

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 March 31, 1994

OR

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

For The transition period from _____ to _____

Commission file number 1-7677

LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter

DELAWARE

73-1015226

State or other jurisdiction of
incorporation or organization

I.R.S. Employer
Identification No.

16 South Pennsylvania, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES x NO

The number of shares outstanding of the Registrant's voting Common Stock, as
of May 10, 1994 is 13,639,691 shares excluding 900,085 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 March 31, 1994, the condensed consolidated statements of income and cash
flows for the three month periods ended March 31, 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,
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
three months ended March 31, 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 March 31, 1994 is unaudited)

(Dollars in thousands)

ASSETS	March 31, 1994	December 31, 1993
		(Note 1)
Current assets:		
Cash	\$ 7,691	\$ 2,781
Trade accounts receivable, net of allowance	57,524	49,533
Inventories:		
Finished goods	30,930	26,940
Work in process	7,638	9,643
Raw materials	9,380	11,801
Total inventory	47,948	48,384
Supplies and prepaid items	2,628	5,459
Total current assets	115,791	106,157
Operating property, plant and equipment, net	62,830	60,526
Investments and other assets:		
Loan receivable, secured by real estate	13,968	13,968
Other real estate properties	4,581	5,200
Other assets	11,681	10,187
Total investments and other assets	30,230	29,355
	\$ 208,851	\$ 196,038

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Continued)
(Information at March 31, 1994 is unaudited)
(Dollars in thousands)

LIABILITIES, PREFERRED AND COMMON STOCKS AND OTHER STOCKHOLDERS' EQUITY	March 31, 1994	December 31, 1993
		(Note 1)
Current liabilities:		
Drafts payable	\$ 592	\$ 1,220
Accounts payable	35,332	22,645
Accrued liabilities	5,855	6,752
Current portion of long-term debt	15,967	9,763
Total current liabilities	57,746	40,380
Long-term debt	37,526	20,508
Net liabilities of Financial Services Business to be sold in 1994 (Note 2)	37,470	60,124
Contingencies (Note 7)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,619 shares issued and outstanding (1,637 in 1993)	154	155
Non-redeemable preferred stock, common stock and other stockholders' equity (Notes 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 and outstanding	46,000	46,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,539,776 shares issued (14,514,056 in 1993)	1,454	1,451
Capital in excess of par value	37,164	37,120
Accumulated deficit	(6,161)	(7,541)
	<hr/>	<hr/>
	80,447	79,030
Less common treasury stock, 880,085 shares (840,085 in 1993), at cost	4,502	4,159
	<hr/>	<hr/>
Total non-redeemable preferred stock, common stock and other stockholders' equity	75,945	74,871
	<hr/>	<hr/>
	\$ 208,851	\$ 196,038

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
Three Months Ended March 31, 1994 and 1993
(Dollars in thousands, except per share amounts)

	1994	1993
	<hr/>	<hr/>
		(Note 1)
Revenues:		
Net sales	\$ 63,851	\$ 52,597
Other income - net	501	796
	<hr/>	<hr/>
	64,352	53,393
Costs and expenses:		
Cost of sales	49,493	39,311
Selling, general and administrative expense	11,168	9,619
Interest expense	1,681	2,183
	<hr/>	<hr/>
	62,342	51,113
Income from continuing operations before provision for income taxes	2,010	2,280
Provision for income taxes	152	125
	<hr/>	<hr/>
Income from continuing operations	1,858	2,155
Income from discontinued operations, net of income taxes (Note 2)	346	502
	<hr/>	<hr/>
Net income	\$ 2,204	\$ 2,657
Net income applicable to common stock (Note 4)	\$ 1,380	\$ 2,580
Average common shares outstanding (Note 4):		
Primary	14,413,581	10,348,489
Fully diluted	15,084,247	14,785,875
Earnings per common share (Note 4):		
Primary:		
Income from:		
Continuing operations	\$.08	\$.20
Discontinued operations	.02	.05
	<hr/>	<hr/>
Net income	\$.10	\$.25
Fully diluted:		
Income from:		
Continuing operations	\$.08	\$.15
Discontinued operations	.02	.03
	<hr/>	<hr/>
Net income	\$.10	\$.18

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended March 31, 1994 and 1993
(Dollars in thousands)

	1994	1993
		(Note 1)
Cash flows from continuing operations:		
Income from continuing operations	\$ 1,858	\$ 2,155
Adjustments to reconcile income from continuing operations to cash flows provided (used) by continuing operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	1,671	1,423
Other	237	217
Provision for bad debts	367	82
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(8,358)	(6,143)
Inventories	436	283
Supplies and prepaid items	2,831	(1,114)
Other assets	(1,730)	(268)
Accounts payable	12,687	6,157
Accrued liabilities	(819)	(2,031)
Net cash provided by continuing operations	9,100	761
Cash flows from investing activities of continuing operations:		
Capital expenditures	(3,975)	(1,428)

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
(Unaudited)
Three Months Ended March 31, 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	\$ (688)	\$ (487)
Net change in revolving loan	23,910	460
Net change in drafts payable	(628)	130
Dividends paid on preferred stocks (Note 6)	(824)	(76)
Purchases of treasury stock (Note 6)	(343)	-
Net proceeds from issuance of common stock (Note 6)	46	1,884
Net decrease in receivables sold to discontinued operations	(21,688)	(291)
Net cash provided (used) by financing activities from continuing operations	(215)	1,620
Net increase in cash from continuing operations	4,910	953
Cash flows from discontinued operations:		
Cash provided (used) by discontinued operations	10,634	(11,864)
Cash provided by investing activities	18,050	7,633
Cash used in financing activities	(24,266)	(4,022)
Net increase (decrease) in cash from discontinued operations	4,418	(8,253)
Net increase (decrease) in cash from all activities	9,328	(7,300)
Cash and cash equivalents at beginning of period	11,687	33,271
Cash and cash equivalents at end of period	21,015	25,971
Less cash and cash equivalents of discontinued operations at end of period	13,324	23,190

Cash - continuing operations at end of period \$ 7,691 \$ 2,781

(See accompanying notes)

LSB INDUSTRIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Three months Ended March 31, 1994 and 1993

Note 1: The accompanying financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries, with the accounts of its financial services subsidiary, anticipated to be sold in 1994 (see Note 2 below), classified as discontinued operations. Accordingly, classification of certain comparative information from 1993 has been reclassified to conform with the current presentation. The assets and liabilities of the Company's financial services subsidiary, anticipated to be sold in 1994, are as follows:

	March 31, 1994	December 31, 1993
Assets:		(In thousands)
Cash and cash equivalents	\$ 13,324	\$ 8,906
Loans and mortgage backed securities, net	331,117	359,303
Other securities	7,967	7,806
Property and equipment, net	5,382	5,144
Excess of purchase price over net assets acquired, net	16,257	17,041
Other assets	2,903	3,273
	376,950	401,473
Liabilities:		
Deposits	326,052	332,511
Securities sold under agreement to repurchase	24,233	38,721
Federal Home Loan Bank advances	62,650	87,650
Accrued liabilities	1,485	2,715
	414,420	461,597
Net liabilities to be sold	\$ 37,470	\$ 60,124

Note 2: Under a stock purchase agreement, dated as of February 9, 1994, (the Acquisition Agreement) the Company agreed to sell its wholly-owned subsidiary, Equity Bank for Savings, F.A. (Equity Bank), which constitutes the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser"). The Purchaser is to acquire all of the outstanding shares of capital stock of Equity Bank. The closing of this transaction is contingent upon several factors including regulatory approvals, minimum tangible book value (as defined), and acceptance by the Company of the selling price determined under the terms of the Acquisition Agreement. All regulatory and shareholder approvals necessary to complete the sale of Equity Bank have been obtained with the exception of approval by the Office of Thrift Supervision ("OTS"), which approval the Company anticipates will be obtained prior to the closing of this transaction.

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

The Company currently expects that the purchase price to be paid by the Purchaser for Equity Bank will be approximately \$92 million, subject to

determination and adjustment in accordance with the Acquisition Agreement (the Purchase Price). The Purchase Price is based on a number of estimates, and the amount of the Purchase Price cannot be determined exactly until the closing of the sale of Equity Bank. The Company will use approximately \$65.3 million, plus interest, of the Purchase Price to repay certain indebtedness the Company intends to incur to finance the purchase from Equity Bank of the Retained Corporations. In addition, it is anticipated that the Company will use approximately \$18.5 million of the Purchase Price to purchase from Equity Bank the Retained Assets, which is the carrying value of the Retained Assets on the books of Equity Bank as of March 31, 1994. As of this date, the Company has made no decision if it will acquire any of the Other Loans.

As of March 31, 1994, Equity Bank owned approximately \$13.5 million of the Receivables, which if the closing occurs on or about June 1, 1994, the Company expects such to be less than \$10 million as of the closing. The Company has secured a temporary accounts receivable line of credit of \$25 million to replace, in whole or in part, the accounts receivable financing provided by Equity Bank. The Company expects to secure a long-term comprehensive line of credit at or near the closing of the sale of Equity Bank to provide financing for the Company's needs. The Company expects to use the proceeds from the new accounts receivable line of credit to finance the repurchase of the Receivables from Equity Bank at the closing.

The balance of the Purchase Price, if any, remaining after (i) repayment of the indebtedness incurred by the Company to purchase the Retained Corporations, (ii) purchase from Equity Bank of the Retained Assets, and (iii) payment of the transactional costs relating to the sale of Equity Bank under the Acquisition Agreement will be used by the Company for general working capital. However, the following unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 1994, does not assume that any balance of the Purchase Price remains after the sale transaction takes place.

The following unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 1994 is presented to give effect to the proposed sale of Equity Bank.

The pro forma adjustments reflected herein are based on available information and certain assumptions that the Company's management believes are reasonable. Pro forma adjustments made in the Pro Forma Condensed Consolidated Balance Sheet assume that the sale of Equity Bank was consummated on March 31, 1994, and do not reflect the impact of Equity Bank's historical operating results or changes in other balance sheet amounts subsequent to March 31, 1994. The Pro Forma Condensed Consolidated Balance Sheet is based on assumptions and approximations and, therefore, does not reflect in precise numerical terms the impact of the transaction on the historical financial statements. In addition, such pro forma financial statements should not be used as a basis for forecasting the future operations of the Company.

Pro Forma Condensed Consolidated Balance Sheet
(Unaudited)

March 31, 1994

	Pro Forma Adjustments			As
	Actual	(Note A)	(Note B)	Adjusted
(Amounts in thousands)				
Assets				
Current Assets:				
Cash	\$ 7,691	\$ 65,320	\$(65,320)	\$ 7,691
Trade accounts receivable, net	57,524			57,524
Inventories	47,948			47,948
Supplies and prepaid items	2,628			2,628
	115,791	65,320	(65,320)	115,791
Operating property, plant and equipment, net	62,830		(2,472)	60,358
Investments and other assets:				
Loan receivable, secured by real estate	13,968		(3,860)	10,108
Other real estate properties	4,581			4,581
Other assets	11,681			11,681
	30,230		(3,860)	26,370
	\$208,851	\$65,320	\$(71,652)	\$ 202,519

Liabilities, preferred and common stocks and other stockholders equity

Current Liabilities:				
Drafts payable	\$ 592	\$ -	\$ -	\$ 592
Accounts payable	35,332			35,332
Accrued Liabilities	5,855			5,855
Current portion of long-term debt	15,967			15,967

	57,746		57,746
Long-term debt	37,526		43,664
Notes payable		65,320	(65,320)
Net liabilities of Financial Service Business to be sold in 1994	37,470		(37,470)
Redeemable, noncumulative, convertible preferred stock	154		154
Non-redeemable preferred stock, common stock and other stockholders equity	75,955	25,000	100,955
	<u>\$208,851</u>	<u>\$65,320</u>	<u>\$(71,652)</u>
			<u>\$202,519</u>
			=====

Note A

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

Note B

Pro forma adjustment to recognize the sale of Equity Bank as though consummated on March 31, 1994. The adjustment is based on an estimated selling price of \$92 million resulting in an estimated financial gain of \$25 million after consideration of costs of the transaction.

Note 3: At March 31, 1994, the Company has net operating loss ("NOL") carryforwards for tax purposes of approximately \$101 million including approximately \$64 million allocable to Equity Bank. (See Note 2 for discussion of proposed sale of Equity Bank.) Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$600,000, which expire beginning in 1994.

The Company's provision for income taxes for the three months ended March 31, 1994 of \$.2 million are for current state income taxes and federal alternative minimum tax.

Note 4: Primary earnings per common share are based upon 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 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 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 \$12.0 million in notes. The Company has been advised that the customer has agreed to repurchase from the Purchaser of the Interest up to \$6 million of such equity interest over a six-year period, with payment to the Purchaser of the Interest to be either in cash or bearing products. The notes issued to the subsidiary for its rights to the equity interest in the customer will only be payable when, as and if the Purchaser of the Interest collects from the customer for such equity interest, and the method of payment to the subsidiary will be either cash or bearing products, in the same manner as received by the Purchaser of the Interest from the customer. Due to the Company's inability to determine what payments, if any, it will receive on such notes, the Company will 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. Since the inception of the contract, the Company has collected \$13.9 million of the contract price and recognized sales and cost of sales of \$14.8 million and \$5.5 million, respectively. For the three months ended March 31, 1994, the Company recognized sales and cost of sales of \$1.1 million and \$.7 million, respectively. The cumulative effect of future revisions in the contract terms or total cost estimates will be reflected in the period in which these changes become known.

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 three months ended March 31, 1994:

	Common Stock		Non-redeemable Preferred Stock	Capital in excess of par Value	Accumulated Deficit	Treasury Stock	Total
	Shares	Par Value					
(In thousands)							
Balance at December 31, 1993	14,514	\$1,451	\$48,000	\$37,120	\$(7,541)	\$(4,159)	\$74,871
Net Income	-	-	-	-	2,204	-	2,204
Conversion of 18 shares of redeemable preferred stock to common stock	1	-	-	1	-	-	1
Exercise of stock options for cash	25	3	-	43	-	-	46
Dividends declared:							
Series B 12% preferred stock (\$3.00 per share)	-	-	-	-	(60)	-	(60)
Redeemable preferred stock (\$10.00 per share)	-	-	-	-	(16)	-	(16)
Series 2 preferred stock (\$.81 per share)	-	-	-	-	(748)	-	(748)
Purchase of treasury stock	-	-	-	-	-	(343)	(343)
		(1)					(2)
Balance at March 31, 1994	14,540	\$1,454	\$48,000	\$37,164	\$(6,161)	\$(4,502)	\$75,955

(1)

Includes 880,085 shares of the Company's Common Stock held in treasury. Excluding the 880,085 shares held in treasury, the outstanding shares of the Company's Common Stock at March 31, 1994 were 13,659,691.

(2)

See Pro Forma Condensed Consolidated Balance Sheet presented in Note 2 for the anticipated effect on the Company's Stockholders' Equity of the proposed sale of Equity Bank.

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. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

- B. The primary manufacturing facility of the Company's Chemical Business has been placed in the Environmental Protection Agency's (EPA) tracking system ("System") of sites which are known or suspected to be a site of a release of contaminated waste. Inclusion in the EPA's tracking system does not represent a determination of liability or a finding that any response action is necessary, accordingly, no provision for any liability that may result has been made in the consolidated financial statements. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment. The Company has been advised that there have occurred certain releases of contaminants at the Site. In addition, as a result of certain releases of contaminants at the Site, the Company's subsidiary may be subject to assessment of certain civil penalties.

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

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

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

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 March 31, 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 to be sold in 1994, which has been reported as a discontinued operation in the Company's Condensed Consolidated Financial Statements at March 31, 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 proposed 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 three months ended March 31, 1994 and 1993 is detailed below.

Three Months Ended March 31,	
1994	1993

_____	_____
-------	-------

(In thousands)
(Unaudited)

Sales:		
Chemical	\$30,952	\$24,440
Environmental Control	20,252	17,372
Automotive Products	8,564	6,151
Industrial Products	4,083	4,634
	<u>\$63,851</u>	<u>\$52,597</u>
	=====	=====
Gross profit:		
Chemical	\$ 6,088	\$ 5,710
Environmental Control	5,387	4,149
Automotive Products	2,012	2,155
Industrial Products	871	1,272
	<u>\$14,358</u>	<u>\$13,286</u>
	=====	=====
Operating profit (loss):		
Chemical	\$ 2,889	\$ 3,470
Environmental Control	2,093	1,330
Automotive Products	(115)	817
Industrial Products	(217)	230
	<u>4,650</u>	<u>5,847</u>
General corporate expenses	(959)	(1,384)
Interest expense	(1,681)	(2,183)
	<u>Income from continuing operations before provision for income taxes</u>	<u>\$ 2,010</u>
	=====	<u>\$ 2,280</u>
	=====	=====

RESULTS OF OPERATIONS

Three months ended March 31, 1994 vs. Three months ended March 31, 1993.

Revenues

Total revenues for the three months ended March 31, 1994 and 1993 were \$64.4 million and \$53.4 million, respectively (an increase of \$11.0 million). Interest and other income included in total revenues was \$.5 million in 1994, compared to \$.8 million for 1993. This decrease of \$.3 million resulted primarily from one-time insurance claim proceeds recorded in the first quarter of 1993. Consolidated net sales included in total revenues for the three months ended March 31, 1994 were \$63.9 million, compared to \$52.6 million for the first three months of 1993, an increase of \$11.3 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of \$6.5 million, primarily due to favorable weather conditions for seasonal fertilizer sales, higher price of ammonia being partially passed through to customers, the acquisition of Total Energy Systems Limited ("TES") in July, 1993, and higher sales of Universal Tech Corporation ("UTC"), offset by reduced sales by Slurry Explosives Corporation ("Slurry") due to unfavorable weather conditions in some of their market areas; (ii) increased sales in the Environmental Control Business of \$2.9 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 \$2.4 million due to an expanded customer base in 1994, and (iv) decreased sales in the Industrial Products Business of \$.5 million, primarily due 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 was 22.5% for the first three months of 1994, compared to 25.3% for the first three months of 1993. The decline in the gross profit percentage was due primarily to (i) revisions to the estimates to complete the foreign sales contract which caused the percentage of completion calculation to yield a lower gross profit percentage in the first three months of 1994 than was calculated for the first three months of 1993; and (ii) higher cost of the primary raw material (ammonia) in the Chemical Business. During the first three months of 1994 the average cost of ammonia was approximately 14.4% higher than the average cost of ammonia during the first three months of 1993. This higher cost was not fully passed on to customers in the form of price increases. These factors were offset in part by gross profit improvement 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 quarter of 1993.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 17.6% in the three months ended March 31, 1994 and 18.3% in the first three months of 1993. As sales increased, normal SG&A expenses did not increase proportionally, thus resulting in a lower percentage.

Interest Expense

Interest expense for the Company was approximately \$1.7 million during the three months ended March 31, 1994 compared to approximately \$2.2 million during the three months ended March 31, 1993. The decrease primarily resulted from lower average balances of borrowed funds.

Income Before Taxes

The Company had income from continuing operations before income taxes of \$2.0 million in the first quarter of 1994 compared to \$2.3 million in the three months ended March 31, 1993. The decreased profitability of \$.3 million was primarily due to lower gross profit margins realized on sales in the Chemical Division and on the foreign sales contract as previously discussed.

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 three months ended March 31, 1994 and the three months ended March 31, 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 \$.4 million in the first quarter of 1994 compared to \$.5 million in the first quarter of 1993. This decreased profitability is primarily due to the effects of higher interest rates on the operations of that business in 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. As a regulated business, Equity Bank is limited in the transactions which it can enter into with the Company, except as specifically approved by the appropriate regulatory agencies. As a result, the Company does not guarantee the obligations of Equity Bank nor does Equity Bank guarantee the obligations of the Company.

Proposed Sale of Equity Bank - As previously discussed, the Company and Fourth Financial Corporation ("Fourth Financial") have entered into the Acquisition Agreement, whereby the Company has agreed to the sale of Equity Bank, which constitutes the Financial Services Business of the Company, to Fourth Financial. Fourth Financial is to acquire all of the outstanding shares of capital stock of Equity Bank. Under the Acquisition Agreement, the Company is to acquire from Equity Bank (i) prior to the completion of the sale of Equity Bank under the Acquisition Agreement certain subsidiaries of Equity Bank ("Retained Corporations") that own the assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying values of such Retained Corporations at the time of the acquisition of the Retained Corporations from Equity Bank, which is anticipated to be approximately \$65.3 million, and (ii) at the time of the closing of the sale of Equity Bank under the Acquisition Agreement, the Equity Tower Loan and other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure ("OREO"), which have collectively been previously defined as the "Retained Assets". The Retained Assets are to be acquired for an amount equal to Equity Bank's carrying value of the Retained Assets at time of closing of the sale of Equity Bank, which is anticipated to be approximately \$18.5 million. In addition, the Company has the option, but not the obligation, to acquire any loan owned by Equity Bank at book value or \$1.00 in the case of a loan that has been charged off ("Other Loans").

The Company currently expects that the Purchase Price to be paid by Fourth Financial for Equity Bank will be approximately \$92 million, subject to determination and adjustment in accordance with the Acquisition Agreement. The Purchase Price is based on a number of estimates, and the amount of the Purchase Price will not be determined exactly until the closing of the sale of Equity Bank. Of the approximately \$92 million, the Company will use approximately \$65.3 million, plus interest, to repay a certain indebtedness the Company intends to incur to finance the purchase from Equity Bank of the Retained Corporations. In addition, the Company will use approximately \$18.5 million (Equity Bank's carrying value at March 31, 1994) to purchase the Retained Assets. As of this date, the Company has made no decision if it will acquire any of the Other Loans. The Company is further required under the Acquisition Agreement to purchase from Equity Bank at the closing of the proposed sale the outstanding amount of Receivables. As of March 31, 1994, Equity Bank owned \$13.5 million of such Receivables. The Company plans to use borrowings from the Bank IV Line of Credit discussed elsewhere in this Liquidity and Capital resources section to purchase such Receivables from Equity Bank. Further, the Company will use the net balance of the Purchase Price, if any (after repaying the indebtedness incurred to purchase the Retained Corporations and paying for the Retained Assets and transactional costs relating to the sale of Equity Bank) for general working capital purposes.

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

As a federally chartered savings institution, the acquisition of Equity Bank by Fourth Financial is subject to regulatory approvals. The proposed sale of Equity Bank is conditioned on, among other things, the price to be paid by Fourth Financial is to be no less than \$92 million. The Company has the right to cancel the transaction if the price is less than \$92 million. As of the date of this report, both shareholder and regulatory approvals have been received. It is anticipated that the sale of Equity Bank will occur on or before June 1, 1994. See Note 2 of Notes to Condensed Consolidated Financial Statements.

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

(1) Pursuant to approvals by the then appropriate governmental agency in 1988, the Company and its subsidiaries have been selling eligible accounts receivable to Equity Bank with recourse to the particular seller. Under such arrangement, accounts receivable were sold to Equity Bank at 100% of the unpaid face value of such account receivable. Under the prior approvals, the Company and its subsidiaries were allowed to sell Equity Bank, at any one time, up to \$60 million of eligible accounts receivable. The Office of Thrift Supervision ("OTS"), the primary regulator of Equity Bank, has taken the position that the approvals granted in 1988 allowing such accounts receivable transactions between the Company, its subsidiaries and Equity Bank have expired. As a result, Equity Bank and the OTS have agreed that (i) at no one time subsequent to September 28, 1993, but prior to September 1, 1994, shall the total amount of such accounts receivable owned by Equity Bank exceed \$33.6 million; (ii) beginning February 1, 1994, Equity Bank will not purchase any new accounts receivable from the Company and/or its subsidiaries if such would result in Equity Bank owning an amount that would exceed the amount allowed by current regulations for transactions with affiliated companies, which amount is based on a percentage of Equity Bank's capital, and (iii) on and after September 1, 1994, the amount of such accounts receivable owned by Equity Bank at any one time must be in compliance with current regulations for transactions with affiliated companies. At March 31, 1994, \$13.5 million of such accounts receivable were owned by Equity Bank. Assuming that on March 31, 1994, Equity Bank had been required to meet current regulations regarding the amount of such outstanding accounts receivable owned by Equity Bank, the amount of such accounts receivable would have had to be reduced to approximately \$9.6 million as of such date. The Company has temporarily replaced a substantial portion of the accounts receivable financing previously provided by Equity Bank with Bank IV of Oklahoma, N.A. ("Bank IV") a subsidiary of Fourth Financial which is providing Prime Financial Corporation ("Prime"), a wholly-owned subsidiary of the Company, with a \$25 million accounts receivable financing line of credit at 80% of the unpaid face value of such accounts receivable which Prime has purchased from the Company and its subsidiaries ("Bank IV Line of Credit"). The outstanding balance borrowed on the Bank IV Line of Credit at March 31, 1994 was \$10 million. The Bank IV Line of Credit is temporary and will expire during 1994 unless extended. The Company intends to continue to use the accounts receivable financing arrangement with Equity Bank to the extent described above and as allowed by regulations until Equity Bank is sold as discussed elsewhere herein. The Company has begun negotiations for a comprehensive line of credit. Although the Company believes it will be successful in obtaining the comprehensive line of credit to replace most, if not all, of its present credit facilities, there are no assurances that it will be successful in negotiating such.

(2) The Company and its subsidiaries (other than Equity Bank and the Chemical Business) are parties to a credit agreement ("Agreement"), with an unrelated lender ("Lender"), collateralized by certain inventory and certain other assets of the Company and its subsidiaries (including the capital stock of International Environmental Corporation) other than the assets and capital stock of Equity Bank and the Chemical Business. The Credit Agreement provides for a revolving credit facility ("Revolver") for direct borrowing up to \$8 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of

eligible inventory. This Agreement expires on June 30, 1994, but the Company believes the Agreement can be extended at that time. At March 31, 1994, the availability based on eligible collateral approximated the credit line. Borrowings (including letters of credit) under the Revolver outstanding at March 31, 1994, were \$0.4 million. The Revolver requires reductions of principal equal to reductions as they occur in the underlying inventory times the advance rate. The Company presently intends to keep the Agreement in effect if it can renegotiate certain of its terms.

- (3) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corp., which comprise the 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 in conjunction with an unscheduled payment of \$7.2 million in the third quarter of 1993, provides for a seven year term loan of \$28.5 million ("Term Loan"), a \$10 million asset based revolving credit facility ("Revolving Facility"), and an additional revolving credit line of \$7.2 million. The amount borrowed under this additional revolving credit line at March 31, 1994 was the full \$7.2 million. Available borrowings under the additional revolving credit line decreases annually until its termination in March, 1997. The balance of the Term Loan at March 31, 1994 was \$20.6 million. Annual principal payments on the Term Loan escalate each year from \$4.8 million in 1994 to a final payment of \$5.5 million on March 31, 1997. Borrowings under the Revolving Facility are available up to the lesser of \$10 million or the borrowing base. The borrowing base is determined by deducting 100% of Chemical's accounts receivable sold to Equity Bank and Prime from the maximum borrowing availability as defined in the Revolving Facility. The maximum line availability based on eligible collateral under the Revolving Facility at March 31, 1994 was approximately \$8.9 million, net of approximately \$1.1 million reserved for the issuance of a standby letter of credit. At March 31, 1994 there were outstanding borrowings under the Revolving Facility of \$8.9 million. The Revolving Facility requires reductions of principal equal to reductions as they occur in the underlying accounts receivable and inventory times the applicable advance rate, assuming that the outstanding balance under the Revolving Credit Facility is less than the then maximum line availability based on eligible collateral. Borrowings under the Revolving Facility are required to be reduced to zero for forty-five (45) consecutive days annually. Such requirement has not yet been met for 1994. Annual interest at the agreed to interest rates, if calculated on the \$36.7 million outstanding balance at March 31, 1994 would be approximately \$3.9 million. The Term Loan and Revolving Facility are secured by substantially all of the assets and capital stock of Chemical. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, remains .65:1 or below and, (iii) borrowings under the additional revolving credit line of \$7.2 million.

Cash Flows -----

Net cash provided by operating activities in the first three months of 1994, after adjustment for non-cash expenses of \$2.3 million, was \$9.1 million. The net cash provided by operating activities included the following changes in assets and liabilities: (i) accounts receivable increased \$8.4 million; (ii) accounts payable and accrued liabilities increased \$11.8 million; (iii) inventory decreased \$0.4 million; and, (iv) supplies and prepaid items and other assets decreased \$1.1 million. The increase in accounts receivable is due to higher sales in the Chemical, Environmental Control and Automotive Products Businesses. The increase in accounts payable and accrued liabilities was due primarily to increased business activity in the Chemical, Environmental Control and Automotive Products Businesses, net of a decrease in the amount of drafts issued to purchase inventory in the Automotive Products Business. The reduction in inventory was due to increased sales in the Environmental Control and Automotive Products Businesses, offset by increased inventory in the Chemical Business in anticipation of sales increases resulting from the spring fertilizer season. The decrease in supplies and prepaid items and other assets is primarily due to amortization of certain prepaid insurance premiums, in addition to decreased prepayments in the Chemical Business due to timing of payments to certain vendors for inventory purchases. Financing activities in the first three months of 1994 included net borrowings of \$22.6 million used to offset reductions in accounts receivable sold of \$21.7 million resulting from termination of the accounts receivable financing arrangement with Equity Bank, in addition to dividend payments of \$0.8 million and treasury stock purchases of \$0.3 million. Cash flows from investing activities included capital expenditures for property, plant and equipment in the Chemical Business of \$2.8 million related to relocation of an additional nitric acid plant acquired in 1993 in addition to normal capital improvements, and capital expenditures of \$0.8 million in the Environmental Control Business primarily for acquisition of certain equipment

to support the manufacturing processes of this business.

Future cash requirements include working capital requirements for anticipated sales increases in the Environmental Control Business, the Chemical Business and the Automotive Products Business, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the Chemical Business' revolving credit facilities previously discussed and the accounts receivable financing provided by Bank IV. As previously discussed, the Bank IV Line of Credit is temporary and will be replaced with the comprehensive line of credit that the Company is attempting to negotiate. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Environmental Control and Automotive Products Businesses. During November 1993, the Company's Chemical Business acquired an additional concentrated nitric acid plant and related assets for approximately \$1.9 million. The Chemical Business is in the process of moving such plant and assets from Illinois to, and installing such at, its manufacturing plant located in El Dorado, Arkansas. The Company anticipates that the total amount that will be expended to acquire, move and install the plant and assets will be approximately \$12.0 million for which the Company expects to obtain financing secured by such assets. At March 31, 1994, the Company had incurred and paid approximately \$3.8 million of the estimated \$12.0 million. The Company expects the plant and asset installation to be complete and operational by the end of 1994. The Company also has planned capital expenditures for the Environmental Control Business to acquire certain machinery and equipment for approximately \$4 million in 1994. Approximately \$2 million of these expenditures are expected to be financed by the sellers of said machinery and equipment. The remaining \$2 million is expected to be financed from operations.

Management believes that cash flows from operations and other sources, including the comprehensive line of credit that the Company is presently negotiating will be adequate to meet its presently anticipated capital expenditure, working capital, debt service and dividend requirements. The Company currently has no material commitment for capital expenditures, other than those related to Chemical's acquisition of an additional concentrated nitric acid plant, the Environmental Control Business' acquisition of machinery and equipment as discussed above, and a commitment of a subsidiary of the Company to purchase from Equity Bank in the year 2000 for the then carrying value for regulatory capital purposes certain of the assets previously contributed by the Company to Equity Bank, all of which are now owned or controlled by the Retained Corporations, presently being leased by Equity Bank to the subsidiary. Equity Bank's carrying value for all of such assets at March 31, 1994 was approximately \$65.3 million. The Company has agreed under the Acquisition Agreement to repurchase all of such assets by purchasing the subsidiaries of Equity Bank that own these assets at least one (1) day prior to consummation of the Acquisition Agreement. However, if the sale of Equity Bank does not occur, the Company believes that it will be able to obtain satisfactory financing from non-affiliated parties to fulfill this commitment on or prior to the date that the subsidiary of the Company is required to purchase such assets.

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 November 11, 1993 the Company's Board of Directors declared a \$12.00 a share annual cash dividend on each outstanding share of its Series B 12% Cumulative Convertible Preferred Stock, \$100 par value, payable January 1, 1994 to stockholders of record on December 1, 1993, which is the annual dividend on this series of preferred stock for 1994. This dividend is being recognized in the Company's financial statements throughout the year as \$3.00 a share in each fiscal quarter. 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 outstanding share of its Convertible Noncumulative Preferred Stock (\$100 par), paid April 1, 1994 to stockholders of record on March 15, 1994.

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 - In March, 1994, a subsidiary of the Company advanced to Deepwater Iodides, Inc. ("Deepwater"), a specialty chemical company, \$450,000 on a demand basis. In connection with the loan, Deepwater and the Company entered into an agreement in principle for the Company to purchase from Deepwater an amount of stock of Deepwater equal to eighty percent of the outstanding shares of Deepwater for approximately \$4 million. The Company anticipates exercising this option prior to the end of 1994, subject to the results of due diligence presently being conducted. This transaction is subject to the parties entering into a definitive agreement.

Settlement of Litigation - In 1993 the Company filed suit against certain transportation companies and certain of the Company's insurers over damage sustained to certain of the Industrial Products Business' machine inventory while in the transportation companies' possession. The Company settled its litigation with one of it's insurers for \$3.6 million, which was paid to the Company on March 11, 1994. Such amounts were accrued in 1993 to the extent that costs and expenses had been previously incurred. The Company continues to pursue litigation against two insurers that were not parties to said settlement and against the transportation companies.

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

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 March 31, 1994, the Company, excluding amounts applicable to Equity Bank, had available NOL carryovers of approximately \$37 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1992, and on the Company's estimates for 1993. These NOL carryovers will expire beginning in the year 1999.

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

Contingencies - As discussed in Note 7 of Notes to the Condensed Consolidated Financial Statements, the Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity it is not possible to determine the outcome.

ERNST & YOUNG

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

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 March 31, 1994, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 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 income, 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.

May 9, 1994

/s/ ERNST & YOUNG

PART II
OTHER INFORMATION

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

On May, 2 1994, the company held a Special Meeting of Stockholders (the "Meeting"). At the Meeting, the Stockholders approved the sale of Equity Bank for Savings, F.A., a wholly owned subsidiary of the Company which comprises the Company's Financial Services Business, to Fourth Financial Corporation pursuant to a Stock Purchase Agreement, dated as of February 9, 1994 (the "Sale"). The Sale was approved with 11,256,493 shares voting "For", 47,229 shares voting "Against", 24,902.5 shares abstaining and broker non-votes. The following shares were entitled to vote at the Meeting as a single class: 13,639,691 shares of the Company's Common Stock, 20,000 shares of the Company's Series B Cumulative Convertible Preferred Stock, and 1,614.5 shares of the Company's Redeemable Convertible Preferred Stock.

Item 6. Exhibits and Reports on Form 8K

- (a) Exhibits. The Company has included the following exhibits in this report:
 - 11.1 Statement Re: Computation of Per Share Earnings.
 - 15.1 Letter Re: Unaudited Interim Financial Information.
- (b) Reports on Form 8K. During the quarter ended March 31, 1994, the Company filed one (1) Form 8K. This filing, dated February 9, 1994, reported the Stock Purchase Agreement entered into by the Company and Fourth Financial Corporation, pursuant to which, at the closing, the Company agreed to sell, and Fourth Financial Corporation agreed to purchase, all of the issued and outstanding shares of capital stock of Equity Bank for Savings, F.A.

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 12th day of May, 1994.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

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

By: /s/ Jimmie D. Jones

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

PRIMARY EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31,	
	1994	1993
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	13,673,971	7,393,674
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	360	1,070
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	6,833	19,500
Purchases of treasury stock; calculated on weighted average basis	(20,000)	-
Sale of stock; calculated on weighted average basis	-	5,843
	<u>13,661,164</u>	<u>8,724,157</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	2,069,776
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(247,510)	(513,253)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	66,560	67,810
	<u>753,857</u>	<u>1,624,333</u>
	<u>14,415,021</u>	<u>10,348,490</u>
	=====	=====
Earnings for primary earnings per share:		
Net earnings	\$ 2,203,665	\$ 2,657,133
Dividends on cumulative preferred stocks	(76,145)	(77,220)
Dividends on convertible, exchangeable Class C preferred stock (6.5% annually)	(747,500)	-
	<u> </u>	<u> </u>
Earnings applicable to common stock	\$ 1,380,020	\$ 2,579,913
	=====	=====
Earnings per share	\$.10	\$.25
	=====	=====

LSB INDUSTRIES, INC.

Exhibit 11.1

Page 2 of 2

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31,	
	1994	1993
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	13,661,164	8,724,157
Shares issuable upon exercise of options and warrants	934,807	2,069,776
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)	(495,004)
Common shares issuable on conversion		

of redeemable preferred stock, excluding shares included above on actual conversion	66,560	67,810
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 1, net of shares held in treasury	-	3,748,470
	<u>15,085,687</u>	<u>14,785,875</u>
	=====	=====
Earnings for fully diluted earnings per share:		
Net earnings	\$ 2,203,665	\$ 2,657,133
Interest on convertible note	180	180
Dividends on cumulative preferred stocks	(747,500)	-
Earnings applicable to common stock	<u>\$ 1,456,345</u>	<u>\$ 2,657,313</u>
	=====	=====
Earnings per share	<u>\$.10</u>	<u>\$.18</u>
	=====	=====

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

May 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 May 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 March 31, 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