholders, \_\_\_\_\_, \_\_\_\_\_ and LSB shall also fulfill all other obligations set forth herein as items to occur at or before Closing.

2.4 Purchase Price. After delivery to LSB at the Closing of the certificate(s) evidencing the Subject Shares, and conditioned upon \_\_\_\_\_, \_\_\_\_\_ and the Shareholders fulfilling all obligations to take place at or before Closing, LSB agrees to pay the amount set forth below in Section 2.4.1 (the "Purchase Price"), payable as reflected in Section 2.4.2 below.

2.4.1 Purchase Price. The total Purchase Price to be paid to all Shareholders under this Agreement shall be the total amount of \$4 Million.

2.4.2 Payment of Purchase Price. LSB shall pay to the Shareholders, in proportion to their Participation Percentage, the total Purchase Price as follows:

(a) Thirty-seven and one-half percent (37.5%) of the total Purchase Price shall be paid on the Closing Date;

(b) Twenty percent (20%) of the total Purchase Price remaining after the payment in (a) above shall be paid on or before the first anniversary of the Closing Date, with such amount represented by a promissory note marked negotiable with interest payable at seven percent (7%) per annum;

(c) Twenty percent (20%) of the total Purchase Price remaining after the payment in (a) above shall be paid on or before the second anniversary of the Closing Date, with such amount represented by a promissory note marked negotiable with interest payable at seven percent (7%) per annum from the date of the note;

(d) Twenty percent (20%) of the total Purchase Price remaining after the payment in (a) above shall be paid on or before the third anniversary of the Closing Date, with such amount represented by a promissory note marked negotiable with interest payable at seven percent (7%) per annum from the date of the note;

(e) Twenty percent (20%) of the total Purchase Price remaining after the payment in (a) above shall be paid on or before the fourth anniversary of the Closing Date, with such amount represented by a promissory note marked negotiable with interest payable at seven percent (7%) per annum from the date of the note;

(f) Twenty percent (20%) of the total Purchase Price remaining after the payment in (a) above shall be paid on or before the fifth anniversary of the Closing Date, with such amount represented by a promissory note marked negotiable with interest payable at seven percent (7%) per annum from the date of the note;

The promissory notes as referenced in (b) through (f) above shall be dated and delivered to Shareholders at Closing and may be separately issued, at the option of the Shareholders, to \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ in accordance with their respective Participation Percentages (said promissory notes shall be collectively referred to as the "Shareholders' Notes").

2.4.3 Post-Closing Confirmations. The Shareholders shall have the obligations and shall make the transfers set forth below, in the manner therein specified, in the event of the non-occurrence of the following confirmation events (the "Confirmation Events"): (i) on or before one (1) year after the Closing, \_\_\_\_\_ obtains a valid and enforceable shared energy savings contract with respect to \_\_\_\_\_ which includes financing therefor from a bona fide

lender (the "\_\_\_\_\_ Contract"), and (ii) the Net Present Value of eighty percent (80%) of \_\_\_\_\_ interest in the net revenues attributable to the energy savings from the \_\_\_\_\_ and \_\_\_\_\_ Projects shall be \$4 Million or greater, calculated as of the Closing date of this Agreement, using a ten percent (10%) discount rate, measured two (2) years and six (6) months after the Closing Date (but in no event sooner than one (1) full year following completion of construction of the \_\_\_\_\_ project) (the "Measurement Date"), using the energy saving attributable to the respective projects during the one (1) full year period prior to the Measurement Date (the "Calculated Net Present Value").

(a) In the event the Confirmation Event set forth in 2.4.3(i) above does not occur, then the Shareholders shall transfer to LSB, in the manner set forth in Section 2.4.3(c) below, an amount equal to the difference between \$4 Million and the Calculated Net Present Value without the \_\_\_\_\_ Project as of the Closing Date (the "\_\_\_\_\_ Shortfall Amount").

(b) In the event that the Confirmation Event set forth in 2.4.3(i) does occur, but the Confirmation Event set forth in 2.4.3(ii) above yields an amount less than \$4 Million, then the Shareholders shall transfer to LSB, in the manner set forth in Section 2.4.3(c) below, an amount equal to the difference between \$4 Million and the Calculated Net Present Value as of the Closing Date (the "Yield Shortfall Amount").

(c) The \_\_\_\_\_ Shortfall Amount and the Yield Shortfall Amount shall be satisfied, to the extent possible, by Shareholders' transfer to LSB by means of a joint and several assignment to LSB of any and all amounts owed to Shareholders, now or in the future, by \_\_\_\_\_, including, without limitation, the Shareholder's Net Income Interest and Net Profit Interest under the \_\_\_\_\_ Stock Purchase Agreement. Accordingly, the Shareholders do hereby assign to LSB or its designee, jointly and severally, any and all amounts owed to Shareholders, now or in the future, by \_\_\_\_\_, including, without limitation, their respective and combined Net Income Interest and Net Profit Interest under the \_\_\_\_\_ Stock Purchase Agreement, and the Shareholders hereby irrevocably instruct \_\_\_\_\_ to pay any monies owed to Shareholders by \_\_\_\_\_, now or in the future, to LSB or its designee such sums as may be necessary to satisfy all \_\_\_\_\_ Shortfall Amounts and Yield Shortfall Amounts as those amounts become known, owed or due.

(d) To the extent subsequent events occur during the Shareholders' respective Bonus Period (as that term is defined in the \_\_\_\_\_ Stock Purchase Agreement), which would require adjustment (either increase or decrease) in the amount paid or to be paid as a result of the non-occurrence of one of the Confirmation Events, such adjustment and any refund to Shareholder or additional payments to LSB as may be required as a result of such adjustment, shall be determined on or before the last day of the calendar year in which such subsequent event occurs.

3. Representations & Warranties of Shareholders. The Shareholders, \_\_\_\_\_ and \_\_\_\_\_, jointly and severally represent and warrant to LSB as follows:

3.1 The Subject Shares. The Shareholders own and have full and valid title to the Subject Shares free and clear of all liens, security interests, claims and encumbrances, and have good right and authority to sell the same.

3.2 \_\_\_\_\_ Stock. \_\_\_\_\_ is currently authorized to issue 10,000 shares of common stock, and such shares of common stock are the only stock of \_\_\_\_\_ which have voting rights. There are 10,000 shares of \_\_\_\_\_ common stock currently issued and such are all outstanding in the names stated in Section 2.1 above, and such shall be the only outstanding shares of \_\_\_\_\_ common stock as of the Closing Date.

3.3 \_\_\_\_\_ Stock. \_\_\_\_\_ is currently authorized to issue 2,500 shares of common stock, and such shares of common stock are the only stock of \_\_\_\_\_ which have voting rights. There are only 1,500 shares of \_\_\_\_\_ common stock currently issued and such are all outstanding in the names stated in Section 2.1 above, and such shall be the only outstanding shares of \_\_\_\_\_ common stock as of the Closing Date.

3.4 No Subscriptions, etc. There are no outstanding subscriptions, options, rights, warrants, calls, commitments or agreements relating to the authorized but unissued shares of \_\_\_\_\_ or \_\_\_\_\_.

3.5 Shareholder's Authority for Agreement. Each Shareholder has full and requisite power and authority to deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by the requisite

actions and this Agreement constitutes the valid and legally binding obligation of each Shareholder enforceable against each of the respective Shareholder in accordance with its terms. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in any violation of, or default under, any provision of the formation documents of either \_\_\_ or \_\_\_ or with any other agreement or document to which any Shareholder is a party.

- 3.6 Corporate Status and Authority. \_\_\_ is a corporation duly organized and existing and in good standing under the laws of the State of California and \_\_\_ is a corporation duly organized and existing and in good standing under the laws of the State of Nevada. Both \_\_\_ and \_\_\_ have full power and authority to own and operate each of their properties and to carry on its business all as, and in the places where, such properties are now owned or operated or such businesses are conducted. Both \_\_\_ and \_\_\_ are duly qualified to do business and are in good standing in every jurisdiction in which the nature of the property owned or leased or the nature of the business conducted by each makes such qualification necessary.
- 3.7 Subsidiaries. \_\_\_ has no subsidiaries and is not a partner in any partnership or joint venture. \_\_\_ is not a partner in any partnership or joint venture and has only two subsidiaries: \_\_\_, Inc. ("\_\_\_"), being a Louisiana corporation that is wholly owned by \_\_\_; and, \_\_\_, Inc. ("\_\_\_"), being a California corporation certified to do business in Hawaii that is wholly owned by \_\_\_. \_\_\_ interest in both \_\_\_ and \_\_\_ are included in the Purchase Price, for no additional consideration. \_\_\_, Inc. has no subsidiaries and is a partner in only one partnership or joint venture: \_\_\_ Conservation Partners, L.P., a Hawaiian limited partnership in which \_\_\_ is a 1% general partner and a 49% limited partner and, which interest is included in the Purchase Price, for no additional consideration. \_\_\_ is also in the process of forming a Hawaiian corporation to be known as \_\_\_, Inc. ("\_\_\_"), which will be a wholly owned subsidiary of \_\_\_ and which is included in the Purchase Price for no additional consideration. It is also anticipated that \_\_\_ - \_\_\_ will be a 50% joint venturer/partner with a wholly owned subsidiary of \_\_\_ to be known as \_\_\_, when and if such joint venture/partnership is formed, which interest is included in the Purchase Price, for no additional consideration; provided, however, Shareholders and \_\_\_ agree that the joint venture/partnership contemplated with \_\_\_ shall not be formed or agreed to prior to Closing without LSB's prior written approval of the terms of such joint venture/partnership. All representations or warranties under this Agreement also apply to those subsidiaries, partnerships or joint ventures reflected above.
- 3.8 Financial Statements. \_\_\_ has heretofore delivered to LSB its consolidated unaudited financial statements (the "Unaudited Financials") of \_\_\_ and subsidiaries as of June 30, 1994, including a Balance Sheet as of June 30, 1994 and statement of operations for the year ended June 30, 1994, and \_\_\_ will continue to furnish such financial information to LSB as of the end of each month until the Closing. The Unaudited Financials have been prepared by the management of \_\_\_ and fairly present the financial position of \_\_\_ and its subsidiaries at June 30, 1994 and the results of operations for the year then ended and as of the end of each subsequent month for which such Unaudited Financials are provided.
- 3.9 Undisclosed Liabilities. On the Closing Date, \_\_\_, and their respective subsidiaries, will not be subject to any debts, liabilities or obligations of any nature, whether accrued, absolute, contingent or other, and whether due or to become due, including, but not limited to, liabilities or obligations on account of taxes (except ad valorem taxes accruing after December 31, 1993) constituting a lien but not yet due and payable, other governmental charges, duties, penalties or fines, and there is no valid basis for the assertion against either \_\_\_, or their respective subsidiaries of any such debt, liability or obligation other than those (i) reflected in the Unaudited Financials, (ii) which arise under obligations disclosed herein or (iii) which are pursuant to obligations arising in the ordinary course of the business of either \_\_\_, or their respective subsidiaries consistent with those obligations reflected by the Additional Unaudited Financials provided to LSB pursuant to Section 6.5 below.
- 3.10 Changes in Condition. There has not been since June 30, 1994, (i) any change in the condition (financial or other) in or of the properties, assets, liabilities, or business of \_\_\_, or their respective subsidiaries, except changes in the ordinary course of business which have not in any one case or in the aggregate been materially adverse, (ii) any damage, destruction or loss (whether or not covered by insurance) materially and adversely affecting the properties, assets, or business of \_\_\_, or their

respective subsidiaries, (iii) any change in the accounting methods or practices followed by \_\_\_\_\_, or their respective subsidiaries or any change in depreciation or amortization policies or rates heretofore adopted, (iv) any sale, lease, abandonment or other disposition by \_\_\_\_\_, or their respective subsidiaries of any interest in real property, or, other than in the ordinary course of business, of any machinery, equipment or other operating property or any sale, assignment, transfer, license or other disposition by \_\_\_\_\_ of any intangible asset, (v) any declaration setting aside or payment of any dividend or other distribution on or in respect of the Subject Shares, or any direct or indirect redemption, retirement, purchase or other acquisition by \_\_\_\_\_ of any of the Subject Shares, or (vi) any change in the Articles of Incorporation or By-laws of \_\_\_\_\_, or their respective subsidiaries, or (vii) any other occurrence, event or condition which materially adversely affects or may materially adversely affect the properties, assets, or business of \_\_\_\_\_, or their respective subsidiaries.

3.11 Taxes. \_\_\_\_\_, or their respective subsidiaries have duly and timely filed all tax returns required to be filed, and have paid all taxes shown to be due and payable on all such returns, all assessments notice of which has been received by any of them, and all other taxes, governmental charges, duties, penalties, interest and fines due and payable by any of them on or before the Closing Date. There are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax returns by \_\_\_\_\_, or their respective subsidiaries, or the payment by, or assessment against, \_\_\_\_\_, or their respective subsidiaries of any tax, governmental charge, duty or deficiency. There are no suits, actions, claims, investigations, inquiries or proceedings threatened or now pending against \_\_\_\_\_, or their respective subsidiaries in respect to taxes, governmental charges, duties or assessments, or any matters under discussion with any governmental authority relating to taxes, governmental charges, duties or assessments, or any claims for additional taxes, governmental charges, duties or assessments asserted by any such authority. The reserves made for taxes, governmental charges and duties on the Financials and the Unaudited Financials are sufficient for the payment of all unpaid taxes, governmental charges and duties payable by \_\_\_\_\_, or their respective subsidiaries attributable to all periods ended on or before the date of the Unaudited Financials. \_\_\_\_\_, and their respective subsidiaries have withheld or collected on each payment made to each of its employees the amount of all taxes (including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and state and local income and wage taxes) required to be withheld or collected therefrom and has paid the same to the proper tax receiving officers.

3.12 Real Property. Neither \_\_\_\_\_, nor their respective subsidiaries owns any real property or interest therein except \_\_\_\_\_ has a leasehold interest of its office space at \_\_\_\_\_.

3.13 Title to Personal Property. \_\_\_\_\_ and their respective subsidiaries have good and marketable title to all tangible personal property which each owns, including, but not limited to, that reflected on the Unaudited Financials (except as disposed of since the date of the Unaudited Financials in the ordinary course of business and without involving any misrepresentation or breach of warranty or covenant under this Agreement).

3.14 Plant, Buildings, Machinery and Equipment. All buildings, offices, shops and other structures and all machinery, equipment, software, computer hardware and general intangibles, fixtures, vehicles and other properties owned, leased or used by either \_\_\_\_\_, and their respective subsidiaries (whether under their control or the control of others) are in good operating condition and repair and are adequate and sufficient for all operations. \_\_\_\_\_, and their respective subsidiaries own all computer software and hardware, furniture, fixtures, machinery, equipment and other assets required in the business of \_\_\_\_\_ and their respective subsidiaries as now being conducted.

3.15 Regulatory Compliance. None of the real or personal properties owned, leased, occupied or operated by \_\_\_\_\_, or their respective subsidiaries, or the ownership, leasing, occupancy or operation thereof, is in violation of any law or any building, zoning, environmental or other ordinance, code, rule or regulation, and no notice from any governmental body or other person has been served upon \_\_\_\_\_, or their respective subsidiaries or upon any property owned, leased, occupied or operated by \_\_\_\_\_, or their respective subsidiaries claiming any violation of any such law, ordinance, code, rule or regulation or requiring, or calling attention to the need for, any work, repairs, construction, alterations or installation an or in connection with such property which has not been complied with. \_\_\_\_\_, and their respective subsidiaries have the right to use their properties for all material operations conducted by it.

- \_\_\_\_\_, and their respective subsidiaries are in compliance with all rules, regulations and laws that pertain to the conduct of their business and \_\_\_\_\_, and their respective subsidiaries are not aware of or have received any notice charging \_\_\_\_\_, or their respective subsidiaries with such violations. Further, neither \_\_\_\_\_, nor their respective subsidiaries, to the best knowledge of the Shareholders, are under extraordinary investigation by any governmental or industry regulatory body for any reason.
- 3.16 Accounts. All account receivables of \_\_\_\_\_ and their respective subsidiaries which are reflected in the Unaudited Financials and those owned by \_\_\_\_\_, and their respective subsidiaries on the Closing Date are and will be good and collectible except to the extent charged off each month in accordance with its normal accounting practices, consistently applied.
- 3.17 Inventory. All items, if any, contained in the inventory of \_\_\_\_\_ and their respective subsidiaries, as reflected in the Unaudited Financials and as owned on the Closing Date are of a quality and quantity salable or usable in the ordinary course of \_\_\_\_\_, and their respective subsidiaries' business at customary retail or wholesale prices; and the values of such inventory reflect write-downs to realizable market value in the case of items which had become obsolete or were unsalable except at prices less than cost through regular distribution channels in the ordinary course of \_\_\_\_\_, and their respective subsidiaries' business.
- 3.18 Patents, Trademarks, Etc. Neither \_\_\_\_\_, nor their respective subsidiaries infringe on any patents, trademarks, trade names, brand names or copyrights of any third party.
- 3.19 New Developments. There are no new developments in any business conducted by \_\_\_\_\_, or their respective subsidiaries, nor any new or improved methods, materials, products, processes or services useful in connection with the business of \_\_\_\_\_, or their respective subsidiaries as presently conducted, which may adversely affect the properties, assets or business of \_\_\_\_\_, or their respective subsidiaries.
- 3.20 Competition. Neither \_\_\_\_\_, nor their respective subsidiaries nor any of their officers or employees have entered into any agreement relating to the business of \_\_\_\_\_, or their respective subsidiaries containing any prohibition or restriction of competition or solicitation of customers with any person, corporation, partnership, firm, association or business organization, entity or enterprise which is now in effect.
- 3.21 Contractual Obligations. The Shareholders, \_\_\_\_\_, and their respective subsidiaries have or will have prior to Closing furnished LSB for its examination (i) a list of all written or oral contracts, commitments, agreements and other contractual obligations (not otherwise described herein) to which either \_\_\_\_\_, or their respective subsidiaries are a party or by which their properties or assets are bound, affecting either \_\_\_\_\_, or their respective subsidiaries, including, without limitation, all labor agreements, employment contracts, leases, notes and other evidence of indebtedness, pension and profit sharing and other employee benefit plans or agreements, insurance policies and contracts, and agreements obligating either \_\_\_ or \_\_\_ to expend any substantial amount of money or acquire or dispose of any substantial amount of property, and (ii) a list of all governmental or court approvals and third party contractual consents required in order to consummate the transactions contemplated by this Agreement.
- 3.22 Compliance with Obligations. Neither \_\_\_, \_\_\_, nor their respective subsidiaries is, nor is either alleged to be, in default under, or in breach of any term or provision of, any contract, agreement, lease, license, commitment, instrument or obligation. No other party to any contract, agreement, lease, license, commitment, instrument or obligation to which either \_\_\_\_\_, or their respective subsidiaries is a party is in default thereunder or in breach of any term or provision thereof. There exists no condition or event which, after notice or lapse of time or both, would constitute a default by any party to any such contract, agreement, lease, license, commitment, instrument or obligation.
- 3.23 Litigation. There is no suit, action or claim, no investigation or inquiry by any administrative agency or governmental body, and no legal, administrative or arbitration proceeding pending or threatened against either \_\_\_\_\_, or their respective subsidiaries or any of their properties, assets, or business or to which it is or might become a party, and there is no valid basis for any such suit, action, claim, investigation, inquiry or proceeding. There is no outstanding order, writ, injunction or decree of any court, any administrative agency or governmental

body or arbitration tribunal against or affecting either \_\_\_\_\_, or their respective subsidiaries or any of the capital stock, properties, assets, or business of either \_\_\_\_\_, or their respective subsidiaries other than those listed in Exhibit "B" attached hereto and incorporated herein by reference.

- 3.24 Licenses and Permits. \_\_\_\_\_, and their respective subsidiaries have all governmental licenses and permits necessary to conduct their business and to operate their properties and assets, and such licenses and permits are in full force and effect. No violations exist or have been recorded in respect of any governmental license or permit of either \_\_\_\_\_, or their respective subsidiaries. No proceeding is pending or threatened looking toward the revocation or limitation of any such governmental license or permit and there is no valid basis for any such revocation or limitation. \_\_\_\_\_, and their respective subsidiaries have complied with all laws, rules, regulations, ordinances, codes, orders, licenses, concessions and permits relating to any of their properties or applicable to their business including, but not limited to, the labor, environmental and antitrust laws.
- 3.25 Labor Disputes. Since June 30, 1994, there has not been any matter under discussion with any labor union or any strike, work stoppage or labor trouble relating to employees of either \_\_\_\_\_, or their respective subsidiaries. Since June 30, 1994, there has not been any change in the relationship or course of dealing between either \_\_\_\_\_, or their respective subsidiaries and any of their suppliers or customers which has had or could have a material adverse effect on their business.
- 3.26 Employee Compensation. An accurate list of (a) the name and the current annual salary and other compensation or the rate of compensation payable by either \_\_\_\_\_, or their respective subsidiaries to each of their officers and each employee whose current total annual compensation or estimated compensation (including, but not limited to, normal bonus, profit sharing and other extra compensation) is \$25,000 or more, and (b) each loan or advance (other than routine travel advances repaid or formally accounted for within 60 days and routine vacation advances and routine credit card advances) made by either \_\_\_\_\_, or their respective subsidiaries to any director, officer or employee of either \_\_\_\_\_, or their respective subsidiaries outstanding and unpaid as of the date of this agreement and the current status thereof, will be provided LSB by the Shareholders prior to the Closing Date. Since December 31, 1993, there has not been any increase in the total compensation payable or to become payable by either \_\_\_\_\_, or their respective subsidiaries to each such person or any general increase, in the total compensation or rate of total compensation payable or to become payable by either \_\_\_\_\_ or their respective subsidiaries to salaried employees other than those specified in clause (a) of this Section or to hourly employees ("general increase" for purposes of this Section means any increase generally applicable to a class or group of employees and not including increases granted to individual employees for merit, length of service, change in position or responsibility or other reasons applicable to specific employees and not generally to a class or group thereof) other than as set forth in \_\_\_\_\_, or their respective subsidiaries' books and records.
- 3.27 Insurance. \_\_\_\_\_, and their respective subsidiaries maintain adequate insurance on their properties, assets, business and personnel. Neither \_\_\_\_\_, nor their respective subsidiaries are in default with respect to any provision contained in any insurance policy, and neither have failed to give any notice or present any claim under any insurance policy in due and timely fashion.
- 3.28 No Default. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder will not (a) result in the breach of any of the terms or conditions of, or constitute a default under, the Articles of Incorporation or the By-Laws of or the formation documents of \_\_\_\_\_, or their respective subsidiaries or any contract, agreement, commitment, indenture, mortgage, pledge agreement, note, bond, license or other instrument or obligation to which \_\_\_\_\_, or their respective subsidiaries or any shareholder is now a party or by which \_\_\_\_\_, or their respective subsidiaries or any of the properties or assets of \_\_\_\_\_, or their respective subsidiaries may be bound or affected, or (b) violate any law, or any rule or regulation of any administrative agency or governmental body, or any order, writ, injunction or decree of any court, administrative agency or governmental body.
- 3.29 Customers and Suppliers. No facts are known indicating that any customer or supplier of \_\_\_\_\_, or their respective subsidiaries intends to cease doing business with \_\_\_\_\_, or their respective subsidiaries or to materially alter the amount of business that they are presently or have historically done with \_\_\_\_\_, or

their respective subsidiaries.

3.30 Conflicts of Interest. No director, officer or employee of \_\_\_\_\_ or their respective subsidiaries, including the Shareholders, control or are an employee, officer, director, agent or owner of any corporation, firm, association, partnership or other businesses entity which is a competitor, supplier or customer of \_\_\_\_\_, or their respective subsidiaries.

3.31 Full Disclosure. No representation or warranty of \_\_\_\_\_, or their respective subsidiaries under this Agreement contains or will contain any untrue statement of a material fact or omits or will omit any material fact necessary to make the statements herein not misleading.

3.32 Value of \_\_\_\_\_ and \_\_\_\_\_. Exhibit "C" accurately reflects the net revenue expected to be derived from the \_\_\_\_\_ and \_\_\_\_\_ projects as well as \_\_\_\_\_s share of such net revenues from those projects.

3.33 Freon Regulations. In the event any state or federal law, rule or regulation addressing the use of Freon is adopted, \_\_\_\_\_ and their respective subsidiaries have not entered into any agreement or understanding, and will not enter into any such agreement or understanding prior to Closing, which would require any of them to replace or make any modifications to any Freon-utilizing equipment which they may have sold or installed or may be maintaining.

3.34 No Obligations to Repay Debts Related to \_\_\_\_\_ Project. \_\_\_\_\_ and \_\_\_\_\_ have no responsibility, obligation or liability to pay any debts or obligations of \_\_\_\_\_, including, without limitation, any debt to any lender of \_\_\_\_\_ or to any partner of \_\_\_\_\_ related to the \_\_\_\_\_ project.

4. Representations and Warranties of Buyer. LSB represents and warrants to the Shareholders as follows:

4.1 Organization. LSB is a Delaware corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the corporate power to enter into and to carry out the terms and provisions of this Agreement.

4.2 Agreement Authorized. The execution, delivery and performance of this Agreement by LSB has been authorized by all requisite corporate action on the part of LSB and will not conflict with or result in any breach in the terms, conditions or provisions of LSB's corporate charter, by-laws or any other instrument to which LSB is a party.

4.3 Securities Law Restrictions. LSB, will, within the meaning of the Securities Act of 1933, acquire the Subject Shares for investment and not with a view to the sale or distribution thereof.

4.4 Obligations. No officer, director, or shareholder of LSB shall have any personal liability or obligation to \_\_\_\_\_ or any other person under the terms of this agreement or under any expressed or implied obligation, concept, principle or legal theory.

5. Additional Agreements of Parties.

5.1 Changes in Directors of \_\_\_\_\_. On the Closing Date, the Shareholders will cooperate with LSB in arranging to have available immediately after the Closing the transfer books of \_\_\_\_\_, and their respective subsidiaries and to cause such action to be taken by the officers and directors of \_\_\_\_\_, and their respective subsidiaries as may be required in order that the Subject Shares delivered hereunder may forthwith be transferred of record to LSB or its designee and in order that LSB or its designee may cause such changes to be effected in the Board of Directors and officers of \_\_\_\_\_, and their respective subsidiaries as LSB or its designee may desire.

5.2 Conduct of Business. From June 30, 1994 to the Closing Date, the Shareholders, \_\_\_\_\_ and \_\_\_\_\_ agree that \_\_\_\_\_ and their respective subsidiaries and affiliates shall operate only in the ordinary course and, in particular, shall not engage in any of the following activities without LSB's prior written consent:

5.2.1 Cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

5.2.2 Change its Certificate of Incorporation or Bylaws;

5.2.3 Default under any material contract, agreement, commitment or undertaking of any kind;

5.2.4 Violate or fail to comply with all laws applicable to it or its properties or business, to the extent that the violation or failure to comply would have a materially adverse effect

on \_\_\_\_\_;

- 5.2.5 Commit any act or permit the occurrence of any event or the existence of any condition prohibited by the terms of this Agreement;
- 5.2.6 Enter into any material contract, agreement or other commitment;
- 5.2.7 Fail to maintain and repair its assets in accordance with good standards of maintenance and as required in any leases or other agreements pertaining to its assets; or
- 5.2.8 Merge, consolidate or agree to merge or consolidate with or into any other corporation.
- 5.2.9 Issue any stock to anyone other than LSB.
- 5.2.10 Create or assume any indebtedness.
- 5.2.11 Sell, encumber or otherwise dispose of, or grant any security interest in or encumbrance on, any of their assets.
- 5.2.12 Enter into or implement any employee benefit plan.
- 5.2.13 Enter into any employment, consulting or similar contract for or on their behalf.
- 5.2.14 Increase the compensation, deferred compensation or benefits payable to any employee or commissioned agent.
- 5.2.15 Take any action or, by inaction, permit any action to be taken or event to occur, which would cause any representation or warranty made in or pursuant to this Agreement to be untrue as of the Closing.
- 5.2.16 Remove any assets other than those recorded in their books and records as a sale in the ordinary course of business at fair market value price.
- 5.2.17 Take any action that could impair the collectibility of any of their accounts.
- 5.2.18 Enter into any agreement with respect to any of the foregoing.
- 5.3 Access to Information. From and after the date of this agreement, the Shareholders, \_\_\_\_\_ and \_\_\_\_\_ shall give LSB, its legal counsel, accountants and other representatives, upon receipt of reasonable notice in writing, full and free access to all of the employees, properties, books, contracts, commitments and records of \_\_\_\_\_ and \_\_\_\_\_ in order to give LSB the full opportunity to make an investigation of the affairs of \_\_\_\_\_ and \_\_\_\_\_, as long as the investigation occurs only during the regular business hours of \_\_\_\_\_ and \_\_\_\_\_ and does not interfere unreasonably with the operation of \_\_\_\_\_ and \_\_\_\_\_. Any investigation (whether heretofore conducted or to be conducted) shall not affect the representations and warranties of Shareholders, \_\_\_ and \_\_\_ contained in this Agreement.
- 5.4 Preservation of Business Organization. The Shareholders, \_\_\_ and \_\_\_ shall use their best efforts to preserve the business organization of \_\_\_\_\_, and their respective subsidiaries, to keep available to LSB the services of the respective officers and employees of \_\_\_\_\_, and their respective subsidiaries, and to preserve for LSB the existing relationship of \_\_\_\_\_, and their respective subsidiaries with all suppliers, customers and others having business relations with \_\_\_\_\_, and their respective subsidiaries.
- 5.5 Additional Financial Statements. \_\_\_, not less than fifteen (15) days of the date of this Agreement, but no later than one (1) week before Closing, will deliver to LSB unaudited financial statements of \_\_\_, including a Balance Sheet as of June 30, 1994, and Statement of Operations for the year ended June 30, 1994 and shall continue to timely provide the same as of the last day of each month thereafter until Closing (the "Additional Unaudited Financials"). The Additional Unaudited Financials will have been prepared in accordance with generally accepted accounting principles, consistently applied, will have been prepared by the management of \_\_\_ and will fairly present the financial position and results of operations of \_\_\_ as of June 30, 1994, and as of the end of each month thereafter.
- 5.6 Materiality. The parties hereto agree that for purposes of this agreement, an occurrence, event or condition shall be deemed "materially adverse" if it results in a reduction of stockholder's equity of \_\_\_\_\_ or their respective subsidiaries in excess of \$20,000.

5.7 Confidential Information. Each Shareholder acknowledges and agrees that \_\_\_\_\_ have developed and uses various proprietary and confidential practices and methods of conducting business, information and data, and computer software and data bases. In particular, each Shareholder acknowledges that \_\_\_\_\_ have developed specialized business methods, techniques, plans and know-how; budgets, financing and accounting techniques and projections; advertising, proposals, applications, marketing materials and concepts; customer files and other non-public information regarding customers; methods for developing and maintaining business relationships with customers and prospective customers; customer and prospect lists; copies of previous insurance policies and renewal dates; procedure manuals; and employee training and review programs and techniques. The foregoing information, software, documents, practices, and methods of conducting business shall hereinafter be referred to as the "Confidential Information." Each Shareholder agrees that the Confidential Information is a trade secret of \_\_\_\_\_, respectively, which shall remain the sole property of \_\_\_\_\_, respectively, notwithstanding that each Shareholder may have participated in the development of the Confidential Information. During the term of this Agreement and at all times thereafter for perpetuity, each Shareholder shall not disclose any Confidential Information to any person or entity for any reason or purpose whatsoever, nor shall any Shareholder make use of any Confidential Information for their own benefit or for the benefit of any other person or entity.

5.8 Prohibition on Solicitation of Customers and Covenant Not to Compete.

5.8.1 For a period of seven (7) years after the Closing Date, no Shareholder shall directly or indirectly, either for themselves or for any other person or entity, solicit any person or entity to terminate or in any manner affect such person's or entity's contractual and/or business relationship with \_\_\_\_\_, or their respective subsidiaries, nor shall any Shareholder interfere with or disrupt or attempt to interfere with or disrupt any such relationship.

5.8.2 Covenant Not to Compete. \_\_\_\_\_ and each Shareholder each acknowledge that each may have considerable specialized knowledge and contacts in the business of \_\_\_\_\_ and their respective subsidiaries and that it is important to \_\_\_\_\_ and their respective subsidiaries that each Shareholder agree not to compete with \_\_\_\_\_ and their respective subsidiaries in the business in which \_\_\_\_\_ and their respective subsidiaries engage in presently or in any business that has any connection with energy savings. As part of the consideration for the Purchase Price during the term of this Section 6.9.1 each Shareholder covenants that each shall not, directly or indirectly, either as an employee, employer, consultant, agent principal, partner, stockholder, corporate officer or director or in any other individual or representative capacity, engage or participate in any business that is in competition with \_\_\_\_\_, or their respective subsidiaries or in any business that uses, distributes, handles or has any connection with energy savings, provided that each Shareholder may invest in publicly traded securities of companies in competition with \_\_\_\_\_, or their respective subsidiaries or mutual funds whose assets include securities of such companies.

5.8.3 Corporate Opportunities. Each Shareholder shall be under an obligation to present in writing, any business opportunity relating to \_\_\_\_\_, or their respective subsidiaries' business of which he becomes aware. Unless \_\_\_\_\_, or their respective subsidiaries notifies such Shareholder to the contrary in writing, \_\_\_\_\_, and/or their respective subsidiaries shall have the right to act in its own interest and pursue any such business opportunity and such Shareholder shall assist \_\_\_\_\_, or their respective subsidiaries as requested. Each Shareholder hereby waives any rights to act on his own behalf with respect to such opportunities unless \_\_\_\_\_, or their respective subsidiaries notifies him in writing that \_\_\_\_\_ will not be pursuing a specific opportunity.

6. Conditions Precedent to Obligations of LSB. The obligations of LSB to pay the Purchase Price and otherwise perform under this Agreement is subject, at LSB's option, to the condition that all representations and warranties and other statements of \_\_\_\_\_ and the Shareholders herein are as of the Closing true and correct and the condition that \_\_\_\_\_ perform all of their obligations hereunder to be performed at or prior to the Closing, and the following additional conditions:

6.1 Certificates. There shall have been furnished or caused to be furnished to LSB at the Closing, certificates of appropriate

- officers of \_\_\_\_\_ and each Shareholder in form and substance satisfactory to LSB as to the continuing accuracy at and as of the Closing of the representations and warranties of \_\_\_\_\_ and the Shareholders and to the performance by \_\_\_\_\_ and the Shareholders of all their obligations hereunder to be performed at or prior to the Closing, together with such other certificates as LSB may reasonably request in connection with the Closing.
- 6.2 Delivery of Subject Shares. Certificates evidencing the Subject Shares, duly executed for transfer to LSB or its designee shall have been delivered to LSB and duly transferred to it on the books of \_\_\_\_.
- 6.3 Board of Directors. The members of the Board of Directors of \_\_\_\_\_ and their respective subsidiaries shall resign their directorships effective as of the Closing, and LSB's designees shall have been elected to such Board of Directors effective as of the Closing.
- 6.4 Counsel to Buyer. All corporate proceedings and related matters in connection with the organization and good standing of \_\_\_\_\_ and their respective subsidiaries the execution and delivery of this Agreement and the consummation of the transactions herein contemplated, and the performance by it of its obligations hereunder shall have been satisfactory to counsel to LSB and such counsel shall have been furnished with such papers and information as he may reasonably have requested to enable him or her to pass on the matters referred to in this section.
- 6.5 Opinion of Counsel to \_\_\_\_\_. Counsel to \_\_\_\_\_ shall have furnished to LSB their written opinion in form satisfactory to LSB to the effect that:
- 6.5.1 \_\_\_\_\_, and \_\_\_\_\_ have been duly incorporated and are validly existing as a corporation in good standing under the laws of the State of California;
- 6.5.2 This agreement has been validly authorized, executed and delivered on the part of \_\_\_\_\_, and is a valid and binding agreement of \_\_\_\_\_ in accordance with its terms;
- 6.5.3 All of the issued and outstanding shares of \_\_\_\_\_, including the Subject Shares, have been duly authorized, validly issued and are fully paid, nonassessable shares.
- 6.5.4 \_\_\_\_\_ have no responsibility, obligation or liability to pay any debts or obligations of \_\_\_\_\_, including, without limitation, any debt to any lender of \_\_\_\_\_ or to any partner of \_\_\_\_\_ related to the \_\_\_\_\_ project.
- 6.6 No Litigation. No suit or action, investigation, inquiry or request for information by any administrative agency, governmental body or private party, and no legal or administrative proceeding shall have been instituted or threatened which questions or reasonably appears to portend subsequent questioning of the validity or legality of this agreement or the transactions contemplated by this agreement, or which materially and adversely affects or questions the title of \_\_\_\_\_, or their respective subsidiaries to any of its properties or its ability to conduct its business.
- 6.7 Consents. All consents from third parties required to consummate the transactions provided for in this agreement shall have been obtained.
- 6.8 No Change. There shall have been no material adverse change in the condition or obligations of \_\_\_\_\_, or their respective subsidiaries (financial or otherwise).
- 6.9 Loss. \_\_\_\_\_, or their respective subsidiaries will not have sustained a substantial loss (whether or not insured) as a result of fire, flood or other casualty which in the sole judgment of LSB affects materially or interferes with the continuous conduct of its business.
- 6.10 Subsequent Information. All exhibits, lists, contracts and other documents hereafter furnished to LSB by Shareholders, \_\_\_\_\_ or discovered by LSB, including copies of pleadings and rulings relating to litigation and administrative proceedings, and any other information relating to the business and affairs of \_\_\_\_\_ or their respective subsidiaries shall be acceptable to LSB.
- 6.11 Employment Agreement. \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ shall have each executed and delivered to LSB at or before Closing an Employment Agreement in the form attached hereto as Exhibit "A" and made a part hereof by reference, which reflects an "Initial Term" of five (5) years for \_\_\_\_\_ and \_\_\_\_\_, respectively, and an "Initial Term" of three (3) years for \_\_\_\_\_. All previous employment

and/or compensation agreements and/or arrangements between \_\_\_\_\_(or their respective subsidiaries or affiliates) and either \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_ shall be deemed null and void upon such execution and delivery.

- 6.12 Loan Agreement. The Loan Agreement and the Loan Documents (as that term is defined in the Loan Agreement) have been fully executed and no Default or Event of Default exists under the Loan Agreement or the Loan Documents.
- 6.13 Termination of Shareholders' Agreement. On or before Closing, that certain Shareholders' Agreement dated April 11, 1991 by and between \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_ shall be terminated and of no force or effect.
- 6.14 The closing under the \_\_\_\_\_ Stock Purchase Agreement shall occur simultaneously with the Closing of this Agreement.
7. Conditions for the Benefit of the Shareholders. The obligations of the Shareholders hereunder at the Closing shall be subject, at their option to the following conditions:
8. Representations and Warranties. All representations and warranties and other statements of LSB herein are at and as of the Closing materially true and correct.
- 8.1 Performance of Obligations. LSB shall have performed all of its obligations hereunder to be performed at or prior to the Closing.
- 8.2 No Suits. At the Closing Date, there shall not have been instituted any suit, action, or other proceeding or any investigation in any court or governmental agency in which it is sought to restrain or prohibit the consummation of the transactions contemplated by this agreement.
9. Survival of Representations and Warranties. Except the representations and warranties of LSB (which shall not survive the Closing), all of the representations and warranties of \_\_\_\_\_ and the Shareholders hereunder shall survive the Closing for a period of one (1) year from the Closing Date; provided, however, \_\_\_\_\_ and the Shareholders shall have no liability with respect thereto unless LSB's loss occasioned thereby exceeds \$20,000.00, and provided further, representations and warranties regarding the payment of taxes shall remain in force and effect as long as liability therefor remains in effect.
10. Expenses. Except as otherwise herein provided, each party hereto will bear and pay its or his own expenses of negotiating and consummating the transactions contemplated hereby.
11. Notices.
- 11.1 All notices, requests, demands, instructions or other communications called for hereunder or contemplated hereby, shall be in writing, shall be deemed to have been given if personally delivered, or if mailed, by registered or certified mail, return receipt requested, to the parties at the addresses set forth below. The date of personal delivery shall be the date of giving notice or if any notice, request, demand, instruction or other communication given or made by mail in the manner prescribed above shall be deemed to have been given three (3) business days after the date of mailing. Any party may change the address to which notices are given, by giving notice in the manner herein provided.
- 11.1.1 Notices to LSB shall be addressed as follows:
- LSB Industries, Inc.  
16 South Pennsylvania  
Oklahoma City, Oklahoma 73107  
Attention: President
- with a copy to:
- LSB Industries, Inc.  
16 S. Pennsylvania  
Oklahoma City, OK 73107  
Attention: Office of General Counsel
- 11.1.2 Notices to \_\_\_\_\_ shall be addressed as follows:
- \_\_\_\_\_  
\_\_\_\_\_  
Santa Monica, CA 90401  
Attn: President
- \_\_\_\_\_  
\_\_\_\_\_  
Santa Monica, CA 90401

Attn: President

11.1.3 Notices to the Shareholders shall be addressed as follows:

\_\_\_\_\_  
\_\_\_\_\_  
Santa Monica, CA 90403

\_\_\_\_\_  
\_\_\_\_\_  
Long Beach, CA 90815

\_\_\_\_\_  
\_\_\_\_\_  
Honolulu, HI 96815

11.2 The mailing of any notice, request, demand, instruction or other communication hereunder shall be accomplished by placing such writing in an envelope addressed to the party entitled thereto as provided above and deposited in the United States mail, properly stamped for delivery as a registered or certified letter.

12. LSB's Right of First Refusal on Non-Subject Shares. If, at any time, or from time to time, should any Shareholder elect to sell, convey, assign, or otherwise transfer to a third party or entity whomsoever the shares of \_\_\_ owned by them that are not subject to this Agreement as part of the Subject Shares ("Non-Subject Shares"), or any part or interest therein, each Shareholder hereby grants to LSB the first and preferential right and option to purchase fee simple title to the Non-Subject Shares or to the part or interest therein which such Shareholder intends to sell, convey, assign, or otherwise transfer, under the same terms and conditions proposed by or to such third party or entity as contained in a bona fide offer or conditional acceptance of offer from such third party or entity. With respect to any proposed sale, conveyance, assignment, contract or other transfer of the Non-Subject Shares, each Shareholder seeking to sell Non-Subject Shares shall comply with the following requirements:

12.1 Notice by Shareholder. Each Shareholder seeking to sell Non-Subject Shares shall give LSB written notification of such proposal, offer or conditional acceptance of any such offer that has been made and accepted (subject to Buyer's first and preferential right and option to purchase), and each Shareholder seeking to sell Non-Subject Shares shall attach to the said notification the tendered contract, or a true copy thereof, that contains all necessary elements and information to constitute a legally binding contract obligating the transferee to perform, said contract being signed and acknowledged by said transferee, who is ready, willing and able to perform.

12.2 Transfer of Right of Refusal. LSB shall have the right to transfer, convey and assign to any third party whomsoever such first and preferential right and option to purchase the Non-Subject Shares, and the holder of such right of first refusal by any assignment shall have the full right, power and authority to exercise on its own behalf or for the account of itself or its designee or assignee, any and all rights and privileges incident thereto.

12.3 Exercise of Right. LSB shall notify in writing within fifteen (15) business days of said written notification from each Shareholder seeking to sell Non-Subject Shares as to LSB's election to exercise its first and preferential right and option to purchase the Non-Subject Shares. If LSB has not given said notification within fifteen (15) business days, each Shareholder seeking to sell Non-Subject Shares may proceed to close the sale or other transfer to said third party or entity, provided that said sale or other transfer is consummated at the same sum and under the same terms and conditions contained in the contract attached to said notification and on the closing dates set out therein. If LSB (or its designee or assignee) should elect to exercise its option to purchase, by written notification to each Shareholder seeking to sell Non-Subject Shares within said fifteen (15) business days, the transfer to LSB shall be consummated on the closing date and under the same terms and conditions contained in the contract from said third party or entity.

12.4 Continuing Right. The first and preferential right and option to purchase shall be effective and shall apply at all times to any and all proposed sales, conveyances, assignments, contracts and other transfers by any Shareholder of their Non-Subject Shares or any interest therein for a period of ten (10) years from the date of this Agreement. Any sale, conveyance, assignment, contract or transfer by any Shareholder of their Non-Subject Shares or any interest therein within ten (10) years from the date hereof shall be made expressly subject to the provisions of this right of first refusal. Such first and preferential right and option to purchase shall terminate on the date which is ten (10) years from the date hereof with respect to rights which have not accrued by that date.

13. LSB's Sale of Stock. If, LSB should elect to sell the shares of \_\_\_ stock to be acquired by LSB under this Agreement (collectively the "LSB's Shares"), or any part or interest therein, LSB agrees that it shall provide each Shareholder that may then own any of the Non-Subject Shares the opportunity for their Non-Subject Shares to be included in any such sale on the same terms and conditions afforded to LSB to the extent of their Sharing Percentage (as that term is defined below). The "Sharing Percentage" of any Shareholder shall mean that percentage of the total number of Shares of \_\_\_ Stock to be sold which is to be contributed by that particular Shareholder, which percentage shall be the same percentage that the number of Non-Subject Shares owned by that particular Shareholder bears to the total number of all LSB's Shares and Non-Subject Shares then outstanding. With respect to any proposed sale of LSB's Shares, each Shareholder and LSB shall comply with the following requirements:

13.1 Notice. LSB shall give each Shareholder then owning any of the Non-Subject Shares, written notification of such proposal, offer or conditional acceptance that has been made and LSB shall attach to the said notification the tendered contract, or a true copy thereof.

13.2 Exercise of Right. Each Shareholder shall notify LSB in writing within fifteen (15) business days of said written notification as to their election to exercise their right for their Non-Subject Shares to be included in the sale. If any Shareholder has not given said notification within fifteen (15) business days, LSB may proceed to close the sale without participation of that Shareholder, provided that said sale or other transfer is consummated at the same sum and under the same terms and conditions contained in the contract attached to said notification.

13.3 Continuing Right. The right for the Non-Subject Shares to be included in any such sale shall be effective and shall apply at all times to any and all proposed sales by LSB of LSB's Shares or any interest therein for a period of ten (10) years from the date of this Agreement and such right shall terminate on the date which is ten (10) years from the date hereof with respect to rights which have not accrued by that date.

14. Miscellaneous.

14.1 Full Agreement - No Oral Modification. This Agreement embodies all representations, warranties and agreements of the parties and supersedes all negotiations and agreements prior to the execution of this Agreement. This Agreement may not be altered or modified except by an instrument in writing signed by the parties.

14.2 Benefit of Agreement. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns; provided, however, that no assignment of this Agreement shall be made to any party other than any of LSB's subsidiaries or affiliates without the written consent of the other party, which consent shall not be unreasonably withheld.

14.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and performed entirely therein.

14.4 Counterparts. This Agreement may be executed in any number of counterparts, which taken together shall constitute one and the same instrument, and each of which shall be considered an original for all purposes.

14.5 Section Headings. The section headings contained in this Agreement are for convenience and reference only and shall not in any way affect the meaning or interpretation of this Agreement.

14.6 Severability. All Agreements and covenants contained herein are severable, and in the event any of them should be held to be invalid by a court of competent jurisdiction, this Agreement shall be interpreted and enforced as if such invalid Agreements or covenants were not contained herein.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and year first above written.

\_\_\_\_\_  
By:

\_\_\_\_\_  
, President

By: \_\_\_\_\_, President

LSB INDUSTRIES, INC.

By:

\_\_\_\_\_ individually

\_\_\_\_\_ individually

\_\_\_\_\_ individually

Attachments:

- Exhibit "A" - Form of Employment Agreement
- Exhibit "B" - List of Suits, Claims, etc.
- Exhibit "C" - Statement of Net Revenue Expected from \_\_\_\_\_ and \_\_\_\_\_  
Projects

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