

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
AMENDMENT NO. 1

(Mark One)

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

For the fiscal year ended December 31, 2000

or

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

For the transition period _____ to _____

Commission file number 1-7677

LSB INDUSTRIES, INC.
(Exact name of Registrant as specified in its Charter)

Delaware
(State of Incorporation)

73-1015226
(I.R.S. Employer
identification No.)

16 South Pennsylvania Avenue
Oklahoma City, Oklahoma
(Address of principal executive offices)

73107
(Zip Code)

Registrant's telephone number, including area code

(405) 235-4546

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the Act:
Preferred Share Purchase Rights and

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value \$.10	Over-the-Counter Bulletin Board
\$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2	Over-the-Counter Bulletin Board

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

--- ---

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

As of March 31, 2001, the aggregate market value of the 7,486,938 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately \$28,547,695 based on the closing sales price for the Company's common stock as reported for that date on the Over-the-Counter Bulletin Board. That amount does not include the 1,462 shares of Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company. An active trading market does not exist for the shares of Non-Cumulative Preferred Stock.

As of March 31, 2001, the Registrant had 11,894,619 shares of common stock outstanding (excluding 3,269,290 shares of common stock held as treasury stock).

PART III

Item 10. Directors and Executive Officers of the Company

Directors. The Certificate of Incorporation and By-laws of the Company provide for the division of the Board of Directors into three (3) classes, each class consisting as nearly as possible of one-third of the whole. The term of office of one class of directors expires each year, with each class of directors elected for a term of three (3) years and until the shareholders elect their qualified successors.

The Company's By-laws provide that the Board of Directors, by resolution from time to time, may fix the number of directors that shall constitute the whole Board of Directors. The By-laws presently provide that the number of directors may consist of not less than three (3) nor more than twelve (12). The Board of Directors currently has set the number of directors at twelve (12).

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

The following table sets forth the name, principal occupation, age, year in which the individual first became a director, and year in which the director's term will expire for each nominee for election as a director at the Company's 2001 Annual Meeting and all other directors whose terms will continue after the 2001 Annual Meeting. Certain information with respect to the executive officers of the Company is set forth under Item 4A of Part I hereof.

Name and Principal Occupation	First Became a Director	Term Expires	Age
Raymond B. Ackerman(1) Chairman Emeritus of Ackerman McQueen, Inc.	1993	2002	78
Gerald J. Gagner(2) President of Dragerton Investments	1997	2001	65
Bernard G. Ille(3) Investments	1971	2002	74
Donald W. Munson(4) Consultant	1997	2002	68
Tony M. Shelby(5) Senior Vice President of Finance and Chief Financial Officer of the Company	1971	2002	59
Barry H. Golsen(6) Vice Chairman of the Board of Directors of the Company and President of the Climate Control Business of the Company	1981	2003	50
David R. Goss(7) Senior Vice President of Operations of the Company	1971	2003	60
Jerome D. Shaffer, M.D.(8) Investments	1969	2003	84
Robert C. Brown, M.D.(9) President of Northwest Internal Medicine Associates, Inc.	1969	2001	70
Jack E. Golsen(10) President, Chief Executive Officer and Chairman of the Board of Directors of the Company	1969	2001	72
Horace G. Rhodes(11) President/Managing Partner, Kerr, Irvine, Rhodes and Ables	1996	2001	73
Charles A. Burtch(12) Investments	1999	2001	66

- (1) From 1972 until his retirement in 1992, Mr. Ackerman served as Chairman of the Board and President of Ackerman, McQueen, Inc., the largest public relations firm in Oklahoma. Mr. Ackerman currently serves as Chairman Emeritus of Ackerman, McQueen, Inc. Mr. Ackerman retired as a Rear Admiral from the United States Naval Reserves. Mr. Ackerman is a graduate of Oklahoma City University, and in 1996, he was awarded an honorary doctorate from Oklahoma City University.

- (2) Mr. Gagner, a resident of New Hope, Pennsylvania, served as President, Chief Executive Officer and director of USPCI, Inc., a New York Stock Exchange company involved in the waste management industry, from 1984 until 1988, when USPCI was acquired by Union Pacific Corporation. From 1988 to the present, Mr. Gagner has been engaged as a private investor. Mr. Gagner has served, and is presently serving, as President and a director of Dragerton Investments, Inc., which developed and sold one of the world's largest industrial waste landfills, and is presently general partner of New West Investors, L.P., which has investments principally in the financial service industry. Mr. Gagner is also a director of Automation Robotics, A.G., a German corporation. Mr. Gagner is also a director of the Ziegler Companies, Inc. Mr. Gagner has an engineering degree from the University of Utah.
- (3) Mr. Ille served as President and Chief Executive Officer of First Life Assurance Company from May 1988, until it was acquired by another company in March 1994. For more than five (5) years prior to joining First Life, Mr. Ille served as President of United Founders Life Insurance Company. Mr. Ille is a director of Landmark Land Company, Inc., which was parent company of First Life. Mr. Ille is also a director for Quail Creek Bank, N.A. Mr. Ille is currently a private investor. He is a graduate of the University of Oklahoma.
- (4) Mr. Munson is a resident of England. From January 1988, until his retirement in August 1992, Mr. Munson served as President and Chief Operating Officer of Lennox Industries. Prior to his election as President and Chief Operating Officer of Lennox Industries, Mr. Munson served as Executive Vice President of Lennox Industries' Division Operations, President of Lennox Canada and Managing Director of Lennox Industries' European Operations. Prior to joining Lennox Industries, Mr. Munson served in various capacities with the Howden Group, a company located in England, and The Trane Company, including serving as the managing director of various companies within the Howden Group and Vice President Europe for The Trane Company. Mr. Munson is currently a consultant and international distributor for the Ducane Company, an equipment manufacturer, and is serving as a member of the Board of Directors of Multi Clima SA, a French manufacturer of air conditioning - heating equipment, which the Company has an option to acquire. Mr. Munson has degrees in mechanical engineering and business administration from the University of Minnesota.
- (5) Mr. Shelby, a certified public accountant, is Senior Vice President and Chief Financial Officer of the Company, a position he has held for more than five (5) years. Prior to becoming Senior Vice President and Chief Financial Officer of the Company, Mr. Shelby served as Chief Financial Officer of a subsidiary of the Company and was with the accounting firm of Arthur Young & Co., a predecessor to Ernst & Young, L.L.P. Mr. Shelby is a graduate of Oklahoma City University.
- (6) Mr. Golsen, L.L.B., has served as Vice Chairman of the Board of the Company since August 1994, and for more than five (5) years has

been the President of the Company's Climate Control Business. Mr. Golsen has both his undergraduate and law degrees from the University of Oklahoma.

- (7) Mr. Goss, a certified public accountant, is Senior Vice President - Operations of the Company and has served in substantially the same capacity for more than five (5) years. Mr. Goss is a graduate of Rutgers University.
- (8) Dr. Shaffer, a director of the Company since its inception, is currently a private investor. He practiced medicine for many years until his retirement in 1987. Dr. Shaffer is a graduate of Penn State University and received his medical degree from Jefferson Medical College.
- (9) Dr. Brown has practiced medicine for many years and is Vice President and Treasurer of Plaza Medical Group, P.C. Dr. Brown is a graduate of Tufts University and received his medical degree from Tufts University.
- (10) Mr. Golsen, founder of the Company, is Chairman of the Board and President of the Company and has served in that capacity since the inception of the Company in 1969. During 1996, Mr. Golsen was inducted into the Oklahoma Commerce and Industry Hall of Honor as one of Oklahoma's leading industrialists. Mr. Golsen has a degree from the University of New Mexico in Biochemistry.
- (11) Mr. Rhodes is the Chairman of the law firm of Kerr, Irvine, Rhodes & Ables and has served in such or similar capacity and has practiced law for more than five (5) years. Since 1972, Mr. Rhodes has served as Executive Vice President and General Counsel for the Association of Oklahoma Life Insurance Companies and since 1982 has served as Executive Vice President and General Counsel for the Oklahoma Life and Health Insurance Guaranty Association. Mr. Rhodes received his undergraduate and law degrees from the University of Oklahoma.
- (12) Mr. Burtch was formerly Executive Vice-President and West Division Manager of BankAmerica, where he managed BankAmerica's asset-based lending division for the western third of the United States. Mr. Burtch retired in 1998 and has since been engaged as a private investor. He is a graduate of Arizona State University.

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

Section 16(a) Beneficial Ownership Reporting Compliance. Based solely on a review of copies of the Forms 3, 4 and 5 and amendments thereto furnished to the Company with respect to 2000, or written representations that no such reports were required to be filed with the Securities and Exchange Commission, the Company believes that during 2000 all directors and officers of the Company and beneficial owners of more than ten percent (10%) of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act filed their required Forms 3, 4, or 5, as required by Section 16(a) of the

Securities Exchange Act of 1934, as amended, on a timely basis, except Mr. Ille filed one Form 4 inadvertently late to report two transactions.

Item 11. Executive Compensation.

The following table shows the aggregate cash compensation which the Company and its subsidiaries paid or accrued to the Chief Executive Officer and each of the other four (4) most highly-paid executive officers of the Company (which includes the Vice Chairman of the Board who also serves as President of the Company's Climate Control Business). The table includes cash distributed for services rendered during 2000, plus any cash distributed during 2000 for services rendered in a prior year, less any amount relating to those services previously included in the cash compensation table for a prior year.

Summary Compensation Table

Name and Position	Year	Annual Compensation		Long-term Compensation Awards
		Salary (\$)	Bonus (\$)(1)	Securities Underlying Stock Options
Jack E. Golsen, Chairman of the Board, President and Chief Executive Officer	2000	477,400	--	--
	1999	477,400	--	265,000
	1998	477,400	--	--
Barry H. Golsen, Vice Chairman of the Board of Directors and President of the Climate Control Business	2000	226,600	--	--
	1999	226,600	100,000	155,000
	1998	226,600	--	--
David R. Goss, Senior Vice President - Operations	2000	190,500	--	--
	1999	190,500	--	100,000
	1998	190,500	--	--
Tony M. Shelby, Senior Vice President/Chief Financial Officer	2000	190,500	--	--
	1999	190,500	--	100,000
	1998	190,500	--	--
David M. Shear, Vice President/ General Counsel	2000	165,000	--	--
	1999	165,000	--	100,000
	1998	165,000	--	--

(1) Bonuses are for services rendered for the prior fiscal year. No bonuses were paid to the above-named executive officers for 1997, 1998, or 1999 performance except for a compensation adjustment paid in 2000 to Barry H. Golsen due to the 1999 stand-alone profitability and performance of the Climate Control Businesses which report to him. No bonuses are expected to be paid to the above-named executive officers for 2000 performance.

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

Option Grants in 2000. There were no individual grants of stock options made to any of the named executive officers in the above Summary Compensation Table during the last fiscal year.

Aggregated Option Exercises in 2000
and Fiscal Year End Option Values.

The following table sets forth information concerning the number and value of unexercised options held by each of the named executive officers during the last fiscal year and the year-end value of unexercised options. None of these executive officers exercised options during the year ended December 31, 2000.

Name	Number of Securities Underlying Unexercised Options at FY End (#) (1)	Value of Unexercised In-the-Money Options at Fiscal Year End (\$ (1) (2)
	Exercisable/Unexercisable	Exercisable/Unexercisable
Jack E. Golsen	153,000/212,000 (3)	60,699/242,794
Barry H. Golsen	136,000/124,000 (4)	34,297/137,188
David R. Goss	106,000/80,000 (5)	23,740/94,960
Tom M. Shelby	106,000/80,000 (5)	23,740/94,960
David M. Shear	97,000/80,000 (5)	23,740/94,960

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

(2) The values are based on the difference between the price of the Company's Common Stock on the Over-the-Counter Bulletin Board at the close of trading on December 31, 2000 of \$2.437 per share and the exercise price of such option. The actual value realized by a named

executive officer on the exercise of these options depends on the market value of the Company's Common Stock on the date of exercise.

(3) The amounts shown include a non-qualified stock option covering 176,500 shares of Common Stock of which 35,300 shares are currently exercisable.

(4) The amounts shown include a non-qualified stock option covering 55,000 shares of Common Stock of which 11,000 shares are currently exercisable.

(5) The amounts shown include a non-qualified stock option covering 35,000 shares of Common Stock of which 7,000 shares are currently exercisable.

Other Plans. The Board of Directors has adopted an LSB Industries, Inc., Employee Savings Plan (the "401(k) Plan") for the employees (including executive officers) of the Company and its subsidiaries, excluding certain (but not all) employees covered under union agreements. The 401(k) Plan is an employee contribution plan, and the Company and its subsidiaries make no contributions to the 401(k) Plan. The amount that an employee may contribute to the 401(k) Plan equals a certain percentage of the employee's compensation, with the percentage based on the employee's income and certain other criteria as required under Section 401(k) of the Internal Revenue Code. The Company or subsidiary deducts the amounts contributed to the 401(k) Plan from the employee's compensation each pay period, in accordance with the employee's instructions, and pays the amount into the 401(k) Plan for the employee's benefit. The Summary Compensation Table set forth above includes any amount contributed and deferred during the 1998, 1999, and 2000 fiscal years pursuant to the 401(k) Plan by the named executive officers of the Company.

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

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

In addition to the above-described plans, during 1991 the Company entered into a non-qualified arrangement with certain key employees of the Company and its subsidiaries to provide compensation to such individuals in the event that they are employed by the Company or a subsidiary of the Company at age 65. Under the plan, the employee will be eligible to receive for the life of such employee, a designated benefit as set forth in the plan. In addition, if prior to attaining the age 65 the employee dies while in the employment of the Company or a subsidiary of the Company, the designated beneficiary of the employee will receive a monthly benefit for a period of ten (10) years. The agreement with each employee provides, in addition to being subject to other terms and conditions set forth in the agreement, that the Company may terminate the agreement as to any employee at any time prior to the employee's death. The Company has purchased insurance on the life of each employee covered under the plan where the Company is the owner and sole beneficiary of the insurance policy, with the proceeds payable to the Company to provide a source of funds for the Company's obligations under the plan. The Company may also fund a portion of the benefits by investing the proceeds of such insurance policies. Under the terms of the plan, if the employee becomes disabled while in the employment of the Company or a wholly-owned subsidiary of the Company, the employee may request the Company to cash-in any life insurance on the life of such employee purchased to fund the Company's obligations under the plan. Jack E. Golsen does not participate in the plan. The following table sets forth the amounts of annual benefits payable to the executive officers named in the Summary Compensation Table set forth above under such retirement plan.

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

Compensation of Directors. In 2000, the Company compensated eight non-employee directors in the amount of \$4,500 each for their services. The non-employee directors of the Company also received \$500 for every meeting of the Board of Directors attended during 2000. Messrs. Rhodes, Ille, Brown, and Shaffer, received an additional \$20,000 each for their services on the Audit Committee in 2000. Mr. Burtch received an additional \$36,000 for his services on the

Audit Committee during 2000 and part of 1999. During 2000, Mr. Munson was paid approximately \$37,300 for consulting services in connection with developing the Company's European business.

In September, 1993, the Company adopted the 1993 Non-Employee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of non-qualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum shares for which options may be issued under the Outside Director Plan will be 150,000 shares (subject to adjustment as provided in the Outside Director Plan). The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's Common Stock on April 30 following the end of each of the Company's fiscal years in which he Company realizes net income of \$9.2 million or more for such fiscal year. The exercise price for an option granted under the Outside Director Plan shall be the fair market value of the shares of Common Stock at the time the option is granted. Each option granted under the Outside Director Plan, to the extent not exercised, shall terminate upon the earlier of the termination of the outside director as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. The Company did not grant options under the Outside Director Plan in April, 1998, 1999, and 2000.

Employment Contracts and Termination of Employment and Change in Control Arrangements.

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

Each severance agreement provides (among other things) that if, within twenty-four (24) months after the occurrence of a change in control (as defined) of the Company, the Company terminates the officer's employment other than for cause (as defined), or the officer terminates his employment for good reason (as defined), the Company must pay the officer an amount equal to 2.9 times the officer's base amount (as defined). The phrase "base amount" means the average annual gross compensation paid by the Company to the officer and includable in the officer's gross income during the period consisting of the most recent five (5) year period immediately preceding the change in control. If the officer has been employed by the Company for less than 5 years, the base amount is calculated with respect to the most recent number of taxable years ending before the change in control that the officer worked for the Company.

The severance agreements provide that a "change in control" means a change in control of the Company of a nature that would require the filing of a Form 8-K with the Securities and Exchange Commission and, in any event, would mean when: (1) any individual, firm, corporation, entity, or group (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of thirty percent (30%) or more of the combined voting

power of the Company's outstanding voting securities having the right to vote for the election of directors, except acquisitions by: (a) any person, firm, corporation, entity, or group which, as of the date of the severance agreement, has that ownership, or (b) Jack E. Golsen, his wife; his children and the spouses of his children; his estate; executor or administrator of any estate, guardian or custodian for Jack E. Golsen, his wife, his children, or the spouses of his children, any corporation, trust, partnership, or other entity of which Jack E. Golsen, his wife, children, or the spouses of his children own at least eighty percent (80%) of the outstanding beneficial voting or equity interests, directly or indirectly, either by any one or more of the above-described persons, entities, or estates; and certain affiliates and associates of any of the above-described persons, entities, or estates; (2) individuals who, as of the date of the severance agreement, constitute the Board of Directors of the Company (the "Incumbent Board") and who cease for any reason to constitute a majority of the Board of Directors except that any person becoming a director subsequent to the date of the severance agreement, whose election or nomination for election is approved by a majority of the Incumbent Board (with certain limited exceptions), will constitute a member of the Incumbent Board; or (3) the sale by the Company of all or substantially all of its assets.

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

The termination of an officer's employment with the Company for "good reason" means termination because of (a) the assignment to the officer of duties inconsistent with the officer's position, authority, duties, or responsibilities

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

Except for the severance agreement with Jack E. Golsen, each severance agreement runs until the earlier of: (a) three years after the date of the severance agreement, or (b) the officer's normal retirement date from the Company; however, beginning on the first anniversary of the severance agreement and on each annual anniversary thereafter, the term of the severance agreement automatically extends for an additional one-year period, unless the Company gives notice otherwise at least sixty (60) days prior to the anniversary date. The severance agreement with Jack E. Golsen is effective for a period of three (3) years from the date of the severance agreement; except that, commencing on the date one (1) year after the date of such severance agreement and on each annual anniversary thereafter, the term of such severance agreement shall be automatically extended so as to terminate three (3) years from such renewal date, unless the Company gives notices otherwise at least one (1) year prior to the renewal date.

(b) Employment Agreement. In March 1996, the Company entered into an employment agreement with Jack E. Golsen. The employment agreement requires the Company to employ Jack E. Golsen as an executive officer of the Company for an initial term of three (3) years and provides for two (2) automatic renewals of three (3) years each unless terminated by either party by the giving of written notice at least one (1) year prior to the end of the initial or first renewal period, whichever is applicable. Under the terms of such employment agreement, Mr. Golsen shall be paid (i) an annual base salary at his 1995 base rate, as adjusted from time to time by the Compensation Committee, but such shall never be adjusted to an amount less than Mr. Golsen's 1995 base salary, (ii) an annual bonus in an amount as determined by the Compensation Committee, and (iii) receive from the Company certain other fringe benefits. The employment agreement provides that Mr. Golsen's employment may not be terminated, except (i) upon conviction of a felony involving moral turpitude after all appeals have been exhausted, (ii) Mr. Golsen's serious, willful, gross misconduct or willful, gross negligence of duties resulting in material damage to the Company and its subsidiaries, taken as a whole, unless Mr. Golsen believed, in good faith, that such action or failure to act was in the Company's or its subsidiaries' best interest, and (iii) Mr. Golsen's death; provided,

however, no such termination under (i) or (ii) above may occur unless and until the Company has delivered to Mr. Golsen a resolution duly adopted by an affirmative vote of three-fourths of the entire membership of the Board of Directors at a meeting called for such purpose after reasonable notice given to Mr. Golsen finding, in good faith, that Mr. Golsen violated (i) or (ii) above. If Mr. Golsen's employment is terminated in breach of this Agreement, then he shall, in addition to his other rights and remedies, receive and the Company shall pay to Mr. Golsen (i) in a lump sum cash payment, on the date of termination, a sum equal to the amount of Mr. Golsen's annual base salary at the time of such termination and the amount of the last bonus paid to Mr. Golsen prior to such termination times (a) the number of years remaining under the employment agreement or (b) four (4) if such termination occurs during the last twelve (12) months of the initial period or the first renewal period, and (ii) provide to Mr. Golsen all of the fringe benefits that the Company was obligated to provide during his employment under the employment agreement for the remainder of the term of the employment agreement, or, if terminated at any time during the last twelve (12) months of the initial period or first renewal period, then during the remainder of the term and the next renewal period.

If there is a change in control (as defined in the severance agreement between Mr. Golsen and the Company) and within twenty-four (24) months after such change in control Mr. Golsen is terminated, other than for Cause (as defined in the severance agreement), then in such event, the severance agreement between Mr. Golsen and the Company shall be controlling.

In the event Mr. Golsen becomes disabled and is not able to perform his duties under the employment agreement as a result thereof for a period of twelve (12) consecutive months within any two (2) year period, the Company shall pay Mr. Golsen his full salary for the remainder of the term of the employment agreement and thereafter sixty percent (60%) of such salary until Mr. Golsen's death.

Compensation Committee Interlocks and Insider Participation. The Company's Executive Salary Review Committee has the authority to set the compensation of all officers of the Company. This Committee generally considers and approves the recommendations of the President. The members of the Executive Salary Review Committee are the following non-employee directors: Robert C. Brown, M.D., Jerome D. Shaffer, M.D., and Bernard G. Ille. During 2000, the Executive Salary Review Committee had two meetings.

See "Compensation of Directors" for information concerning compensation paid to non-employee directors of the Company during 2000 for services as a director to the Company, and Item 13 "Certain Relationships and Related Transactions" for information concerning compensation paid to an affiliate of Mr. Brown.

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

Security Ownership of Certain Beneficial Owners. The following table shows the total number and percentage of the outstanding shares of the Company's voting Common Stock and voting Preferred Stock beneficially owned as of the close of business on April 15, 2001, with respect to each person (including any "group" as used in Section 13(d)(3) of the Securities Act of 1934, as amended) that the Company knows to have beneficial ownership of more than five percent (5%) of the Company's voting Common Stock and voting Preferred Stock. A person is deemed to be the beneficial owner of voting shares of Common Stock of the Company which he or she could acquire within sixty (60) days of April 27, 2001.

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

Name and Address of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned(1)	Percent of Class
Jack E. Golsen and members of his family(2)	Common Voting Preferred	4,417,123(3) (5) (6) 20,000(4) (6)	34.0% 92.7%
Kent C. McCarthy	Common	2,363,081(7)	17.7%
Riverside Capital Advisors, Inc.	Common	1,467,397(8)	11.0%
James W. Sight	Common	680,540(9)	5.7%
Paul J. Denby	Common	648,480(10)	5.4%

- - - - -

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

(2) Includes Jack E. Golsen and the following members of his family: wife, Sylvia H. Golsen; son, Barry H. Golsen (a Director, Vice Chairman of the Board of Directors, and President of the Climate Control Business of the Company); son, Steven J. Golsen (Executive officer of several subsidiaries of the Company); and daughter, Linda F. Rappaport. The address of Jack E. Golsen, Sylvia H. Golsen, Barry H. Golsen, and Linda F. Rappaport is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107; and Steven J. Golsen's address is 7300 SW 44th Street, Oklahoma City, Oklahoma 73179.

(3) Includes (a) the following shares over which Jack E. Golsen ("J. Golsen") has the sole voting and dispositive

power: (i) 40,000 shares that he owns of record, (ii) 4,000 shares that he has the right to acquire upon conversion of a promissory note, (iii) 133,333 shares that he has the right to acquire upon the conversion of 4,000 shares of the Company's Series B 12% Cumulative Convertible Preferred Stock (the "Series B Preferred") owned of record by a trust, of which he is the sole trustee, (iv) 10,000 shares owned of record by the MG Trust, of which he is the sole trustee, (v) 69,028 shares owned of record by a trust, of which he is the sole trustee, and (vi) 153,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (b) 643,290 shares owned of record by Sylvia H. Golsen, and 394,415 shares owned of record by a trust, of which Sylvia H. Golsen is the sole trustee, over which she and her husband, J. Golsen share voting and dispositive power; (c) 246,616 shares over which Barry H. Golsen ("B. Golsen") has the sole voting and dispositive power, 533 shares owned of record by B. Golsen's wife, over which he shares the voting and dispositive power, and 136,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (d) 206,987 shares over which Steven J. Golsen ("S. Golsen") has the sole voting and dispositive power and 105,000 shares that he has the right to acquire within the next sixty (60) days under the Company's stock option plans; (e) 222,460 shares held in trust for the grandchildren of J. Golsen and Sylvia H. Golsen of which B. Golsen, S. Golsen and Linda F. Rappaport ("L. Rappaport") jointly or individually are trustees; (f) 82,552 shares owned of record by L. Rappaport, over which L. Rappaport has the sole voting and dispositive power; (g) 1,336,799 shares owned of record by SBL Corporation ("SBL"), 39,177 shares that SBL has the right to acquire upon conversion of 9,050 shares of the Company's non-voting \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 (the "Series 2 Preferred"), and 400,000 shares that SBL has the right to acquire upon conversion of 12,000 shares of Series B Preferred owned of record by SBL, and (h) 60,600 shares owned of record by Golsen Petroleum Corporation ("GPC"), which is a wholly-owned subsidiary of SBL, and 133,333 shares that GPC has the right to acquire upon conversion of 4,000 shares of Series B Preferred owned of record by GPC. SBL is wholly-owned by Sylvia H. Golsen (40% owner), B. Golsen (20% owner), S. Golsen (20% owner), and L. Rappaport (20% owner) and, as a result, SBL, J. Golsen, Sylvia H. Golsen, B. Golsen, S. Golsen, and L. Rappaport share the voting and dispositive power of the shares beneficially owned by SBL. SBL's address is 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.

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

(5) Does not include 124,350 shares of Common Stock that L. Rappaport's husband owns of record and 185,000 shares which he has the right to acquire within the next sixty (60) days

under the Company's stock option plans, all of which L. Rappaport disclaims beneficial ownership. Does not include 234,520 shares of Common Stock owned of record by certain trusts for the benefit of B. Golsen, S. Golsen, and L. Rappaport over which B. Golsen, S. Golsen and L. Rappaport have no voting or dispositive power. Heidi Brown Shear, an officer of the Company and the niece of J. Golsen, is the Trustee of each of these trusts.

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

(7) Kent C. McCarthy, manager of Jayhawk Capital Management, L.L.C. ("Jayhawk"), a Delaware limited liability company and investment advisor, is deemed to beneficially own 2,363,081 shares of the Company's Common Stock (which includes 1,451,081 shares of Common Stock receivable upon conversion of 335,200 shares of Series 2 Preferred). This number of shares includes the shares Mr. McCarthy personally owns, as well as the shares he controls as manager of Jayhawk. As manager of Jayhawk, Mr. McCarthy has sole voting and dispositive power over the Common Stock beneficially owned by Jayhawk. Jayhawk is deemed to have beneficial ownership of 1,994,116 shares of the Company's Common Stock (which includes 1,083,116 shares of Common Stock receivable upon conversion of 250,200 shares of Series 2 Preferred), all of which shares are held in portfolios of Jayhawk Institutional Partners, L.P., ("Jayhawk Institutional") a Delaware limited partnership (1,344,766 shares of Common Stock including 433,766 shares of Common Stock receivable upon conversion of 100,200 shares of Series 2 Preferred) and Jayhawk Investments, L.P., ("Jayhawk Investments") a Delaware limited partnership (649,350 shares of Common Stock receivable upon conversion of 150,000 shares of Series 2 Preferred). Jayhawk is the general partner of Jayhawk Institutional and Jayhawk Investments and, as such, has sole voting and dispositive power over these shares. Mr. McCarthy disclaims beneficial ownership of all such shares other than his personal holdings. Mr. McCarthy's address is 8201 Mission Road, Suite 110, Prairie Village, Kansas 66208.

(8) Riverside Capital Advisors, Inc. ("Riverside") advised the Company that it owns 341,255 shares of Series 2 Preferred that is convertible into 1,467,397 shares of Common Stock. Riverside further advised the Company that it has voting and dispositive power over such shares as a result of Riverside having full discretionary investment authority over customers' accounts to which it provides investment services. The address of Riverside is 1650 Southeast 17th Street Causeway, Fort Lauderdale, Florida 33316.

(9) James W. Sight has sole voting and dispositive power over 680,540 shares of Common Stock (which includes 145,485 shares of Common

Stock receivable upon conversion of 33,677 shares of Series 2 Preferred). Mr. Sight's address is 8500 College Boulevard, Overland Park, Kansas 66210.

(10) Paul J. Denby advised the Company that he has voting and dispositive power over 648,480 shares of Common Stock (which includes 103,680 shares of Common Stock receivable upon conversion of 24,000 shares of Series 2 Preferred). This number of shares includes 20,184 shares beneficially owned by Mr. Denby's spouse over which Mr. Denby shares voting and dispositive power. Mr. Denby's address is 4613 Redwood Court, Irving, Texas 75038.

Security Ownership of Management. The following table sets forth information obtained from the directors and nominees to be elected as a director of the Company and the directors, nominees and executive officers of the Company as a group as to their beneficial ownership of the Company's voting Common Stock and voting Preferred Stock as of April 15, 2001.

Because of the requirements of the Securities and Exchange Commission as to the method of determining the amount of shares an individual or entity may own beneficially, the amount shown below for an individual may include shares also considered beneficially owned by others. Any shares of stock which a person does not own, but which he or she has the right to acquire within sixty (60) days of April 27, 2000, are deemed to be outstanding for the purpose of computing the percentage of outstanding stock of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class owned by any other person.

Name of Beneficial Owner	Title of Class	Amounts of Shares Beneficially Owned	Percent of Class
Raymond B. Ackerman	Common	46,000 (2)	*
Robert C. Brown, M.D.	Common	248,329 (3)	2.1%
Charles A. Burtch	Common	15,000 (4)	*
Gerald J. Gagner	Common	33,000 (5)	*
Barry H. Golsen	Common	2,575,518 (6)	20.4%
	Voting Preferred	16,000 (6)	74.2%
Jack E. Golsen	Common	3,416,975 (7)	26.8%
	Voting Preferred	20,000 (7)	92.7%
David R. Goss	Common	294,625 (8)	2.5%
Bernard G. Ille	Common	100,000 (9)	*
Donald W. Munson	Common	31,432 (10)	*
Horace G. Rhodes	Common	35,000 (11)	*
Jerome D. Shaffer, M.D.	Common	144,363 (12)	1.2%
Tony M. Shelby	Common	305,879 (13)	2.5%
Directors and Executive Officers as a group number (14 persons)	Common	5,566,389 (14)	40.9%
	Voting Preferred	20,000	92.7%

* Less than 1%.

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

(2) This amount includes the following shares over which Mr. Ackerman shares voting and dispositive power: (i) 2,000 shares held by Mr. Ackerman's trust, and (ii) 4,000 shares held by the trust of Mr. Ackerman's wife. The remaining 40,000 shares of Common Stock included herein are shares that Mr. Ackerman may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(3) The amount shown includes 40,000 shares of Common Stock that Dr. Brown may acquire pursuant to currently exercisable non-qualified stock options granted to him by the Company. The shares, with respect to which Dr. Brown shares the voting and dispositive power, consists of 122,516 shares owned by Dr. Brown's wife, 15,000 shares held jointly by Dr. Brown and his wife, 50,727 shares owned by Robert C. Brown, M.D., Inc., a corporation wholly-owned by Dr. Brown, and 20,086 shares held by the Robert C. Brown M.D., Inc. Employee Profit Sharing Plan, of which Dr. Brown serves as the trustee. The amount shown does not include 50,380 shares owned directly, or through trusts, by the children of Dr. Brown, all of which Dr. Brown disclaims beneficial ownership.

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

(5) Mr. Gagner has sole voting and dispositive power over these shares, which include 30,000 shares that may be acquired by Mr. Gagner pursuant to currently exercisable non-qualified stock options granted to him by the Company.

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

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

(8) The amount shown includes 113,000 shares that Mr. Goss has the right to acquire within sixty (60) days pursuant to options granted under the Company's stock option plans. Mr. Goss has the sole voting and dispositive power over these shares.

(9) The amount includes (i) 40,000 shares that Mr. Ille may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Ille has the sole voting and dispositive power, and (ii) 50,000 shares owned of record by Mr. Ille's wife.

(10) This amount includes (i) 432 shares of Common Stock that Mr. Munson has the right to acquire upon conversion of 100 shares of non-voting Series 2 Preferred that he beneficially owns, and (ii) 30,000 shares that Mr. Munson may purchase pursuant to currently exercisable non-qualified stock options, over which Mr. Munson has the sole voting and dispositive power.

(11) Mr. Rhodes has sole voting and dispositive power over these shares, which include 30,000 shares that may be acquired by Mr. Rhodes pursuant to currently exercisable non-qualified stock options granted to him by the Company.

(12) Dr. Shaffer has the sole voting and dispositive power over these shares, which include 40,000 shares that Dr. Shaffer may purchase pursuant to currently exercisable non-qualified stock options and 4,329 shares that Dr. Shaffer has the right to acquire upon conversion of 1,000 shares of Series 2 Preferred owned by Dr. Shaffer. This amount also includes 10,000 shares owned by Dr. Shaffer's wife.

(13) Mr. Shelby has the sole voting and dispositive power over these shares, which include 113,000 shares that Mr. Shelby has the right to acquire within sixty (60) days pursuant to options granted under the Company's stock option plans and 15,151 shares that Mr. Shelby has the right to acquire upon conversion of 3,500 shares of Series 2 Preferred owned by Mr. Shelby.

(14) The amount shown includes 976,000 shares of Common Stock that executive officers, directors, or entities controlled by executive officers and directors of the Company have the right to acquire within sixty (60) days.

Possible Change in Control. A subsidiary of the Company and the family of Jack E. Golsen and entities controlled by them have pledged certain shares of the Company's Common Stock to a lender as described under Item 13 "Certain Relationships and Related Transactions" contained in this report. If the shares of Common Stock pledged to the lender are foreclosed on, and assuming the Company does not issue any additional

shares of Common Stock and none of the Company's outstanding Preferred Stock is converted, the percentage of outstanding shares of Common Stock held by the lender would be approximately 17% of the then outstanding shares of Common Stock and may, at a subsequent date, result in a change in control of the Company.

Item 13. Certain Relationships and Related Transactions.

A subsidiary of the Company, Hercules Energy Mfg. Corporation ("Hercules"), leased land and a building in Oklahoma City, Oklahoma from Mac Venture, Ltd. ("Mac Venture"), a limited partnership. GPC (a wholly owned subsidiary of SBL) serves as the general partner of Mac Venture. The limited partners of Mac Venture include GPC and the three children of Jack E. Golsen. See "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" above for a discussion of the stock ownership of SBL. The warehouse and shop space leased by Hercules from Mac Venture consists of a total of 30,000 square feet. Hercules leased the property from Mac Venture for \$3,750 per month under a month-to-month triple net lease extension which began as of January 1, 2000.

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

In 1983, LSB Chemical Corp. ("LSB Chemical"), a subsidiary of the Company, acquired all of the outstanding stock of El Dorado Chemical Company ("EDC") from its then four stockholders ("Ex-Stockholders"). A substantial portion of the purchase price consisted of an earnout based primarily on the annual after-tax earnings of EDC for a ten-year period. During 1989, two of the Ex-Stockholders received LSB Chemical promissory notes for a portion of their earnout, in lieu of cash, totaling approximately \$896,000, payable \$496,000 in January 1990, and \$400,000 in May, 1994. LSB Chemical agreed to a buyout of the balance of the earnout from the four Ex-Stockholders for an aggregate purchase amount of \$1,231,000. LSB Chemical purchased for cash the earnout from two of the Ex-Stockholders and issued multi-year promissory notes totaling \$676,000 to the other two Ex-Stockholders. Jack E. Golsen guaranteed LSB Chemical's payment obligation under the promissory notes. The unpaid balance of these notes at March 31, 2001, was \$400,000.

On October 17, 1997, Prime Financial Corporation ("Prime"), a subsidiary of the Company, borrowed from SBL Corporation, a corporation wholly owned by the spouse and children of Jack E. Golsen, Chairman of the Board and President of the Company, the principal amount of \$3,000,000 (the "Prime Loan") on an unsecured basis and payable on demand, with interest payable monthly in arrears at a fixed interest rate of 10.75% per annum. The purpose of

the loan was to assist the Company by providing additional liquidity. The Company has guaranteed the Prime Loan. In February 2000, the Company borrowed approximately \$500,000 under its key man life insurance policies, and used such proceeds to reduce the principal amount due SBL. During all of 2000, \$700,000 in principal and \$221,000 in interest was paid on this Prime Loan, and as of March 31, 2000, the unpaid principal balance on the Prime Loan was \$1,750,000. In April 2000, at the request of Prime and the Company, SBL agreed to modify the demand note to make such a term note with a maturity date no earlier than April 1, 2001, except under limited circumstances. In April 2001, this term note was amended to require repayment of \$300,000 in 2001 and \$1,450,000 in 2002.

In order to make the Prime Loan to Prime, SBL and certain of its affiliates borrowed the \$3,000,000 from a bank (collectively "SBL Borrowings"), and as part of the collateral pledged by SBL to the bank in connection with such loan, SBL pledged, among other things, its note from Prime. In order to obtain SBL's agreement as provided above, and for other reasons, effective April 21, 2000, a subsidiary of the Company guaranteed on a limited basis the obligations of SBL and its affiliates relating to the unpaid principal amount due to the bank in connection with the SBL Borrowings, and in order to secure its obligations under the guarantees pledged to the bank 1,973,461 shares of the Company's Common Stock that it holds as treasury stock. Under the limited guaranty, the Company's subsidiary's liability is limited to the value, from time to time, of the Common Stock of the Company pledged to secure its obligations under its guarantees to the bank relating to the SBL Borrowings. As of March 31, 2001, the outstanding principal balance due to the bank from SBL as a result of such loan was \$1,800,000.

PART IV

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

(a) (1) FINANCIAL STATEMENTS

The following consolidated financial statements of the Company appear immediately following this Part IV:*

	PAGES

Report of Independent Auditors	F-1
Consolidated Balance Sheets at December 31, 2000 and 1999	F-2 to F-3
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2000	F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2000	F-5 to F-6
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2000	F-7 to F-8
Notes to Consolidated Financial Statements	F-9 to F-46
Quarterly Financial Data (Unaudited)	F-47 to F-48

(a) (2) FINANCIAL STATEMENT SCHEDULE

The Company has included the following schedule in this report:

II - Valuation and Qualifying Accounts

F-49 to F-50

* These financial statements are included in the original Form 10-K for the year ended December 31, 2000, filed with the Securities and Exchange Commission on April 17, 2001.

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

(a) (3) EXHIBITS

2.1. Stock Purchase Agreement and Stock Pledge Agreement between Dr. Hauri AG, a Swiss Corporation, and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 2.2 to the Company's Form 10-K for fiscal year ended December 31, 1994.

2.2. Asset Purchase and Sale Agreement, dated May 4, 2000 L&S Automotive Products Co., L&S Bearing So., LSB Extrusion Co., Rotex Corporation and DriveLine Technologies, Inc., which is incorporated from Exhibit 2.2 to the Company's Amendment No. 2 to the 1999 Form 10-K. This agreement includes certain exhibits and schedules that are not included with this exhibit, and will be provided upon request by the Commission.

3.1. Restated Certificate of Incorporation, the Certificate of Designation dated February 17, 1989, and certificate of Elimination dated April 30, 1993, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Registration Statement, No. 33-61640; Certificate of Designation for the Company's \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 4.6 to the Company's Registration Statement, No. 33-61640.

3.2. Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1998.

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

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

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

4.4. Specimen Certificate for the Company's Common Stock, which the Company incorporates by reference from Exhibit 4.4 to the Company's Registration Statement No. 33-61640.

4.5. Renewed Rights Agreement, dated January 6, 1999, between the Company and Bank One, N.A., which the Company hereby incorporates by reference from Exhibit No. 1 to the Company's Form 8-A Registration Statement, dated January 27, 1999.

4.6. Indenture, dated as of November 26, 1997, by and among ClimaChem, Inc., the Subsidiary Guarantors

and Bank One, NA, as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated November 26, 1997.

4.7. Form 10 3/4% Series B Senior Notes due 2007 which the Company hereby incorporates by reference from Exhibit 4.3 to the ClimaChem Registration Statement, No. 333-44905.

4.8. First Supplemental Indenture, dated February 8, 1999, by and among ClimaChem, Inc., the Guarantors, and Bank One N.A., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the year ended December 31, 1998.

4.9. Second Amended and Restated Loan and Security Agreement dated May 10, 1999, by and between Bank of America National Trust and Savings Association and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

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

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

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

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

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

10.6. The Company's 1993 Stock Option and Incentive Plan which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 1993.

10.7. The Company's 1993 Non-employee Director Stock Option Plan which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1993.

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

10.9. Limited Partnership Agreement dated as of May 4, 1995, between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995.

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

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

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

10.13. Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996 which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995.

10.14. Non-Qualified Stock Option Agreement, dated June 1, 1992, between the Company and Robert C. Brown, M.D. which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for fiscal year ended December 31, 1992. The Company entered into substantially identical agreements with Bernard G. Ille, Jerome D. Shaffer and C.L. Thurman, and the Company will provide copies thereof to the Commission upon request.

10.15. Loan and Security Agreement (DSN Plant) dated October 31, 1994 between DSN Corporation and The CIT Group which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 1994.

10.16. Loan and Security Agreement (Mixed Acid Plant) dated April 5, 1995 between DSN Corporation and The CIT Group, which the Company hereby incorporates by reference from Exhibit 10.25 to the Company's Form 10-K for the fiscal year ended December 31, 1994.

10.17. First Amendment to Loan and Security Agreement (DSN Plant), dated June 1, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.13 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.18. First Amendment to Loan and Security Agreement (Mixed Acid Plant), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.15 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.19. Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.16 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.20. First Amendment to Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.17 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.22. Letter Amendment, dated May 14, 1997, to Loan and Security Agreement between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1997.

10.23. Amendment to Loan and Security Agreement, dated November 21, 1997, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.19 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.24. First Amendment to Non-Qualified Stock Option Agreement, dated March 2, 1994, and Second Amendment to Stock Option Agreement, dated April 3, 1995, each between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.

10.25. Baytown Nitric Acid Project and Supply Agreement dated June 27, 1997, by and among El Dorado Nitrogen Company, El Dorado Chemical Company and Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.26. First Amendment to Baytown Nitric Acid Project and Supply Agreement, dated February 1, 1999, between El Dorado Nitrogen Company and Bayer Corporation, which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 1998. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #7927, DATED JUNE 9, 1999, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.27. Service Agreement, dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.28. Ground Lease dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.29. Participation Agreement, dated as of June 27, 1997, among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landes Bank, New York Branch, as a Construction Lender and the Note Purchaser, and Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.30. Lease Agreement, dated as of June 27, 1997, between Boatmen's Trust Company of Texas as Owner Trustee and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.31. Security Agreement and Collateral Assignment of Construction Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.32. Security Agreement and Collateral Assignment of Facility Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company and consented to by Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.

10.33. Amendment to Loan and Security Agreement, dated March 16, 1998, between The CIT Group/Equipment Financing, Inc., and DSN Corporation which the Company hereby incorporates by reference from Exhibit 10.54 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.

10.34. Fifth Amendment to Lease Agreement, dated as of December 31, 1998, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 1998.

10.35. Union Contract, dated August 1, 1998, between EDC and the International Association of Machinists and Aerospace Workers, which the Company hereby incorporates by reference from Exhibit 10.42 to the Company's Form 10-K for the year ended December 31, 1998.

10.36. Non-Qualified Stock Option Agreement, dated April 22, 1998, between the Company and Robert C. Brown, M.D., which the Company hereby incorporates by reference from Exhibit 10.43 to the Company's Form 10-K for the year ended December 31, 1998. The Company entered into substantially identical agreements with Bernard G. Ille, Jerome D. Shaffer, Raymond B. Ackerman, Horace G. Rhodes, Gerald J. Gagner, and Donald W. Munson. The Company will provide copies of these agreements to the Commission upon request.

10.37. The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the year ended December 31, 1998.

10.38. Letter Agreement, dated March 12, 1999, between Kestrel Aircraft Company and LSB Industries, Inc., Prime Financial Corporation, Herman Meinders, Carlan K. Yates, Larry H. Lemon, Co-Trustee Larry H. Lemon Living Trust, which the Company hereby incorporates by reference from Exhibit 10.45 to the Company's Form 10-K for the year ended December 31, 1998.

10.39. LSB Industries, Inc. 1998 Stock Option and Incentive Plan which the Company hereby incorporates by reference from Exhibit "B" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders.

10.40 LSB Industries, Inc. Outside Directors Stock Option Plan which the Company hereby incorporates by reference from Exhibit "C" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders.

10.41. First Amendment to Second Amended and Restated Loan and Security Agreement, dated January 1, 2000, by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated December 30, 1999.

10.42 Amendment to Anhydrous Ammonia Sales Agreement, dated January 4, 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company, which is incorporated by reference from Exhibit 10.43 to the Company's Amendment No. 2 to its 1999 Form 10-K. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF#9650, DATED JULY 2000, GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

10.43 Anhydrous Ammonia Sales Agreement, dated January 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company which is incorporated by reference from Exhibit 10.44 to the Company's Amendment No. 2 to its 1999 Form 10-K. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF#9650, DATED JULY 2000, GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.

10.44 Second Amendment to Second Amended and Restated Loan and Security Agreement, dated March 1, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated March 1, 2000.

10.45 Third Amendment to Second Amended and Restated Loan and Security Agreement, dated March 31, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.14 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000.

10.46 Loan Agreement dated December 23, 1999 between Climate Craft, Inc. and the City of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.47 Letter, dated April 1, 2000, executed by SBL to Prime amending the Promissory Note, which the Company incorporates by reference from Exhibit 10.52 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.48 Guaranty Agreement, dated as of April 21, 2000, by Prime to Stillwater National Bank & Trust relating to that portion of the SBL Borrowings borrowed by SBL, which the Company incorporates by reference from Exhibit 10.53 to the Company's Amendment No. 2 to its 1999 Form 10-K. Substantial similar guarantees have been executed by Prime in favor of Stillwater covering the amounts borrowed by the following affiliates SBL relating to the SBL Borrowings (as in "Relationships and Related Transactions:") listed in Exhibit A attached to the Guaranty Agreement with the only material differences being the name of the debtor and the amount owing by such debtor. Copies of which will provided to the Commission upon request.

10.49 Security Agreement, dated effective April 21, 2000, executed by Prime in favor of Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.54 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.50 Limited Guaranty, effective April 21, 2000, executed by Prime to Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.55 to the Company's Amendment No. 2 to its 1999 Form 10-K.

10.51 Covenant Waiver Letter, dated October 19, 2000, between The CIT Group and DSN Corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.

10.52 Fourth Amendment to Second Amended and Restated Loan and Security Agreement dated October 10, 2000 by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.

10.53 Letter Agreement, dated August 23, 2000, between LSB Chemical Corp. and Orica USA, Inc., which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #10714, DATED FEBRUARY 21, 2001, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.54 Agreement, dated October 31, 2000, between Orica Nitrogen, L.L.C., Orica USA, Inc., and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 10.5 to the company's Form 10-Q for the fiscal quarter ended September 20, 2000. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF # 10714 DATED FEBRUARY 21, 2001, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

10.55. Letter, dated April 1, 2001, executed by SBL to Prime amending the Promissory Note.*

10.56. Letter of Intent, dated December 22, 2000, between El Dorado Chemical Company and Orica USA, Inc.*

10.57. Agreement, dated April 2, 2001, between Crystal City Nitrogen Company and River Cement Company.*

10.58. Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ClimaChem and each of its Subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 10.51 to ClimaChem, Inc.'s amendment No. 1 to Form 10-K for the year ended December 31, 2000.

10.59. Third Amended and Restated Loan and Security Agreement dated April 16, 2001 by and between Bank of America, N.A. and Summit Machine Tool Manufacturing Corp.**

21.1. Subsidiaries of the Company.*

23.1. Consent of Independent Auditors.*

* Filed in the original Form 10-K for the year ended December 31, 2000, which was filed with the Securities and Exchange Commission on April 17, 2001.

** Filed herewith.

(b) REPORTS ON FORM 8-K. The Company filed the following report on Form 8-K during the fourth quarter of 2000.

- (i) Form 8-K, dated November 15, 2000. (date of event: October 31, 2000). The item reported was Item 2, "Acquisition or Disposition of Assets", discussing the letter agreement between LSB Chemical Corp. and Orica USA Inc. and the agreement between Orica Nitrogen, L.L.C., Orica USA, Inc. and LSB Chemical Corp. relating to the acquisition of certain assets located in Cherokee, Alabama and Crystal City, Missouri.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this Amendment No.1 to the report on its behalf on this 27th day of April, 2001.

LSB INDUSTRIES, INC.

By: /s/ Jack E. Golsen
 Jack E. Golsen
 Chairman of the Board and
 President
 (Principal Executive Officer)

By: /s/ Tony M. Shelby
 Tony M. Shelby
 Senior Vice President of Finance
 (Principal Financial Officer)

By: /s/ Jim D. Jones
 Jim D. Jones
 Vice President, Controller and
 Treasurer (Principal Accounting
 Officer)

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

Dated: April 27, 2001	By: /s/ Jack E. Golsen Jack E. Golsen, Director
Dated: April 27, 2001	By: /s/ Tony M. Shelby Tony M. Shelby, Director
Dated: April 27, 2001	By: /s/ David R. Goss David R. Goss, Director
Dated: April 27, 2001	By: /s/ Barry H. Golsen Barry H. Golsen, Director
Dated: April 27, 2001	By: /s/ Robert C. Brown Robert C. Brown, Director
Dated: April 27, 2001	By: /s/ Bernard G. Ille Bernard G. Ille, Director

INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
2.1.	Stock Purchase Agreement and Stock Pledge Agreement between Dr. Hauri AG, a Swiss Corporation, and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 2.2 to the Company's Form 10-K for fiscal year ended December 31, 1994.
2.2.	Asset Purchase and Sale Agreement, dated May 4, 2000 L&S Automotive Products Co., L&S Bearing So., LSB Extrusion Co., Rotex Corporation and DriveLine Technologies, Inc., which is incorporated from Exhibit 2.2 to the Company's Amendment No. 2 to the 1999 Form 10-K. This agreement includes certain exhibits and schedules that are not included with this exhibit, and will be provided upon request by the Commission.
3.1.	Restated Certificate of Incorporation, the Certificate of Designation dated February 17, 1989, and certificate of Elimination dated April 30, 1993, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Registration Statement, No. 33-61640; Certificate of Designation for the Company's \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, which the Company hereby incorporates by reference from Exhibit 4.6 to the Company's Registration Statement, No. 33-61640.
3.2.	Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3(ii) to the Company's Form 10-Q for the quarter ended June 30, 1998.
4.1.	Specimen Certificate for the Company's Non-cumulative Preferred Stock, having a par value of \$100 per share, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 1983.
4.2.	Specimen Certificate for the Company's Series B Preferred Stock, having a par value of \$100 per share, which the Company hereby incorporates by reference from Exhibit 4.27 to the Company's Registration Statement No. 33-9848.
4.3.	Specimen Certificate for the Company's Series 2 Preferred, which the Company hereby incorporates by reference from Exhibit 4.5 to the Company's Registration Statement No. 33-61640.
4.4.	Specimen Certificate for the Company's Common Stock, which the Company incorporates by reference from Exhibit 4.4 to the Company's Registration Statement No. 33-61640.
4.5.	Renewed Rights Agreement, dated January 6, 1999, between the Company and Bank One, N.A., which the Company hereby incorporates by reference from Exhibit No. 1 to the Company's Form 8-A Registration Statement, dated January 27, 1999.
4.6.	Indenture, dated as of November 26, 1997, by and among ClimaChem, Inc., the Subsidiary Guarantors and Bank One, NA, as trustee, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 8-K, dated November 26, 1997.
4.7.	Form 10 3/4% Series B Senior Notes due 2007 which the Company hereby incorporates by reference from Exhibit 4.3 to the ClimaChem Registration Statement, No. 333-44905.
4.8.	First Supplemental Indenture, dated February 8, 1999, by and among ClimaChem, Inc., the Guarantors, and Bank One N.A., which the Company hereby incorporates by reference from Exhibit 4.19 to the Company's Form 10-K for the year ended December 31, 1998.
4.9.	Second Amended and Restated Loan and Security Agreement dated May 10, 1999, by and between Bank of America National Trust and Savings Association and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1999.

- 10.1. Form of Death Benefit Plan Agreement between the Company and the employees covered under the plan, which the Company hereby incorporates by reference from Exhibit 10(c)(1) to the Company's Form 10-K for the year ended December 31, 1980.
- 10.2. The Company's 1981 Incentive Stock Option Plan, as amended, and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibits 10.1 and 10.2 to the Company's Registration Statement No. 33-8302.
- 10.3. Form of Incentive Stock Option Agreement between the Company and employees as to the Company's 1981 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 1984.
- 10.4. Form of Incentive Stock Option Agreement between the Company and employees as to the Company's 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Registration Statement No. 33-9848.
- 10.5. The 1987 Amendments to the Company's 1981 Incentive Stock Option Plan and 1986 Incentive Stock Option Plan, which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1986.
- 10.6. The Company's 1993 Stock Option and Incentive Plan which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-K for the fiscal year ended December 31, 1993.
- 10.7. The Company's 1993 Non-employee Director Stock Option Plan which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-K for the fiscal year ended December 31, 1993.
- 10.8. Lease Agreement, dated March 26, 1982, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.32 to the Company's Form 10-K for the fiscal year ended December 31, 1981.
- 10.9. Limited Partnership Agreement dated as of May 4, 1995, between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner which the Company hereby incorporates by reference from Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 1995.
- 10.10. Lease Agreement dated November 12, 1987, between Climate Master, Inc. and West Point Company and amendments thereto, which the Company hereby incorporates by reference from Exhibits 10.32, 10.36, and 10.37, to the Company's Form 10-K for fiscal year ended December 31, 1988.
- 10.11. Severance Agreement, dated January 17, 1989, between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.48 to the Company's Form 10-K for fiscal year ended December 31, 1988. The Company also entered into identical agreements with Tony M. Shelby, David R. Goss, Barry H. Golsen, David M. Shear, and Jim D. Jones and the Company will provide copies thereof to the Commission upon request.
- 10.12. Third Amendment to Lease Agreement, dated as of December 31, 1987, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Form 10-K for fiscal year ended December 31, 1988.
- 10.13. Employment Agreement and Amendment to Severance Agreement dated January 12, 1989 between the Company and Jack E. Golsen, dated March 21, 1996 which the Company hereby incorporates by reference from Exhibit 10.15 to the Company's Form 10-K for fiscal year ended December 31, 1995.
- 10.14. Non-Qualified Stock Option Agreement, dated June 1, 1992, between the Company and Robert C. Brown, M.D. which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for fiscal year ended December 31, 1992. The Company entered into substantially identical

agreements with Bernard G. Ille, Jerome D. Shaffer and C.L. Thurman, and the Company will provide copies thereof to the Commission upon request.

- 10.15. Loan and Security Agreement (DSN Plant) dated October 31, 1994 between DSN Corporation and The CIT Group which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 1994.
- 10.16. Loan and Security Agreement (Mixed Acid Plant) dated April 5, 1995 between DSN Corporation and The CIT Group, which the Company hereby incorporates by reference from Exhibit 10.25 to the Company's Form 10-K for the fiscal year ended December 31, 1994.
- 10.17. First Amendment to Loan and Security Agreement (DSN Plant), dated June 1, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.13 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.18. First Amendment to Loan and Security Agreement (Mixed Acid Plant), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.15 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.19. Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.16 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.20. First Amendment to Loan and Security Agreement (Rail Tank Cars), dated November 15, 1995, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.17 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.22. Letter Amendment, dated May 14, 1997, to Loan and Security Agreement between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1997.
- 10.23. Amendment to Loan and Security Agreement, dated November 21, 1997, between DSN Corporation and The CIT Group/Equipment Financing, Inc. which the Company hereby incorporates by reference from Exhibit 10.19 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.24. First Amendment to Non-Qualified Stock Option Agreement, dated March 2, 1994, and Second Amendment to Stock Option Agreement, dated April 3, 1995, each between the Company and Jack E. Golsen, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.
- 10.25. Baytown Nitric Acid Project and Supply Agreement dated June 27, 1997, by and among El Dorado Nitrogen Company, El Dorado Chemical Company and Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.26. First Amendment to Baytown Nitric Acid Project and Supply Agreement, dated February 1, 1999, between El Dorado Nitrogen Company and Bayer Corporation, which the Company hereby incorporates by reference from Exhibit 10.30 to the Company's Form 10-K for the year ended December 31, 1998. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #7927, DATED JUNE 9, 1999, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

- 10.27. Service Agreement, dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.28. Ground Lease dated June 27, 1997, between Bayer Corporation and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.29. Participation Agreement, dated as of June 27, 1997, among El Dorado Nitrogen Company, Boatmen's Trust Company of Texas as Owner Trustee, Security Pacific Leasing corporation, as Owner Participant and a Construction Lender, Wilmington Trust Company, Bayerische Landes Bank, New York Branch, as a Construction Lender and the Note Purchaser, and Bank of America National Trust and Savings Association, as Construction Loan Agent which the Company hereby incorporates by reference from Exhibit 10.5 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #5551, DATED SEPTEMBER 25, 1997, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.30. Lease Agreement, dated as of June 27, 1997, between Boatmen's Trust Company of Texas as Owner Trustee and El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.6 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.
- 10.31. Security Agreement and Collateral Assignment of Construction Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company which the Company hereby incorporates by reference from Exhibit 10.7 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.
- 10.32. Security Agreement and Collateral Assignment of Facility Documents, dated as of June 27, 1997, made by El Dorado Nitrogen Company and consented to by Bayer Corporation which the Company hereby incorporates by reference from Exhibit 10.8 to the Company's Form 10-Q for the fiscal quarter ended June 30, 1997.
- 10.33. Amendment to Loan and Security Agreement, dated March 16, 1998, between The CIT Group/Equipment Financing, Inc., and DSN Corporation which the Company hereby incorporates by reference from Exhibit 10.54 to the ClimaChem Form S-4 Registration Statement, No. 333-44905.
- 10.34. Fifth Amendment to Lease Agreement, dated as of December 31, 1998, between Mac Venture, Ltd. and Hercules Energy Mfg. Corporation, which the Company hereby incorporates by reference from Exhibit 10.38 to the Company's Form 10-K for the year ended December 31, 1998.
- 10.35. Union Contract, dated August 1, 1998, between EDC and the International Association of Machinists and Aerospace Workers, which the Company hereby incorporates by reference from Exhibit 10.42 to the Company's Form 10-K for the year ended December 31, 1998.
- 10.36. Non-Qualified Stock Option Agreement, dated April 22, 1998, between the Company and Robert C. Brown, M.D., which the Company hereby incorporates by reference from Exhibit 10.43 to the Company's Form 10-K for the year ended December 31, 1998. The Company entered into substantially identical

agreements with Bernard G. Ille, Jerome D. Shaffer, Raymond B. Ackerman, Horace G. Rhodes, Gerald J. Gagner, and Donald W. Munson. The Company will provide copies of these agreements to the Commission upon request.

- 10.37. The Company's 1998 Stock Option and Incentive Plan, which the Company hereby incorporates by reference from Exhibit 10.44 to the Company's Form 10-K for the year ended December 31, 1998.
- 10.38. Letter Agreement, dated March 12, 1999, between Kestrel Aircraft Company and LSB Industries, Inc., Prime Financial Corporation, Herman Meinders, Carlan K. Yates, Larry H. Lemon, Co-Trustee Larry H. Lemon Living Trust, which the Company hereby incorporates by reference from Exhibit 10.45 to the Company's Form 10-K for the year ended December 31, 1998.
- 10.39. LSB Industries, Inc. 1998 Stock Option and Incentive Plan which the Company hereby incorporates by reference from Exhibit "B" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders.
- 10.40. LSB Industries, Inc. Outside Directors Stock Option Plan which the Company hereby incorporates by reference from Exhibit "C" to the LSB Proxy Statement, dated May 24, 1999, for Annual Meeting of Stockholders.
- 10.41. First Amendment to Second Amended and Restated Loan and Security Agreement, dated January 1, 2000, by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated December 30, 1999.
- 10.42. Amendment to Anhydrous Ammonia Sales Agreement, dated January 4, 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company, which is incorporated by reference from Exhibit 10.43 to the Company's Amendment No. 2 to its 1999 Form 10-K. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF#9650, DATED JULY 2000, GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
- 10.43. Anhydrous Ammonia Sales Agreement, dated January 2000, to be effective October 1, 1999, between Koch Nitrogen Company and El Dorado Chemical Company which is incorporated by reference from Exhibit 10.44 to the Company's Amendment No. 2 to its 1999 Form 10-K. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF#9650, DATED JULY 2000, GRANTING A REQUEST BY THE COMPANY FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION UNDER THE FREEDOM OF INFORMATION ACT.
- 10.44. Second Amendment to Second Amended and Restated Loan and Security Agreement, dated March 1, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.3 to the Company's Form 8-K dated March 1, 2000.
- 10.45. Third Amendment to Second Amended and Restated Loan and Security Agreement, dated March 31, 2000 by and between Bank of America, N.A. and LSB Industries Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.14 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2000.
- 10.46. Loan Agreement dated December 23, 1999 between Climate Craft, Inc. and the City of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 10.49 to the Company's Amendment No. 2 to its 1999 Form 10-K.
- 10.47. Letter, dated April 1, 2000, executed by SBL to Prime amending the Promissory Note, which the

Company incorporates by reference from Exhibit 10.52 to the Company's Amendment No. 2 to its 1999 Form 10-K.

- 10.48 Guaranty Agreement, dated as of April 21, 2000, by Prime to Stillwater National Bank & Trust relating to that portion of the SBL Borrowings borrowed by SBL, which the Company incorporates by reference from Exhibit 10.53 to the Company's Amendment No. 2 to its 1999 Form 10-K. Substantial similar guarantees have been executed by Prime in favor of Stillwater covering the amounts borrowed by the following affiliates SBL relating to the SBL Borrowings (as in "Relationships and Related Transactions:") listed in Exhibit A attached to the Guaranty Agreement with the only material differences being the name of the debtor and the amount owing by such debtor. Copies of which will provided to the Commission upon request.
- 10.49 Security Agreement, dated effective April 21, 2000, executed by Prime in favor of Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.54 to the Company's Amendment No. 2 to its 1999 Form 10-K.
- 10.50 Limited Guaranty, effective April 21, 2000, executed by Prime to Stillwater National Bank and Trust, which the Company incorporates by reference from Exhibit 10.55 to the Company's Amendment No. 2 to its 1999 Form 10-K.
- 10.51 Covenant Waiver Letter, dated October 19, 2000, between The CIT Group and DSN Corporation, which the Company hereby incorporates by reference from Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.
- 10.52 Fourth Amendment to Second Amended and Restated Loan and Security Agreement dated October 10, 2000 by and between Bank of America, N.A. and LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., and Morey Machinery Manufacturing Corporation, which the Company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000.
- 10.53 Letter Agreement, dated August 23, 2000, between LSB Chemical Corp. and Orica USA, Inc., which the Company hereby incorporates by reference from Exhibit 10.4 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2000. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF #10714, DATED FEBRUARY 21, 2001, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.54 Agreement, dated October 31, 2000, between Orica Nitrogen, L.L.C., Orica USA, Inc., and LSB Chemical Corp., which the Company hereby incorporates by reference from Exhibit 10.5 to the company's Form 10-Q for the fiscal quarter ended September 20, 2000. CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF COMMISSION ORDER CF # 10714 DATED FEBRUARY 21, 2001, GRANTING A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.
- 10.55. Letter, dated April 1, 2001, executed by SBL to Prime amending the Promissory Note.*
- 10.56. Letter of Intent, dated December 22, 2000, between El Dorado Chemical Company and Orica USA, Inc.*
- 10.60. Agreement, dated April 2, 2001, between Crystal City Nitrogen Company and River Cement Company.*
- 10.61. Loan and Security Agreement, dated April 13, 2001 by and among LSB Industries, Inc., ClimaChem and each of its Subsidiaries that are Signatories, the Lenders that are Signatories and Foothill Capital Corporation, which the Company hereby incorporates by reference from Exhibit 10.51 to ClimaChem, Inc.'s amendment No. 1 to Form 10-K for the year ended December 31, 2000.

- 10.62. Third Amended and Restated Loan and Security Agreement dated April 16, 2001 by and between Bank of America, N.A. and Summit Machine Tool Manufacturing Corp.**
- 21.1. Subsidiaries of the Company.*
- 23.1. Consent of Independent Auditors.*

* Filed in the original Form 10-K for the year ended December 31, 2000, which was filed with the Securities and Exchange Commission on April 17, 2001.

** Filed herewith.

THIRD AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

BY AND BETWEEN

BANK OF AMERICA, N.A.
AS LENDER

AND

SUMMIT MACHINE TOOL MANUFACTURING CORP.,
AS BORROWER

DATED: APRIL 16, 2001

TABLE OF CONTENTS

SECTION

Table of Contents.....-i-

Preamble.....1

1. DEFINITIONS.....2

1.1 As used herein:.....2

Account.....2

Account Debtor.....2

Affiliate.....2

Applicable Interest Rate.....2

Applicable Margin.....2

Acquisition.....3

Availability.....3

Availability Reductions.....3

Bank.....4

Bank Products.....4

Business Day.....4

Capital Expenditures.....4

Capital Lease.....4

Closing Date.....4

Code.....4

Collateral.....4

Debt.....4

Distribution.....4

Dollars.....4

Eligible Accounts.....5

Eligible Inventory.....7

Environmental Compliance Reserve.....8

Environmental Laws.....8

Equipment.....8

ERISA.....8

Event.....8

Event of Default.....8

Financial Statements.....8

Fiscal Quarter.....9

Fiscal Year.....9

GAAP.....9

Guaranty.....9

Intercompany Accounts.....9

	Inventory.....	9
	IRS.....	9
	Latest Forecasts.....	9
	Letter of Credit.....	9
	Letter of Credit Agreement.....	9
	Letter of Credit Fee.....	9
	Lien.....	10
	Loans.....	10
	Loan Documents.....	10
	LSB.....	10
	Maximum Revolving Credit Line.....	10
	Mortgage.....	10
	Multi-employer Plan.....	10
	Obligations.....	10
	Participating Lender.....	11
	Patent and Trademark Assignments.....	11
	Payment Account.....	11
	PBGC.....	11
	Pension Plan.....	11
	Permitted Debt.....	11
	Permitted Liens.....	11
	Person.....	12
	Plan.....	12
	Proceeds.....	12
	Property.....	12
	Proprietary Rights.....	12
	Public Authority.....	13
	Real Property.....	13
	Receivables.....	13
	Reference Rate.....	13
	Related Company.....	13
	Reportable Event.....	13
	Restricted Investment.....	14
	Reversions.....	14
	Revolving Loans.....	14
	Security Interest.....	14
	Subordinated Debt.....	14
	Subsidiary.....	14
	Termination Event.....	14
	UCC.....	15
1.2	Accounting Terms.....	15
1.3	Other Terms.....	15
1.4	Exhibits.....	15

2.	LOANS AND LETTERS OF CREDIT.....	15
2.1	Revolving Loans.....	15
2.2	Availability Determination.....	16
2.3	Letters of Credit.....	16
2.4	Bank Products.....	16
3.	INTEREST AND OTHER CHARGES.....	17
3.1	Interest.....	17
3.2	Maximum Interest Rate.....	17
3.3	Capital Adequacy.....	18
4.	PAYMENTS AND PREPAYMENTS.....	19
4.1	Revolving Loans.....	19
4.2	Place and Form of Payments: Extension of Time.....	19
4.3	Apportionment, Application and Reversal of Payments.....	19
4.4	INDEMNITY FOR RETURNED PAYMENTS.....	19
5.	LENDER'S BOOKS AND RECORDS: MONTHLY STATEMENTS.....	20
6.	COLLATERAL.....	20
6.1	Grant of Security Interest.....	20
6.2	Perfection and Protection of Security Interest.....	21
6.3	Location of Collateral.....	22
6.4	Title to, Liens on, and Sale and Use of Collateral.....	22
6.5	Appraisals.....	22
6.6	Access and Examination.....	22
6.7	Insurance.....	23
6.8	Collateral Reporting.....	23
6.9	Accounts.....	24
6.10	Collection of Accounts.....	25
6.11	Inventory.....	25
6.12	Documents and Instruments.....	26
6.13	Right to Cure.....	26
6.14	Power of Attorney.....	26
6.15	Lender's Rights, Duties, and Liabilities.....	26
7.	BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.....	27
7.1	Books and Records.....	27
7.2	Financial Information.....	27
7.3	Notices to Lender.....	29

8.	GENERAL WARRANTIES AND REPRESENTATIONS.....	30
8.1	Authorization, Validity, and Enforceability of this Agreement and the Loan Documents.....	30
8.2	Validity and Priority of Security Interest.....	31
8.3	Organization and Qualification.....	31
8.4	Corporate Name; Prior Transactions.....	31
8.5	Financial Statements and Projections.....	31
8.6	Capitalization.....	31
8.7	Solvency.....	32
8.8	Title to Property.....	32
8.9	Real Property; Leases.....	32
8.10	Proprietary Rights.....	32
8.11	Trade Names and Terms of Sale.....	32
8.12	Litigation.....	32
8.13	Labor Disputes.....	32
8.14	Environmental Laws.....	33
8.15	No Violation of Law.....	34
8.16	No Default.....	34
8.17	Plans.....	34
8.18	Taxes.....	34
8.19	Use of Proceeds.....	35
8.20	Private Offerings.....	35
8.21	Broker's Fees.....	35
8.22	No Material Adverse Change.....	35
8.23	Debt.....	35
9.	AFFIRMATIVE AND NEGATIVE COVENANTS.....	35
9.1	Taxes and Other Obligations.....	35
9.2	Corporate Existence and Good Standing.....	36
9.3	Maintenance of Property and Insurance.....	36
9.4	Environmental Laws.....	36
9.5	Mergers, Consolidations, Acquisitions, or Sales.....	36
9.6	Guaranties.....	36
9.7	Debt.....	37
9.8	Prepayment.....	37
9.9	Transactions with Affiliates.....	37
9.10	Plans and Compensation.....	37
9.11	Liens.....	37
9.12	New Subsidiaries.....	37
9.13	Distributions and Restricted Investments.....	37
9.14	Capital Expenditures.....	38
9.15	Further Assurances.....	38
10.	CONDITIONS PRECEDENT TO EACH LOAN.....	38

11.	DEFAULT; REMEDIES.....	38
11.1	Events of Default.....	38
11.2	Remedies.....	40
12.	TERM AND TERMINATION.....	41
13.	MISCELLANEOUS.....	42
13.1	Cumulative Remedies; No Prior Recourse to Collateral.....	42
13.2	No Implied Waivers.....	42
13.3	Severability.....	42
13.4	Governing Law.....	42
13.5	Consent to Jurisdiction and Venue; Service of Process.....	42
13.6	Survival of Representations and Warranties.....	43
13.7	Indemnification.....	43
13.8	Other Security and Guaranties.....	44
13.9	Fees and Expenses.....	44
13.10	Notices.....	45
13.11	Waiver of Notices.....	45
13.12	Binding Effect; Assignment; Disclosure.....	46
13.13	Modification.....	46
13.14	Counterparts.....	46
13.15	Captions.....	46
13.16	Right of Set-Off.....	46
13.17	Participating Lender's Security Interests.....	46
13.18	WAIVER OF JURY TRIAL.....	47
13.19	AMENDMENT AND RESTATEMENT; LIMITATIONS OF SUBSIDIARY LIABILITY; WAIVERS OF CLAIMS.....	47

THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This THIRD AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Agreement") is dated April 16, 2001, and is entered into by and between BANK OF AMERICA, N.A., with offices at 55 South Lake Avenue, Suite 900, Pasadena, California 91101 (the "Lender"), and SUMMIT MACHINE TOOL MANUFACTURING CORP., an Oklahoma corporation, with offices at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107 (the "Borrower").

WITNESSETH

WHEREAS, Lender, LSB Industries, Inc. ("LSB") and Morey Machinery Manufacturing Corporation ("Morey"), in addition to other related parties, entered into a Loan and Security Agreement dated December 12, 1994 (which as thereafter amended from time to time is referred to as the "Original LSB Loan Agreement"); and

WHEREAS, Lender and Borrower entered into a Loan and Security Agreement dated December 12, 1994 (which as thereafter amended from time to time is referred to as the "Original Summit Loan Agreement"); and

WHEREAS, on November 21, 1997 the parties to the Original LSB Loan Agreement entered into an Amended and Restated Loan and Security Agreement (which as thereafter amended from time to time is referred to as the "First Amended LSB Loan Agreement"); and

WHEREAS, on November 21, 1997 the parties to the Original Summit Loan Agreement entered into an Amended and Restated Loan and Security Agreement (which as thereafter amended from time to time is referred to as the "First Amended Summit Loan Agreement"); and

WHEREAS, on May 10, 1999 LSB obtained alternative financing for (i) several of its subsidiaries, including several parties to the First Amended LSB Loan Agreement, and (ii) L&S Bearing Co. which was party to a separate but related Amended and Restated Loan and Security Agreement with Lender; and

WHEREAS, on November 21, 1997 Lender entered into a related amended and restated loan agreement (which, as thereafter amended from time to time, is referred to as the "ClimaChem Loan Agreement") with Climate Master, Inc., International Environmental Corporation, El Dorado Chemical Company, and Slurry Explosive Corporation (collectively, the "CCI Borrower Subsidiaries", which, along with Borrower, LSB, and Morey and certain Subsidiaries of the CCI Borrower Subsidiaries, are referred to as the "LSB Consolidated Borrowing Group"); and

WHEREAS, Lender, LSB, Morey and the Borrower agreed to consolidate the First Amended LSB Loan Agreement and the First Amended Summit Loan Agreement into a single loan agreement, the "Second Amended and Restated Loan and Security Agreement", which was dated May 10, 1999 and which, as amended from time to time, is referred to as the "Second Amended Loan Agreement"; and

WHEREAS, of even herewith, all Obligations of the CCI Borrower Subsidiaries under the ClimaChem Loan Agreement are being repaid in full to Lender, and Lender has agreed to release Morey and LSB as parties to the Second Amended Loan Agreement; and

WHEREAS, Summit, as sole remaining Borrower, and Lender have agreed to enter into this Agreement which amends and restates in its entirety the Second Amended Loan Agreement but does not constitute a novation of the indebtedness described therein; and

WHEREAS, LSB has agreed to unconditionally guaranty all Obligations owed by Borrower to Lender under this Agreement and to renew its pledge, as collateral for its guaranty, in the common stock of Borrower; and

WHEREAS, the aggregate amount of all loans and letters of credit to be made by Lender to the Borrower will not exceed Two Million Five Hundred Thousand and No/100 Dollars (\$2,500,000) in the aggregate at any time outstanding;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the Borrower and the Lender hereby agree as follows:

1 DEFINITIONS.

1.1 As used herein:

"Account" means Borrower's right to payment for a sale or lease and delivery of goods or rendition of services.

"Account Debtor" means each Person obligated to Borrower on an Account.

"Affiliate" means: a Person who, directly or indirectly, controls, is controlled by or is under common control with LSB. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person in question.

"Applicable Interest Rate" has the meaning given to such term in Section 3.1(a).

"Applicable Margin" means two and one-half percent (2.50%) per annum from the date of this Agreement through and including June 30, 2001 with an additional one-half percent (.50%) per annum added to the prior month's Applicable Margin on the first day of each month thereafter to be effective during that month with the first such increase to begin on July 1, 2001. For example: on July 1, 2001, the Applicable Margin increases to 3% for

the month of July; on August 1, 2001 to 3.50% for the month of August; on September 1, 2001 to 4% for the month of September; etc., until the Termination Date.

"Acquisition" means the investment in or purchase of a corporation, association, business, entity, partnership or limited liability company by Borrower by means of the purchase of stock, assets, memberships, partnership interests or otherwise.

"Availability" means at any time the lesser of:

- A The Maximum Revolving Credit Line; or
- B. The sum of:
 - (1) eighty percent (80%) of the Eligible Accounts ("Accounts Availability"), plus
 - (2) the lesser of (a) \$2,000,000 or (b) the sum of (i) sixty percent (60%) of the value of Eligible Inventory other than vertical boring machines ("VBM's") and machine tools acquired in trade in connection with the sale of other Inventory ("Trade-in-Inventory"), plus (ii) twenty-five percent (25%) of the value of Eligible Inventory consisting of VBM's, plus (iii) twenty-five percent (25%) of the value of Eligible Inventory consisting of Trade-in-Inventory; provided, however, that advances against the Trade-in-Inventory shall not exceed \$500,000 in the aggregate at any one time; less
 - (3) the Availability Reductions.

"Availability Reductions" means the sum of the following amounts:

- (i) the unpaid balance of outstanding Revolving Loans at such time;
- (ii) one hundred percent (100%) of the aggregate undrawn face amount of all outstanding Letters of Credit at such time which the Lender has, or has caused to be, issued or obtained for the account of Borrower;
- (iii) reserves for accrued interest on the Revolving Loans which is past due;
- (iv) the Environmental Compliance Reserve; and
- (v) all other reasonable reserves which the Lender in its reasonable discretion deems necessary or desirable to maintain with respect to Borrower's account, including, without limitation, any amounts which the Lender could

reasonably be obligated to pay within a six-month period for the account of Borrower.

"Bank" means Bank of America, N.A., a national banking association, or any successor entity thereto.

"Bank Products" means any one or more of the following types of services or facilities extended to the Borrower or its Affiliates by the Bank or any affiliate of the Bank in reliance on the Bank's agreement to indemnify such affiliate: (i) credit cards; (ii) ACH transactions; (iii) cash management, including controlled disbursement services; and (iv) hedge agreements.

"Business Day" means any day that is not a Saturday, Sunday, or day on which banks in Los Angeles, California are required or permitted to close.

"Capital Expenditures" means all costs incurred, whether payable in the Fiscal Year incurred or thereafter, (including financing costs required to be capitalized under GAAP) for purchases made during a Fiscal Year for any fixed asset or improvement, or replacement, substitution, or addition thereto, which has a useful life of more than one year, including, without limitation, those costs arising in connection with the direct or indirect acquisition of such assets by way of increased product or service charges or offset items or in connection with Capital Leases.

"Capital Lease" means any lease of Property that, in accordance with GAAP, should be reflected as a liability on a Person's balance sheet.

"Closing Date" means November 21, 1997.

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

"Collateral" has the meaning given to such term in Section 6.1.

"Debt" means all liabilities, obligations and indebtedness of Borrower to any Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, as would be shown on the balance sheet of Borrower prepared in accordance with GAAP.

"Distribution" means, in respect of any corporation: (a) the payment or making of any dividend or other distribution of Property in respect of capital stock of such corporation, other than distributions in capital stock; and (b) the redemption or other acquisition of any capital stock of such corporation

"Dollars" and "\$" means lawful money of the United States of America.

"Eligible Accounts" means all Accounts of Borrower which are not ineligible. Accounts shall be ineligible as the basis for Revolving Loans based on the following criteria. Eligible Accounts shall not include any Account:

(i) where such Account is "Past Due". For the purposes of this provision, "Past Due" means: (a) where the Account has terms of payment of less than ninety-one (91) days from the invoice date, the payment thereof is more than 90 days past due; and (b) where the Account has terms of payment of ninety-one to three hundred sixty (91 to 360) days from the invoice date, the payment thereof is more than 30 days past due;

(ii) where, with respect to such Account, any of the representations, warranties, covenants and agreements contained in Sections 6.9 and 8.2 of this Agreement are not or have ceased to be complete and correct or have been breached;

(iii) where such Account represents a progress billing or as to which the Borrower has extended the time for payment after issuance of the invoice relating to such Account. For the purpose hereof, "progress billing" means any invoice for goods sold or leased or services rendered under a contract or agreement pursuant to which the Account Debtor's obligation to pay such invoice is expressly conditioned upon the completion by Borrower of any further performance under the contract or agreement, provided, however, that performance required under a warranty claim or provision shall not make such Account a "progress billing";

(iv) where Borrower has become aware that any one or more of the following events has occurred with respect to an Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, or winding up of affairs of, the Account Debtor; the sale, assignment, or transfer of all or any material part of the assets of the Account Debtor; or the cessation of the business of the Account Debtor as a going concern;

(v) where an Account is not a valid, legally enforceable obligation of the Account Debtor thereunder or is subject to offset, counterclaim or other defenses on the part of such Account Debtor denying liability thereunder in whole or in part;

(vi) where the Borrower does not have good and marketable title to such Account, free and clear of all Liens, other than Liens arising under this Agreement and the documents delivered in connection herewith;

(vii) which is owed by an Account Debtor which: (i) does not maintain its chief executive office in the United States or territory thereof or Canada; or (ii) is not organized under the laws of the United States or any state or territory thereof or Canada; or (iii) is the government of any foreign country or any state, province, municipality or other political subdivision thereof (all of the foregoing being referred to as "Foreign Accounts"); except that, to the extent that such Foreign Accounts are secured or payable by letters of credit or bank guarantees reasonably acceptable to Lender, such Foreign Accounts shall be considered Eligible Accounts. Notwithstanding the foregoing, Lender has agreed that Foreign Accounts, if they otherwise meet all eligibility requirements, will be Eligible Accounts even though such Foreign Accounts are not secured or payable by letters of credit or bank guarantees reasonably acceptable to Lender up to an amount not to exceed at any one time more than five percent (5%) of the Availability (without taking into account such Foreign Accounts);

(viii) which is owed by an Account Debtor which is an Affiliate;

(ix) which is owed by the government of the United States of America, or any department, agency, or other instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended, or any other steps necessary to perfect the Lender's Security Interest therein, have been complied with to the Lender's reasonable satisfaction with respect to such Account;

(x) which is owed by any state or municipality, or any department, agency, or other instrumentality thereof, and as to which the Lender's Security Interest therein is not or cannot be perfected;

(xi) which arises out of a sale to an Account Debtor on a bill and hold, guaranteed sale, sale or return, sale on approval, consignment, or other repurchase or return basis;

(xii) which is evidenced by a promissory note or other instrument (unless such note or instrument is part of chattel paper in which Lender has a first priority perfected Security Interest) or by chattel paper (unless Lender has a first priority perfected Security Interest therein);

(xiii) where the goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor (provided, however, that where the Account Debtor has agreed in writing to accept billings for such goods, with a

copy of such writing being provided to Lender, then such Account shall be an Eligible Account if it otherwise qualifies) or the services giving rise to such Account have not been performed by the Borrower and accepted by the Account Debtor;

(xiv) if Lender believes in its reasonable credit judgment that the prospect of collection of such Account is impaired;

(xv) which Account is owing from an Account Debtor in which fifty percent (50%) or more of the Accounts owing from whom are Past Due as set forth in subsection (i) of this definition of Eligible Accounts;

(xvi) as to which either the perfection, enforceability, or validity of the Security Interest in such Account, or the Lender's right or ability to obtain direct payment to the Lender of the Proceeds of such Account, is governed by any federal, state, or local statutory requirements other than those of the UCC; or

(xvii) with respect to which the Account Debtor is located in any state requiring the filing of a Business Activities Report or similar document in order to permit the Borrower to seek judicial enforcement in such state of payment of such Account, unless Borrower has qualified to do business in such state, or has filed a Notice of Business Activities Report or equivalent report with the applicable state office for the then current year.

"Eligible Inventory" means Inventory of Borrower valued at the lower of cost or market on a "first in-first out" ("FIFO") basis that constitutes (i) raw materials (including raw materials stored or held by Borrower in the work-in-progress area and fifty percent (50%) of Inventory classified as components) and (ii) first quality finished goods and that (a) is not obsolete or unmerchantable, (b) upon which the Lender has a first priority perfected Security Interest, and (c) the Lender otherwise deems eligible as the basis for Revolving Loans based on such other credit and collateral considerations as the Lender may from time to time establish in its reasonable discretion. Without intending to limit the Lender's discretion to establish other reasonable criteria of eligibility, no work-in-progress, service or spare parts, packaging, used parts, shipping materials, supplies, containers, defective Inventory, Inventory consisting of machines being rebuilt, Inventory acquired in trade in connection with the sale of other Inventory, slow-moving Inventory, Inventory in transit (except for Inventory in transit owned by Borrower, covered by insurance, and in which Lender has a Security Interest), fifty percent (50%) of Inventory classified as components, or Inventory delivered to Borrower on consignment shall constitute Eligible Inventory. Eligible Inventory shall not include Inventory stored at locations other than those locations either owned by the Borrower or locations for which a landlord's waiver acceptable to Lender or a consignment agreement (with appropriate UCC filings) has been signed by the owner of such location and delivered to Lender. In addition, the amount of all finished goods reserves (excluding reserves for "last-in-first-out" valuation) shown on the books of Borrower shall be deducted from the value of the Eligible Inventory as used in computing Availability, except to the extent that

any such reserve has already been taken into account in connection with any of the above criteria.

"Environmental Compliance Reserve" means all reserves which the Lender from time to time establishes for amounts that are liabilities required to be paid by Borrower within 180 days in order to correct any violation by the Borrower or the operations or Property of Borrower with respect to Environmental Laws.

"Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, and consent decrees relating to hazardous substances, and environmental matters applicable to the business and facilities of Borrower (whether or not owned by Borrower). Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act, 42 U.S.C. ' 6901 et seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ' 9601 et seq., as amended; the Toxic Substances Control Act, 15 U.S.C. ' 2601 et seq., as amended; the Clean Water Act, 33 U.S.C. ' 466 et seq., as amended; the Clean Air Act, 42 U.S.C. ' 7401 et seq., as amended; state and federal superlien and environmental cleanup programs; and U.S. Department of Transportation regulations.

"Equipment" means, all of Borrower's now owned and hereafter acquired machinery, equipment, furniture, furnishings, fixtures, and other tangible personal property (except Inventory), including, without limitation, data processing hardware and software, motor vehicles, aircraft, dies, tools, jigs, and office equipment, as well as all of such types of property which are leased and all of the rights and interests with respect thereto under such leases (including, without limitation, options to purchase); together with all present and future additions and accessions thereto, replacements therefor, component and auxiliary parts and supplies used or to be used in connection therewith, and all substitutes for any of the foregoing, 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" means any event or condition which, with notice, the passage of time, the happening of any other condition or event, or any combination thereof, would constitute an Event of Default.

"Event of Default" has the meaning given to such term in Section 11.1.

"Financial Statements" means, according to the context in which it is used, the financial statements attached hereto as Exhibit G-1, and the Latest Forecasts attached hereto as Exhibit G-2, and any other financial statements required to be given by the Borrower to the Lender under this Agreement.

"Fiscal Quarter" means any three-month period ending March 31, June 30, September 30 or December 31.

"Fiscal Year" means LSB's fiscal year for financial accounting purposes. The current Fiscal Year of LSB will end on December 31, 2001.

"GAAP" means at any particular time generally accepted accounting principles as in effect at such time.

"Guaranty" by any Person means all obligations of such Person which in any manner directly or indirectly guarantee the payment or performance of any indebtedness or other obligation of any other Person (the "guaranteed obligations"), or assure or in effect assure the holder of the guaranteed obligations against the loss in respect thereof, including, without limitation, any such obligations incurred through an agreement, (a) to purchase the guaranteed obligations or any Property constituting security therefor or (b) to advance or supply funds for the purchase or payment of the guaranteed obligations or to maintain a working capital or other balance sheet condition.

"Intercompany Accounts" means all assets and liabilities, however arising, which are due to the Borrower from, which are due from the Borrower to, or which otherwise arise from any transaction by the Borrower with, any Affiliate.

"Inventory" means all of Borrower's now owned and hereafter acquired inventory, wherever located, to be held for sale or lease, all raw materials, work-in-process, finished goods, returned and repossessed goods, and materials and supplies of any kind, nature or description which are or might be used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such inventory, and all documents of title or other documents representing them.

"IRS" means the Internal Revenue Service or any successor agency.

"Latest Forecasts" means, (a) the forecasts of the Borrower's monthly financial condition, results of operations, and cash flows through the year ending December 31, 2001, attached hereto as Exhibit G-2; and (b) thereafter, the forecasts most recently received by the Lender pursuant to Section 7.2.

"Letter of Credit" has the meaning specified in Section 2.3.

"Letter of Credit Agreement" has the meaning specified in Section 2.3.

"Letter of Credit Fee" means the commissions charged under the Letter of Credit Agreement on the outstanding amount of each Letter of Credit.

"Lien" means: any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute, or contract, and including without limitation, a security interest, charge, claim, or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, or conditional sale, or a lease, consignment or bailment for security purposes.

"Loans" means, collectively, all loans and advances by the Lender to or on behalf of the Borrower provided for in Article 2.

"Loan Documents" means all documents executed by the Borrower and/or LSB, including this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Mortgage and all other agreements, instruments, and documents heretofore, now or hereafter evidencing, securing or guaranteeing the Obligations under this Agreement, the Collateral or the Security Interest, as the same may hereafter be amended, modified, restated and/or extended.

"LSB" means LSB Industries, Inc., a Delaware corporation, Parent of Borrower and guarantor of all Obligations under this Agreement.

"Maximum Revolving Credit Line" means Two Million Five Hundred Thousand Dollars (\$2,500,000).

"Mortgage" means the Mortgage executed by Borrower dated of even date herewith granting to Lender a first priority lien on certain Real Property in Oklahoma County, Oklahoma.

"Multi-employer Plan" means a Plan which is described in Section 3(37) of ERISA.

"Obligations" means all present and future loans, advances, liabilities, obligations, covenants, duties and Debts owing by the Borrower to the Lender, arising under this Agreement or any other Loan Document, whether or not evidenced by any note, or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, loan, guaranty, indemnification (including any indemnity by Lender in connection with the Bank Products or otherwise for the benefit of the Borrower), whether direct or indirect (including, without limitation, those acquired by assignment from others relating to Bank Products), absolute or contingent, due or to become due, primary or secondary, as principal or guarantor, and including, without limitation, all interest, charges, expenses, fees, attorneys' fees, filing fees and any other sums chargeable to the Borrower hereunder or under another Loan Document, or under any other agreement or instrument with Lender relating to the Bank Products. "Obligations" includes, without limitation, (a) all debts, liabilities, and obligations now or hereafter owing from Borrower to Lender under or in connection with the Letters of Credit and the Letter of Credit Agreement, and (b) all debts, liabilities, and obligations now or hereafter arising from or related to the Bank Products.

"Participating Lender" means any Person who shall have been granted the right by the Lender to participate in the Revolving Loans and who shall have entered into a participation agreement in form and substance satisfactory to the Lender.

"Patent and Trademark Assignments" means the Patent Security Agreement and the Trademark and Trade Names Security Agreement dated as of December 12, 1994, executed and delivered by the Borrower to the Lender to evidence and perfect the Lender's Security Interest in the Borrower's present and future patents, trademarks, trade names and related licenses and rights, each as amended and modified from time to time.

"Payment Account" means each blocked bank account, established pursuant to Section 6.10, to which Proceeds of Accounts and other Collateral are deposited or credited, and which is maintained in the name of the Borrower on terms acceptable to the Lender.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to the functions thereof.

"Pension Plan" means any employee benefit plan, including a Multiemployer Plan, which is subject to Title IV of ERISA, where either (a) the Plan is maintained by the Borrower or any Related Company; or (b) Borrower or any Related Company contributes or is required to contribute to it; or (c) Borrower or any Related Company has incurred or may incur liability, including contingent liability, under Title IV of ERISA, either to it, or to the PBGC with respect to it.

"Permitted Debt" means: (i) the Obligations; (ii) Debt set forth in the most recent Financial Statements delivered to the Lender, or the notes thereto; (iii) Debt incurred since the date of such Financial Statements to finance Capital Expenditures permitted hereby; (iv) Debt resulting from a judgment having been rendered against Borrower that is being appealed by the Borrower in good faith and in a timely manner, for which an adequate reserve has been recorded on Borrower's books, and which is not fully covered by insurance; (v) Subordinated Debt; (vi) Debt resulting from the refinancing of any other Permitted Debt as long as (a) such Debt does not exceed the amount of the refinanced Debt, and (b) such Debt does not result in payment acceleration of the refinanced Debt; (vii) Debt resulting from trade payables and other obligations arising in the ordinary course of business, (viii) other Debt existing as of the date hereof plus up to \$500,000 of additional Debt; and (ix) Debt to Affiliates in accordance with Section 9.9 hereof.

"Permitted Liens" means: (a) Liens for taxes not yet payable or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements, and further provided that, with respect to the Collateral, a stay of enforcement of any such Lien is in effect; (b) Liens in favor of the Lender; (c) reservations, exceptions, encroachments, easements, rights of way, covenants,

conditions, restrictions, leases and other similar title exceptions or encumbrances affecting the Real Property; (d) Liens or deposits under workmen's compensation, unemployment insurance, social security and other similar laws, (e) Liens relating to obligations with respect to surety, appeal bonds, performance bonds, bids, tenders and other obligations of a like nature, (f) Liens existing as of the Closing Date and granted after the date hereof in connection with the Equipment, Real Property or other fixed assets, provided that such Liens attach only to such Property and the proceeds thereof, and so long as the indebtedness secured thereby does not exceed 100% of the fair market value of such Property at the time of acquisition; (g) Liens on goods consigned to the Borrower or not owned by Borrower so long as such Lien attaches only to such goods and so long as Lender has been given notice of such Lien, (h) mechanic, materialmen and other like Liens arising in the ordinary course of business securing obligations which are not overdue or are being contested in good faith by appropriate proceedings and adequately reserved against, (i) statutory Liens in favor of landlords, (j) Liens against any life insurance policy or the cash surrender value thereof which relate to borrowings incurred to finance the premiums made under such policy; and (k) Liens reflected on Exhibit A hereto.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, Public Authority, or any other entity.

"Plan" means, individually and collectively, all Pension Plans, all additional employee benefit plans as defined in Section 3(3) of ERISA, and all other plans, programs, agreements, arrangements, and methods of contribution or compensation providing any material remuneration or benefits, other than the cash payment of wages or salary, to any current or former employee(s) of the Borrower.

"Proceeds" means all products and proceeds of any Collateral, and all proceeds of such proceeds and products, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty, or guaranty payable with respect to any Collateral, all proceeds of fire or other insurance, and all money and other Property obtained as a result of any claims against third parties or any legal action or proceeding with respect to Collateral.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Proprietary Rights" means all of Borrower's now owned and hereafter arising or acquired: licenses, franchises, permits, patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, trade names, trade styles, patent and trademark applications and licenses and rights thereunder, including without limitation those patents, trademarks and copyrights set forth on Exhibit B hereto, and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present, and future infringement of any of the foregoing; inventions, trade secrets, formulae, processes, compounds, drawings, designs, blueprints, surveys, reports, manuals, and operating

standards, goodwill, customer and other lists in whatever form maintained, and trade secret rights, copyright rights, right in works of authorship, and contract rights relating to computer software programs, in whatever form created or maintained.

"Public Authority" means the government of any country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or any department, agency, public corporation or other instrumentality of any of the foregoing.

"Real Property" means all of Borrower's rights, title, and interest in real property now owned or hereafter acquired by Borrower, including, without limitation, the real property more particularly described in Exhibit H attached hereto, including all rights and easements in connection therewith and all buildings and improvements now or hereafter constructed thereon.

"Receivables" means all of Borrower's now owned or hereafter arising or acquired: Accounts (whether or not earned by performance), including Accounts owed to the Borrower by any of its Subsidiaries or Affiliates (but excluding Accounts arising solely from the sale of Equipment, Real Property or other fixed assets), together with all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; proceeds of any letters of credit naming the Borrower as beneficiary; contract rights, chattel paper, instruments, documents, general intangibles (including, without limitation, choses in action, causes of action, tax refunds, tax refund claims, Reversions and other amounts payable to the Borrower from or with respect to any Plan, rights and claims against shippers and carriers, rights to indemnification and business interruption insurance), and all forms of obligations owing to Borrower (including, without limitation, obligations owing to the Borrower by its Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; and rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

"Reference Rate" means the per annum rate of interest publicly announced from time to time by the Lender at its San Francisco, California main office as its reference rate. It is a rate set by Lender based upon various factors including Lender's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans; however, Lender may price loans at, above or below the Reference Rate. Any change in the Reference Rate shall take effect on the day specified in the public announcement of such change.

"Related Company" means any member of any controlled group of corporations including, or under common control with, Borrower (as defined in Section 414(b) or (c) of the Code or Section 4001(a)(14) of ERISA).

"Reportable Event" means, with respect to a Pension Plan, 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 cessation of operations described in Section 4062(e) of ERISA.

"Restricted Investment" means any acquisition of Property by Borrower in exchange for cash or other Property, whether in the form of an acquisition of stock, indebtedness or other obligation, or by loan, advance, capital contribution, or otherwise, except the following: (a) Property to be used in the business of Borrower; (b) assets arising from the sale or lease of goods or rendition of services in the ordinary course of business of the Borrower; (c) direct obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof; (d) certificates of deposit maturing within one year from the date of acquisition, bankers acceptances, Eurodollar bank deposits, or overnight bank deposits, in each case issued by, created by, or with a bank or trust company organized under the laws of the United States or any state thereof having capital and surplus aggregating at least \$100,000,000; and (e) commercial paper given the highest rating by a national credit rating agency and maturing not more than 270 days from the date of creation thereof.

"Reversions" means any funds which may become due to the Borrower in connection with the termination of any Plan.

"Revolving Loans" has the meaning specified in Section 2.1.

"Security Interest" means collectively the Liens granted by Borrower to the Lender in the Collateral pursuant to this Agreement or the other Loan Documents.

"Subordinated Debt" shall mean Debt that is unsecured and is subordinated to the payment of the Obligations.

"Subsidiary" or "Subsidiaries" means any present or future corporation or corporations of which LSB owns, directly or indirectly, more than 50% of the voting stock.

"Termination Event" means: (a) a Reportable Event (other than a Reportable Event described in Section 4043 of ERISA which is not subject to the provision for 30-day notice to the PBGC under applicable regulations); or (b) the withdrawal of the Borrower or any Related Company from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA with respect to such Pension Plan; or (c) the filing of a notice of intent to terminate a Pension Plan or the treatment of a Pension Plan amendment as a termination under Section 4041 of ERISA; or (d) the institution of proceedings by the PBGC to terminate or have a trustee appointed to administer a Pension Plan; or (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan, or (f) the partial or complete withdrawal of Borrower or any Related Company from a Multi-employer Plan, or (g) the withdrawal of Borrower from any state workers' compensation system.

"UCC" means the Uniform Commercial Code (or any successor statute) of the State of Oklahoma or of any other state the laws of which are required by Section 9-103 thereof to be applied in connection with the issue of perfection of security interests.

1.2 Accounting Terms. Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the Financial Statements.

1.3 Other Terms. All other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein. Wherever appropriate in the context, terms used herein in the singular also include the plural, and vice versa, and each masculine, feminine, or neuter pronoun shall also include the other genders.

1.4 Exhibits. All references in this Agreement to Exhibits are, unless otherwise specified, references to exhibits attached hereto, and all such exhibits are hereby deemed incorporated herein by this reference.

2. LOANS AND LETTERS OF CREDIT.

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon Borrower's request from time to time, make revolving loans (the "Revolving Loans") to the Borrower up to the limits of the Availability. The Lender, in its discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability or to be obligated to exceed the limits of the Availability on any other occasion. If the unpaid balance of the Revolving Loans exceeds the Availability (with Availability for this purpose determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated. The Borrower may request Revolving Loans either orally or in writing, provided, however, that each such request shall be made no later than 1:00 p.m. (Los Angeles, California time). Each oral request for a Revolving Loan shall be conclusively presumed to be made by a person authorized by the Borrower to do so and the crediting of a Revolving Loan to the Borrower's deposit account, or transmittal to such Person as the Borrower shall direct, shall conclusively establish the obligation of the Borrower to repay such Revolving Loan. The Lender will charge all Revolving Loans and other Obligations to a loan account of the Borrower maintained with the Lender. All fees, commissions, costs, expenses, and other charges due from the Borrower pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by Lender and authorized to be charged to the Borrower pursuant to the Loan Documents, will be charged as Revolving Loans to the Borrower's loan account as of the date due from the Borrower or the date paid or incurred by the Lender, as the case may be.

2.2 Availability Determination. Availability will be determined by the Lender in accordance with the terms of this Agreement, each day on the basis of such relevant information as the Lender deems appropriate to consider, including the collateral summary reports and such other information regarding the Accounts and the Inventory as the Lender shall obtain from the Borrower.

2.3 Letters of Credit. The Lender will, subject to the terms and conditions of this Agreement and the Letter of Credit Agreement as hereafter defined, and upon Borrower's request from time to time, cause merchandise letters of credit (the "Merchandise L/C's") or standby letters of credit (the "Standby L/C's") to be issued for the Borrower's account (the Merchandise L/C's and the Standby L/C's being referred to collectively as the "Letters of Credit"). The Lender will not cause to be opened any Letter of Credit if: (a) the maximum face amount of the requested Letter of Credit, plus the aggregate undrawn face amount of all outstanding Letters of Credit under this Agreement would exceed Three Hundred Thousand and No/100 Dollars (\$300,000); or (b) the maximum face amount of the requested Letter of Credit, and all commissions, fees, and charges due from Borrower to Lender in connection with the opening thereof, would cause the Availability to be exceeded at such time. In addition, with respect to any Merchandise L/C, the requested term of such Letter of Credit may not exceed 180 days, and no Merchandise L/C may by its terms be scheduled to be outstanding on the Termination Date. Standby L/C's may have terms that extend beyond the Termination Date but upon termination of this Agreement, all Letters of Credit must be either terminated with the consent of the beneficiary thereof, replaced with a letter of credit provided by a financial institution acceptable to Lender, collateralized by cash or cash equivalent, or otherwise satisfied in a manner acceptable to Lender. The Letters of Credit shall be governed by a Letter of Credit Financing Agreement - Supplement to Third Amended and Restated Loan and Security Agreement between the Lender and the Borrower ("Letter of Credit Agreement"), in the form attached hereto as Exhibit "O" and made a part hereof, in addition to the terms and conditions hereof. All payments made and expenses incurred by the Lender pursuant to or in connection with the Letters of Credit and the Letter of Credit Agreement will be charged to the Borrower's loan account as Revolving Loans.

2.4 Letters of Credit. The Borrower may request and the Lender may, in its sole and absolute discretion, arrange for the Borrower to obtain from the Bank or the Bank's Affiliates Bank Products although the Borrower is not required to do so. If Bank Products are provided by an Affiliate of the Bank, the Borrower agrees to indemnify and hold the Bank and the Lender harmless from any and all costs and obligations now or hereafter incurred by the Bank or the Lender which arise from any indemnity given by the Lender to its Affiliates related to such Bank Products; provided, however, (i) such indemnification shall not apply to any acts of gross negligence or willful misconduct of Lender or its Affiliates, and (ii) nothing contained herein is intended to limit the Borrower's rights, with respect to the Bank or its Affiliates, if any, which arise as a result of the execution of documents by and between the Borrower and the Bank which relate to Bank Products. The agreement contained in this Section shall survive termination of this Agreement. The Borrower acknowledges and agrees that the obtaining of Bank Products from the Bank or the Bank's Affiliates (a) is in the sole and absolute discretion of the Bank or the Bank's Affiliates, and (b) is subject to all rules and regulations of the Bank or the Bank's Affiliates.

3. INTEREST AND OTHER CHARGES

3.1 Interest.

(a) Interest Rates. All amounts charged as Revolving Loans shall bear interest on the unpaid principal amount thereof from the date made until paid in full in cash at a fluctuating per annum rate (the "Applicable Interest Rate") equal to the Applicable Margin plus the Reference Rate, but not to exceed the maximum rate permitted by applicable law.

Each change in the Reference Rate shall be reflected in the interest rate described above as of the effective date of such change. All interest charges shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed. Except as otherwise provided herein interest accrued on the Revolving Loans will be payable in arrears on the first day of each month hereafter.

(b) Default Rate. If any Event of Default occurs, then, while any such Event of Default is continuing, all Loans shall bear interest at an increased rate of interest equal to the Applicable Interest Rate plus two percent (2.0%) per annum, and the Letter of Credit Fee shall be increased to three percent (3%) per annum.

3.2 Maximum Interest Rate.

(a) Notwithstanding the foregoing provisions of Section 3.1 regarding the rates of interest applicable to the Loans, if at any time the amount of such interest computed on the basis of the Applicable Interest Rate would exceed the amount of such interest computed upon the basis of the maximum rate of interest permitted by applicable state or federal law in effect from time to time hereafter, after taking into account, to the extent required by applicable law, any and all fees, payments, charges and calculations provided for in this Agreement or in any other agreement between Borrower and Lender (the "Maximum Legal Rate"), the interest payable under this Agreement shall be computed upon the basis of the Maximum Legal Rate, but any subsequent reduction in the Reference Rate shall not reduce such interest thereafter payable hereunder below the amount computed on the basis of the Maximum Legal Rate until the aggregate amount of such interest accrued and payable under this Agreement equals the total amount of interest which would have accrued if such interest had been at all times computed solely on the basis of the Applicable Interest Rate.

(b) No agreements, conditions, provisions or stipulations contained in this Agreement or any other instrument, document or agreement between Borrower and the Lender or default of Borrower, or the exercise by the Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Agreement or any other agreement between Borrower and the Lender, or the arising of any contingency whatsoever, shall entitle the Lender to collect, in any event, interest exceeding the Maximum Legal Rate and in no event shall Borrower be obligated to pay interest exceeding such Maximum Legal

Rate and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel Borrower to pay a rate of interest exceeding the Maximum Legal Rate, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such Maximum Legal Rate. In the event any interest is charged in excess of the Maximum Legal Rate ("Excess"), Borrower acknowledges and stipulates that any such charge shall be the result of an accidental and bona fide error, and such Excess shall be, first, applied to reduce the principal then unpaid hereunder; second, applied to reduce the Obligations; and third, returned to the Borrower, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Borrower recognizes that, with fluctuations in the Applicable Interest Rate and the Maximum Legal Rate, such an unintentional result could inadvertently occur. By the execution of this Agreement, Borrower covenants that (i) the credit or return of any Excess shall constitute the acceptance by Borrower of such Excess, and (ii) the Borrower shall not seek or pursue any other remedy, legal or equitable, against Lender, based in whole or in part upon the charging or receiving of any interest in excess of the maximum authorized by applicable law. For the purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by the Lender in connection with this Agreement shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

(c) The provisions of Section 3.2 shall be deemed to be incorporated into every document or communication relating to the Obligations which sets forth or prescribes any account, right or claim or alleged account, right or claim of the Lender with respect to the Borrower (or any other obligor in respect of Obligations), whether or not any provision of Section 3.2 is referred to therein. All such documents and communications and all figures set forth therein shall, for the sole purpose of computing the extent of the liabilities and obligations of the Borrower (or other obligor) asserted by the Lender thereunder, be automatically recomputed by Borrower or obligor, and by any court considering the same, to give effect to the adjustments or credits required by Section 3.2.

(d) If the applicable state or federal law is amended in the future to allow a greater rate of interest to be charged under this Agreement or any other Loan Documents than is presently allowed by applicable state or federal law, then the limitation of interest under Section 3.2 shall be increased to the maximum rate of interest allowed by applicable state or federal law as amended, which increase shall be effective hereunder on the effective date of such amendment, and all interest charges owing to the Lender by reason thereof shall be payable upon demand.

3.3 Capital Adequacy. If as a result of any regulatory change directly or indirectly affecting Lender or any of Lender's affiliated companies there shall be imposed, modified or deemed applicable any tax, reserve, special deposit, minimum capital, capital ratio, or similar requirement against or with respect to or measured by reference to loans made or to be made to Borrower hereunder, or to Letters of Credit issued on behalf of Borrower pursuant to the Letter of Credit Agreement, and the result shall be to increase the cost to Lender or to any of Lender's affiliated companies of making or maintaining any Revolving Loan or Letter of Credit hereunder, or reduce any amount receivable in respect of any such Revolving Loan and which increase in cost, or reduction in amount receivable, shall be the result of Lender's or Lender's affiliated company's

reasonable allocation among all affected customers of the aggregate of such increases or reductions resulting from such event, then, within ten (10) days after receipt by Borrower of a certificate from Lender containing the information described in this Section 3.3 which shall be delivered to Borrower, Borrower agrees from time to time to pay Lender such additional amounts as shall be sufficient to compensate Lender or any of Lender's affiliated companies for such increased costs or reductions in amounts which Lender determines in Lender's reasonable discretion are material. Notwithstanding the foregoing, all such amounts shall be subject to the provisions of Section 3.2. The certificate requesting compensation under this Section 3.3 shall identify the regulatory change which has occurred, the requirements which have been imposed, modified or deemed applicable, the amount of such additional cost or reduction in the amount receivable and the way in which such amount has been calculated.

4. PAYMENTS AND PREPAYMENTS.

4.1 Revolving Loans. The Borrower shall repay the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest thereon, upon the termination of this Agreement. In addition, the Borrower shall pay to the Lender, on demand, the amount by which the unpaid principal balance of the Revolving Loans at any time exceeds the Availability at such time (with Availability for this purpose determined as if the amount of the Revolving Loans were zero).

4.2 Place and Form of Payments: Extension of Time. All payments of principal, interest, and other sums due to the Lender shall be made at the Lender's address set forth in Section 13.10. Except for Proceeds received directly by the Lender, all such payments shall be made in immediately available funds. If any payment of principal, interest, or other sum to be made hereunder becomes due and payable on a day other than a Business Day, the due date of such payment shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable interest rate during such extension.

4.3 Apportionment, Application and Reversal of Payments. Except as otherwise expressly provided hereunder, the Lender shall determine in its discretion the order and manner in which proceeds and other payments that the Lender receives are applied to the Revolving Loans, interest thereon, and the other Obligations, and Borrower hereby irrevocably waives the right to direct the application of any payment or proceeds. Following an Event of Default that is continuing, the Lender shall have the continuing and exclusive right to apply and reverse and reapply any and all such proceeds and payments to any portion of the Obligations.

4.4 INDEMNITY FOR RETURNED PAYMENTS. IF AFTER RECEIPT OF ANY PAYMENT OF, OR PROCEEDS APPLIED TO THE PAYMENT OF, ALL OR ANY PART OF THE OBLIGATIONS, THE LENDER IS FOR ANY REASON REQUIRED TO SURRENDER SUCH PAYMENT OR PROCEEDS TO ANY PERSON, BECAUSE SUCH PAYMENT OR PROCEEDS IS INVALIDATED, DECLARED FRAUDULENT, SET ASIDE, DETERMINED TO BE VOID OR VOIDABLE AS A PREFERENCE, OR A DIVERSION OF TRUST FUNDS, OR FOR ANY OTHER REASON, THEN: THE OBLIGATIONS OR PART THEREOF INTENDED TO BE SATISFIED SHALL BE REVIVED AND CONTINUE

AND THIS AGREEMENT SHALL CONTINUE IN FULL FORCE AS IF SUCH PAYMENT OR PROCEEDS HAD NOT BEEN RECEIVED BY THE LENDER AND THE BORROWER SHALL BE LIABLE TO PAY TO THE LENDER, AND HEREBY DOES INDEMNIFY THE LENDER AND HOLD THE LENDER HARMLESS FOR THE AMOUNT OF SUCH PAYMENT OR PROCEEDS SURRENDERED. The provisions of this Section 4.4 shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment or Proceeds, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Agreement and shall be deemed to have been conditioned upon such payment or Proceeds having become final and irrevocable. The provisions of this Section 4.4 shall survive the termination of this Agreement.

5. LENDER'S BOOKS AND RECORDS: MONTHLY STATEMENTS. The Borrower agrees that the Lender's books and records showing the Obligations and the transactions pursuant to this Agreement and the other Loan Documents shall be admissible in any action or proceeding arising therefrom irrespective of whether any Obligation is also evidenced by a promissory note or other instrument, and shall constitute presumptive proof thereof until such time as Borrower has reviewed the monthly statement as hereinafter provided. The Lender will provide to the Borrower a monthly statement of Loans, payments, and other transactions pursuant to this Agreement. Such statement shall be deemed correct, accurate, and binding on the Borrower and as an account stated and shall constitute prima facie proof thereof (except for reversals and reapplications of payments made as provided in Section 4.3 and corrections of errors discovered by the Lender), unless the Borrower notifies the Lender in writing to the contrary within thirty (30) days after such statement is rendered. In the event a timely written notice of objections is given by the Borrower, only the items to which exception is expressly made will be considered to be disputed by the Borrower.

6. COLLATERAL.

6.1 Grant of Security Interest.

(a) As security for the Obligations, Borrower hereby grants to the Lender a continuing security interest in, lien on, and assignment of: (i) all Receivables, Inventory, Proprietary Rights, the Real Property, and Proceeds, wherever located and whether now existing or hereafter arising or acquired; (ii) all moneys, securities and other property and the Proceeds thereof, now or hereafter held or received by, or in transit to, the Lender from or for Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including, without limitation, all of Borrower's deposit accounts, credits and balances with the Lender and all claims of the Borrower against the Lender at any time existing; (iii) all of Borrower's deposit accounts containing Collateral with any financial institutions with which Borrower maintains deposits; and (iv) all books, records, ledger cards, data processing records, computer software and other property and general intangibles at any time evidencing or relating to the Receivables, Inventory, Proprietary Rights, the Real Property and Proceeds, and other property referred to above (all of the foregoing, together with all other property in which Lender may at any time be granted a Lien, being herein collectively

referred to as the "Collateral"). The Lender shall have all of the rights of a secured party with respect to the Collateral under the UCC and other applicable laws.

(b) All Obligations shall constitute a single loan secured by the Collateral. The Lender may, in its sole discretion, (i) exchange, waive, or release any of the Collateral, (ii) after the occurrence of an Event of Default that is continuing, apply Collateral and direct the order or manner of sale thereof as the Lender may determine, and (iii) after the occurrence of an Event of Default that is continuing, settle, compromise, collect, or otherwise liquidate any Collateral in any manner, all without affecting the Obligations or the Lender's right to take any other action with respect to any other Collateral.

6.2 Perfection and Protection of Security Interest. Borrower shall, at its expense, perform all steps requested by the Lender at any time to perfect, maintain, protect, and enforce the Security Interest in the Collateral including, without limitation: (a) executing and recording of the Patent and Trademark Assignments and executing and filing financing or continuation statements, and amendments thereof, relating to the Collateral in form and substance satisfactory to the Lender; (b) delivering to the Lender, upon Lender's request therefor, the originals of all instruments, documents, and chattel paper, and all other Collateral of which the Lender determines it should have physical possession in order to perfect and protect the Security Interest therein, duly endorsed or assigned to the Lender without restriction; (c) delivering to the Lender warehouse receipts covering any portion of the Collateral located in warehouses and for which warehouse receipts are issued; (d) after an Event of Default that is continuing, causing notations to be placed on Borrower's books of account to disclose the Security Interest; (e) delivering to the Lender, upon Lender's request therefor, all letters of credit on which Borrower is a named beneficiary; (f) after an Event of Default that is continuing transferring Inventory to warehouses designated by the Lender; and (g) taking such other steps as are deemed necessary by the Lender to maintain the Security Interest. The Lender may file, without Borrower's signature, one or more financing statements disclosing the Security Interest. Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of the agents or processors of Borrower, then Borrower shall notify the Lender thereof and shall notify such Person of the Security Interest in such Collateral and, upon the Lender's request following an Event of Default that is continuing, instruct such Person to hold all such Collateral for the Lender's account subject to the Lender's instructions. If at any time any Collateral is located on any premises that are not owned by Borrower, then the Borrower shall obtain written waivers, in form and substance reasonably satisfactory to the Lender, of all present and future Liens to which the owner or lessor of such premises may be entitled to assert against the Collateral. From time to time, the Borrower shall, upon Lender's request, cause to be executed and delivered confirmatory written instruments pledging to the Lender the Collateral, but the Borrower's failure to do so shall not affect or limit the Security Interest. So long as this Agreement is in effect and until all Obligations have been fully satisfied, the Security Interest shall continue in full force and effect in all Collateral (whether or not deemed eligible for the purpose of calculating the Availability or as the basis for any advance, loan, or other financial accommodation). Upon termination of this Agreement and payment of all Obligations, the Lender shall release all Security Interests held by the Lender.

6.3 Location of Collateral. Borrower represents and warrants to the Lender that: (a) Exhibit D hereto is a correct and complete List of Borrower's chief executive office, the location of its books and records as well as the locations of the Collateral and the locations of all of its other places of business; and (b) Exhibit H correctly identifies any of such facilities and locations that are not owned by Borrower and sets forth the names of the owners and lessors of, and, to the best of Borrower's knowledge, the holders of any mortgages on such facilities and locations. Except for Inventory that is consigned by Borrower to a customer or warehouse, Borrower agrees that it will not maintain any Collateral at any location other than those listed on Exhibit D, and it will not otherwise change or add to any of such locations, unless it gives the Lender at least thirty (30) days prior written notice and executes or has executed, such financing statements and other documents that the Lender requests in connection therewith.

6.4 Title to, Liens on, and Sale and Use of Collateral. Borrower represents and warrants to the Lender that: (a) all Collateral is and will continue to be owned by Borrower free and clear of all Liens whatsoever, except for the Security Interest and other Permitted Liens; (b) the Security Interest will not be subject to any prior Lien except the Permitted Liens; (c) the Borrower will use, store, and maintain the Collateral with all reasonable care and will use the Collateral for lawful purposes only; and (d) the Borrower will not, without the Lender's prior written approval, sell, or dispose of or permit the sale or disposition of any Collateral, except for (i) sales of Inventory in the ordinary course of business, (ii) sales of worn out or obsolete Equipment or Equipment no longer used in Borrower's business, and (iii) as otherwise provided or allowed by this Agreement or any of the other Loan Documents. The inclusion of Proceeds in the Collateral shall not be deemed the Lender's consent to any sale or other disposition of the Collateral except as expressly permitted herein.

6.5 Appraisals. Following the occurrence of an Event of Default that is continuing, Borrower shall, at the request of the Lender, provide the Lender, at the Borrower's expense, with appraisals or updates thereof of any or all of the Collateral from an appraiser satisfactory to the Lender.

6.6 Access and Examination. The Lender may at all reasonable times have access to, examine, audit, make extracts from and inspect Borrower's records, files, and books of account, as well as the Collateral and may discuss the Borrower's affairs with the Borrower's officers and management. The Borrower will deliver to the Lender any instrument necessary for the Lender to obtain records from any service bureau maintaining records for the Borrower. The Lender may, at any time when an Event of Default exists and at the Borrower's expense, make copies of all of the Borrower's books and records, or require the Borrower to deliver such copies to the Lender. After the occurrence of an Event of Default that is continuing, the Lender may, without expense to the Lender, use such of the Borrower's personnel, supplies, and premises as may be reasonably necessary for maintaining or enforcing the Security Interest. Lender shall have the right, at any time, in Lender's name or in the name of a nominee of the Lender, to verify the validity, amount or any other matter relating to the Accounts, by mail, telephone, or otherwise.

6.7 Insurance. Borrower shall insure the Collateral and Equipment against loss or damage by fire with extended coverage, theft, burglary, pilferage, loss in transit, and such other hazards as the Lender shall specify, in amounts, under policies and by insurers acceptable to the Lender. Borrower shall also maintain flood insurance, in the event of a designation of the area in which any Real Property is located as "flood prone" or a "flood risk area," as defined by the Flood Disaster Protection Act of 1973, in an amount to be reasonably determined by Lender, and shall comply with the additional requirements of the National Flood Insurance Program as set forth therein. Borrower shall cause the Lender to be named in each such policy as secured party of the Inventory that constitutes part of the Collateral and loss payee or additional insured, in a manner acceptable to the Lender, as to the Collateral. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than thirty (30) days prior written notice to the Lender in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Lender shall not be impaired or invalidated by any act or neglect of the Borrower or the owner of any premises where Collateral is located nor by the use of such premises for purposes more hazardous than are permitted by such policy. All premiums for such insurance shall be paid by the Borrower when due, and certificates of insurance and, if requested, photocopies of the policies shall be delivered to the Lender. If the Borrower fails to procure such insurance or to pay the premiums therefor when due, the Lender may (but shall not be required to) do so and charge the costs thereof to the Borrower's loan account. After becoming aware of any loss, damage or destruction to Collateral, the Borrower shall promptly notify the Lender of any such loss, damage, or destruction that exceeds \$200,000, whether or not covered by insurance. The Lender is hereby authorized to collect all insurance proceeds directly following the occurrence of an Event of Default that is continuing. After deducting from such proceeds the expenses, if any, incurred by Lender in the collection or handling thereof, if an Event of Default has occurred and is continuing, the Lender may apply such proceeds to the reduction of the Obligations, in such order as Lender determines, or at the Lender's option may permit or require the Borrower to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction. If no Event of Default has occurred and is continuing, Lender hereby authorizes Borrower to collect all such insurance proceeds and to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction.

6.8 Collateral Reporting. The Borrower will provide the Lender with the following documents at the following times in form satisfactory to the Lender: (a) on a daily basis, a schedule of Accounts created since the last such schedule, a schedule of remittance advices, credit memos and reports and a schedule of collections of Accounts since the last such schedule; (b) no later than fifteen (15) days after the last day of each month, monthly summary and detailed agings of Accounts aged by due date and by invoice date; (c) no later than twenty (20) days after the last day each month, monthly reconciliations of Accounts balances per the aging to the general ledger accounts receivable balance and to the financial statements provided to Lender under Section 7.2(c); (d) no later than twenty (20) days after the last day each month, monthly Inventory reports by category and by location; (e) no later than twenty (20) days after the last day each month, monthly

reconciliations of the detailed Inventory reports to the general ledger and to the financial statements provided to Lender under Section 7.2(c); (f) upon request, copies of invoices, credit memos, shipping and delivery documents, purchase orders; (g) such other reports as to the Collateral as the Lender shall request from time to time; and (h) certificates of an officer of the Borrower certifying as to the foregoing. If any of the Borrower's records or reports of the Collateral are prepared by an accounting service or other agent, the Borrower hereby authorizes such service or agent to deliver such records, reports, and related documents to the Lender.

6.9 Accounts.

(a) The Borrower hereby represents and warrants to the Lender that: (i) each existing Account represents, and each future Account will represent, a bona fide sale or lease and delivery of goods by the Borrower, or rendition of services by the Borrower, in the ordinary course of business; (ii) each existing Account is, and each future Account will be, for a liquidated amount payable by the Account Debtor thereon on the terms set forth in the invoice therefor or in the schedule thereof delivered to the Lender, without offset, deduction, defense, or counterclaim (other than claims relating to warranty issues); (iii) no payment will be received with respect to any Account, and no credit, discount, or extension, or agreement therefor will be granted to any Account, except as reported to or otherwise agreed to by the Lender in accordance with this Agreement; (iv) each copy of an invoice requested by and delivered to the Lender by the Borrower will be a genuine copy of the original invoice sent to the Account Debtor named therein; and (v) all goods described in each invoice will have been delivered to the Account Debtor and all services described in each invoice will have been performed, except where the Account Debtor has previously agreed in writing to accept billings for such goods.

(b) The Borrower shall not re-date any invoice or sale or make sales on extended dating beyond that customary in the business of the Borrower or extend or modify any Account which alters its eligibility status, or, with respect to ineligible Accounts, which are inconsistent with prudent business practice and industry standards. If Borrower becomes aware of any matter adversely affecting any Account in an amount in excess of \$100,000, including information regarding the Account Debtor's creditworthiness, the Borrower will promptly so advise the Lender.

(c) The Borrower shall not accept any note or other instrument (except a check or other instrument for the immediate payment of money) with respect to any Eligible Account without the Lender's written consent. If the Lender consents to the acceptance of any such instrument, it shall be considered as evidence of the Account and not payment thereof and the Borrower will upon Lender's request, promptly deliver such instrument to the Lender appropriately endorsed. Regardless of the form of presentment, demand, notice of dishonor, protest, and notice of protest with respect thereto, the Borrower will remain liable thereon until such instrument is paid in full.

(d) The Borrower shall notify the Lender promptly of all disputes and claims with an Account Debtor relating to an Eligible Account that exceeds \$100,000 and when no Event of Default exists hereunder, may settle or adjust them at no expense to the Lender, but no discount,

credit or allowance in excess of \$100,000 shall be granted to any Account Debtor without the Lender's consent, except for discounts, credits and allowances made or given in the ordinary course of the business of the applicable Borrower. The Borrower shall send the Lender a copy of each credit memorandum in excess of \$100,000 as soon as issued. The Lender may, at all times when an Event of Default exists hereunder, settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which the Lender considers advisable and, in all cases, the Lender will credit the Borrower's loan account with only the net amounts received by the Lender in payment of any Accounts.

6.10 Collection of Accounts. (a) Until the occurrence of an Event of Default that is continuing, Borrower shall collect all Accounts, shall receive all payments relating to Accounts, and shall promptly deposit all such collections into a Payment Account established for the account of the Borrower at a bank acceptable to the Borrower and the Lender. All collections relating to Accounts received in any such Payment Account or directly by the Borrower or the Lender, and all funds in any Payment Account or other account to which such collections are deposited, shall be the sole property of the Lender and subject to the Lender's sole control. After the occurrence of an Event of Default that is continuing, the Lender may, at any time, notify obligors that the Accounts have been assigned to the Lender and of the Security Interest therein, and may collect them directly and charge the collection costs and expenses to the Borrower's loan account. After the occurrence of an Event of Default that is continuing, Borrower, at Lender's request, shall execute and deliver to the Lender such documents as the Lender shall require to grant the Lender access to any post office box in which collections of Accounts are received.

(a) If sales of Inventory are made for cash, Borrower shall immediately deliver to the Lender the identical checks, cash, or other forms of payment which the Borrower receives.

(b) All payments received by the Lender on account of Accounts or as Proceeds of other Collateral will be the Lender's sole property and will be credited to the Borrower's loan account (conditional upon final collection) after allowing one (1) Business Day for collection.

(c) In the event the Borrower repays all of the Obligations upon the termination of this Agreement, other than through the Lender's receipt of payments on account of Accounts or Proceeds of other Collateral, such payment will be credited (conditional upon final collection) to the Borrower's loan account one (1) Business Day after the Lender's receipt thereof.

6.11 Inventory. Borrower represents and warrants to the Lender that all of the Inventory is and will be held for sale or lease, or to be furnished in connection with the rendition of services, in the ordinary course of business, and is and will be fit for such purposes. The Borrower will cause the Inventory to be kept in good and marketable condition, at their own expense. Borrower agrees that all Inventory produced by the Borrower in the United States will be produced in accordance with the Federal Fair Labor Standards Act of 1938. The Borrower will conduct a physical count of the Inventory at least once per Fiscal Year, except as otherwise agreed to between the Lender and the Borrower, and will, upon request of the Lender, supply the Lender with a copy of such count accompanied by a report of the value of such Inventory (valued at the lower or cost,

on a first-in, first-out basis, or market value). The Borrower will not, without the Lender's written consent, allow any Inventory to be sold on a bill and hold basis (except as provided in subsection (xiii) of the definition of Eligible Accounts set forth in this Agreement), guaranteed sale, sale and return, sale on approval, consignment, or other repurchase or return basis.

6.12 Documents and Instruments. Borrower represents and warrants to the Lender that: (a) all Documents and Instruments describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete, valid, and genuine and (b) all goods evidenced by such Documents and Instruments were, at the time of their sale, owned by the Borrower free and clear of all Liens other than Permitted Liens.

6.13 Right to Cure. The Lender may in its sole discretion pay any amount or do any act required of Borrower hereunder in order to preserve, protect, maintain or enforce the Obligations, the Collateral or the Security Interest, and which the Borrower fails to pay or do, including, without limitation, payment of any judgment against the Borrower, any insurance premium, any warehouse charge, processing charge, any landlord's claim, and any other Lien upon the Collateral. All payments that the Lender makes under this Section 6.13 and all out-of-pocket costs and expenses that the Lender pays or incurs in connection with any action, taken by it hereunder shall be charged to the Borrower's loan account; provided that Lender will make a good faith effort to notify the Borrower and provide the Borrower with a written, itemized invoice covering such charge. Any payment made or other action taken by the Lender under this Section 6.13 shall be without prejudice to any right Lender may have to assert an Event of Default hereunder and to proceed accordingly.

6.14 Power of Attorney. Borrower appoints the Lender and the Lender's designees as the Borrower's attorney, with power: (a) to endorse the Borrower's name on any checks, notes, acceptances, money orders, or other forms of payment or security that come into the Lender's possession; (b) to sign the Borrower's name on any invoice, bill of lading, or other document of title relating to any Collateral, on drafts against customers, on assignments of Accounts, on notices of assignment, financing statements and other public records and on verifications of Accounts to Account Debtors; (c) to notify the post office authorities, when an Event of Default exists, to change the address for delivery of the Borrower's mail to an address designated by the Lender and to receive, open and dispose of all mail addressed to the Borrower; (d) to send requests for verification of Accounts to Account Debtors; and (e) to do all things necessary to carry out this Agreement. The Borrower ratifies and approves all acts of such attorney. Neither the Lender nor the attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable until this Agreement has been terminated and the Obligations have been fully satisfied.

6.15 Lender's Rights, Duties, and Liabilities. Borrower assumes all responsibility and liability arising from or relating to the use, sale or other disposition of the Collateral. Neither the Lender nor any of its officers, directors, employees, and agents shall be liable or responsible in any way for the safekeeping of any of the Collateral, or for

any act or failure to act with respect to the Collateral, or for any loss or damage thereto, or for any diminution in the value thereof, or for any act of default by any warehouseman, carrier, forwarding agency or, other person whomsoever, all of which shall be at the Borrower's sole risk. The Obligations shall not be affected by any failure of the Lender to take any steps to perfect the Security Interest or to collect or realize upon the Collateral, nor shall loss of or damage to the Collateral release the Borrower from any of the Obligations. After the occurrence of an Event of Default that has not been cured or otherwise waived by Lender, the Lender may (but shall not be required to), without notice to or consent from Borrower, sue upon or otherwise collect, extend the time for payment of, modify or amend the terms of, compromise or settle for cash or credit, grant other indulgences, extensions, renewals, compositions, or releases, and take or omit to take other action with respect to the Collateral, any security therefor, any agreement relating thereto, any insurance applicable thereto, or any Person liable directly or indirectly in connection with any of the foregoing, without discharging or otherwise affecting the liability of the Borrower for the Obligations.

7. BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.

7.1 Books and Records. Borrower shall maintain, at all times, correct and complete books, records and accounts in which complete, correct and timely entries are made of its transactions in accordance with GAAP. The Borrower shall, by means of appropriate entries, reflect in such accounts and in all Financial Statements proper liabilities and reserves for all taxes and proper provision for depreciation and amortization of Property and bad debts, all in accordance with GAAP. The Borrower shall maintain at all times books and records pertaining to the Collateral in such detail, form, and scope as the Lender shall reasonably require, including without limitation records of: (a) all payments received and all credits and extensions granted with respect to the Accounts; (b) the return, repossession, stoppage in transit, loss, damage, or destruction of any Inventory; and (c) all other dealings affecting the Collateral.

7.2 Financial Information. Borrower shall promptly furnish to the Lender all such financial information as the Lender shall reasonably request, and notify its auditors and accountants that the Lender is authorized to obtain such information directly from them. Without limiting the foregoing, Borrower will furnish to the Lender, in such detail as the Lender shall request, the following:

(a) As soon as available, but in any event not later than ninety (90) days after the close of each Fiscal Year, audited consolidated and unaudited consolidating balance sheet, statement of income and expense, retained earnings, and statement of cash flows and stockholders' equity for the LSB and its Subsidiaries (the "LSB Group") for such Fiscal Year, and the accompanying notes thereto, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position and the results of operations of the LSB Group as at the date thereof and for the Fiscal Year then ended, and prepared in accordance with GAAP. The audited statements shall be examined in accordance with generally accepted auditing standards by, and accompanied by a report thereon unqualified as to scope of, independent certified public accountants selected by LSB and reasonably satisfactory to the Lender.

(b) As soon as available, but in any event not later than forty-five (45) days after the close of each Fiscal Quarter other than the fourth quarter of a Fiscal Year, unaudited consolidated and consolidating balance sheets of the LSB Group as at the end of such quarter, and consolidated and consolidating unaudited statements of income and expense and consolidated statements of cash flows for the LSB Group for such quarter and for the period from the beginning of the Fiscal Year to the end of such quarter, together with a report of Capital Expenditures for such Fiscal Quarter, all in reasonable detail, fairly presenting the financial position and results of operation of the LSB Group as at the date thereof and for such periods, prepared in accordance with GAAP consistent with the audited Financial Statements required pursuant to Section 7.2(a). Such statements shall be certified to be correct by the chief financial officer or an executive officer of LSB, subject to normal year-end adjustments.

(c) As soon as available, but in any event not later than thirty (30) days after the end of each month, unaudited consolidated balance sheets of the LSB Group as at the end of such month, and consolidated and consolidating unaudited statements of income and expenses for the LSB Group for such month and for the period from the beginning of the Fiscal Year to the end of such month, all in reasonable detail (although not as detailed as the reports required under Sections 7.2(a) and 7.2(b), fairly presenting the financial position and results of operation of the LSB Group as at the date thereof and for such periods, and prepared in accordance with GAAP consistent with the audited Financial Statements required pursuant to Section 7.2(a). Such statements shall be certified to be correct by the chief financial officer, treasurer or chief accounting officer of LSB, subject to normal year end adjustments.

(d) With each of the audited Financial Statements delivered pursuant to Section 7.2(a), a certificate of the independent certified public accountants that examined such statements to the effect that they have reviewed and are familiar with the Loan Documents and that, in examining such Financial Statements, they did not become aware of any fact or condition which then constituted an Event of Default, except for those, if any, described in reasonable detail in such certificate.

(e) With each of the annual audited and quarterly unaudited Financial Statements delivered pursuant to Sections 7.2(a) and 7.2(b), a certificate of the chief financial officer, treasurer or chief accounting officer of the Borrower stating that, except as explained in reasonable detail in such certificate, (A) nothing has come to the attention of such officer that would lead such officer to believe that all of the representations, warranties and covenants of the Borrower contained in this Agreement and the other Loan Documents are not correct and complete as of the date of such certificate and (B) no Event of Default then exists or existed during the period covered by such Financial Statements. If such certificate discloses that a representation or warranty is not correct or complete, or that a covenant has not been complied with, or that an Event of Default existed or exists, such certificate shall set forth what action the Borrower has taken or proposes to take with respect thereto.

(f) No sooner than ninety (90) days and no less than thirty (30) days prior to the beginning of each Fiscal Year, projected consolidated and consolidating balance sheets, statements

of income and expense, and statements of cash flow for the Borrower and Subsidiaries as at the end of and for each Fiscal Quarter of such Fiscal Year.

(g) Promptly upon their becoming available, copies of each proxy statement, financial statement and report which LSB sends to its stockholders or files with the Securities and Exchange Commission.

(h) Promptly after filing with the PBGC and the IRS a copy of each annual report or other filing filed with respect to each Plan of the Borrower or any Related Company.

(i) Such additional, reasonable information as the Lender may from time to time reasonably request regarding the financial and business affairs of the Borrower or the Subsidiaries.

7.3 Notices to Lender. Borrower shall notify the Lender in writing of the following matters at the following times:

(a) Within two Business Days after becoming aware of the existence of any Event of Default.

(b) Within two Business Days after becoming aware that the holder of any Debt in excess of \$1,000,000 has given notice or taken any action with respect to a claimed default.

(c) Within five Business Days after a responsible officer of LSB becomes aware of any change which LSB deems to be a material adverse change in the Borrower's Property, business, operations, or condition (financial or otherwise).

(d) Within five Business Days after a responsible officer of LSB becomes aware of any pending or threatened action, proceeding, or counterclaim by any Person, or any pending or threatened investigation by a Public Authority, which, in the opinion of such officer, would materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, or condition (financial or otherwise).

(e) Within two Business Days after becoming aware of any pending or threatened strike, work stoppage, material unfair labor practice claim, or other material labor dispute affecting the Borrower.

(f) Within five Business Days after a responsible officer of LSB becomes aware of any violation of any law, statute, regulation, or ordinance of a Public Authority applicable to Borrower, which, in the opinion of such officer, would materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, or condition (financial or otherwise).

(g) Within five Business Days after a responsible officer of LSB becomes aware of any violation or any investigation of a violation by the Borrower of Environmental Laws which, in the opinion of such officer, would materially and adversely affect the Borrower's Property, Collateral, business, operation or condition (financial or otherwise).

(h) Within five Business Days after a responsible officer of LSB becomes aware of any Termination Event, accompanied by any materials required to be filed with the PBGC with respect thereto; immediately after the Borrower's receipt of any notice concerning the imposition of any withdrawal liability under Section 4042 of ERISA with respect to a Plan; immediately upon the establishment of any Pension Plan not existing at the Closing Date or the commencement of contributions by the Borrower to any Pension Plan to which the Borrower was not contributing at the Closing Date; and immediately upon becoming aware of any other event or condition regarding a Plan or the Borrower's or a Related Company's compliance with ERISA, which, in the opinion of such officer, would materially and adversely affect the Borrower's Property, business, operation or condition (financial or otherwise).

(i) Thirty (30) days prior to the Borrower changing its name.

Each notice given under this Section 7.3 shall describe the subject matter thereof in reasonable detail and shall set forth the action that the Borrower has taken or proposes to take with respect thereto.

8. GENERAL WARRANTIES AND REPRESENTATIONS.

Borrower continuously warrants and represents to the Lender, at all times during the term of this Agreement and until all Obligations have been satisfied, that, except as hereafter disclosed to and accepted by the Lender in writing in the exercise of its reasonable discretion:

8.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents. The Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the other Loan Documents, to incur the Obligations, and to grant the Security Interest. The Borrower has taken all necessary corporate action to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents. No consent, approval, or authorization of, or filing with, any Public Authority, and no consent of, any other Person, is required in connection with the Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents, except for (a) those already duly obtained, (b) those required to perfect the Lender's Security Interest, and (c) the compliance with any of the conditions precedent set forth in Sections 10.4 and 10.10 hereof. This Agreement and the other Loan Documents have been duly executed and delivered by the Borrower and constitute the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms without defense, setoff, or counterclaim. The Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents do not and will not conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any Lien upon the Property of the Borrower (except as contemplated by this Agreement and the other Loan Documents) by reason of the terms of (a) any material mortgage, lease, agreement, or instrument to which the Borrower is a party or

which is binding upon it, (b) any judgment, law, statute, rule or governmental regulation applicable to the Borrower, or (c) the Certificate or Articles of Incorporation or By-Laws of the Borrower.

8.2 Validity and Priority of Security Interest. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in the Lender's favor and when all proper filings, recordings, and other actions necessary to perfect such Liens have been made or taken such Liens will constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for Permitted Liens, securing all the Obligations and enforceable against the Borrower and all third parties.

8.3 Organization and Qualification. Borrower is duly incorporated and organized and validly existing in good standing under the laws of the state of its incorporation; (ii) is qualified to do business as a foreign corporation and is in good standing in each state where, because of the nature of its activities or properties, such qualification is required, except where the failure to so qualify would not have a material adverse effect on the Borrower; and (iii) has all requisite corporate power and authority to conduct its business and to own its Property.

8.4 Corporate Name; Prior Transactions. The Borrower has not, during the past five years, been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its Property out of the ordinary course of business.

8.5 Financial Statements and Projections.

(a) LSB has delivered to the Lender the audited consolidated balance sheet and related statements of income, retained earnings, statements of cash flows, and changes in stockholders' equity for LSB, as of December 31, 1998 and for the Fiscal Year then ended, accompanied by the report thereon of LSB's independent certified public accountants. LSB has also delivered to the Lender the unaudited consolidated balance sheets and related statements of income and cash flows for LSB, as at _____, 200__ and for the ____ months then ended. Such financial statements are attached hereto as Exhibit G-1. All such financial statements have been prepared in accordance with GAAP and present accurately and fairly the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

(b) The Latest Forecasts, attached hereto as Exhibit G-2, represent the Borrower's best estimate of the Borrower's future financial performance for the periods set forth therein. The Latest Forecasts have been or will be prepared on the basis of certain assumptions, which the Borrower believes are fair and reasonable in light of current and reasonably foreseeable business conditions; provided, however, that although such forecasts represent the Borrower's best estimate, the Borrower makes no representation that it will achieve such forecasts.

8.6 Capitalization. Borrower's authorized capital stock consists of 300 shares of Common Stock, par value \$.10 per share.

8.7 Solvency. Borrower is solvent prior to and after giving effect to the making of the Revolving Loans, and after taking into account Intercompany Accounts. If at any time Borrower becomes insolvent, LSB shall have a period of up to ten (10) Business Days after LSB learns of Borrower's insolvency within which to recapitalize Borrower in order to restore Borrower to a solvent state.

8.8 Title to Property. Except for Permitted Liens, and except for Property which the Borrower leases, the Borrower has, to its knowledge, good and marketable title in fee simple to the real property listed in Exhibit H and good, indefeasible, and merchantable title to all of its other Property free of all Liens except Permitted Liens.

8.9 Real Property; Leases. Exhibit H hereto is a correct and complete list of all real property owned by the Borrower, and all leases and subleases of real property by the Borrower as lessee or sublessee where Collateral is located. Each of such leases and subleases is valid and enforceable in accordance with its terms and is in full force and effect and no material default by any party to any such lease or sublease exists.

8.10 Proprietary Rights. Exhibit B hereto is a correct and complete list of all of the Proprietary Rights owned by Borrower. None of the Proprietary Rights is subject to any licensing agreement or similar arrangement except as set forth on Exhibit B. To the Borrower's knowledge, none of the Proprietary Rights infringes on or conflicts with any other Person's Property. The Proprietary Rights described on Exhibit B constitute all of the Property of such type necessary to the current and anticipated future conduct of the Borrower's business.

8.11 Trade Names and Terms of Sale. All trade names or styles under which the Borrower will sell Inventory or create Accounts, or to which instruments in payment of Accounts may be made payable, are listed on Exhibit I hereto. The terms of sale on which such sales of Inventory will be made are set forth on Exhibit I.

8.12 Litigation. Except as set forth on Exhibit J or as described in reports filed by LSB with the SEC, there is no pending or, to the Borrower's knowledge, threatened suit, proceeding, or counterclaim by any Person, or investigation by any Public Authority, or any basis for any of the foregoing, which would have a material adverse effect on the Borrower.

8.13 Labor Disputes. Except as set forth on Exhibit K or as described in reports filed by LSB with the Securities and Exchange Commission: (a) there is no collective bargaining agreement or other labor contract covering employees of the Borrower; (b) no such collective bargaining agreement or other labor contract is scheduled to expire during the term of this Agreement; (c) no union or other labor organization is seeking to organize, or to be recognized as, a collective bargaining unit of employees of the Borrower; and (d) there is no pending or, to the Borrower's knowledge, threatened strike, work stoppage, material unfair labor practice claims, or other material labor dispute which would have a material adverse effect on the Borrower.

8.14 Environmental Laws. Except as disclosed on Exhibit M hereto, and as hereafter disclosed by Borrower to Lender in writing, and to the Borrower's knowledge:

(a) All environmental permits, certificates, licenses, approvals, registrations and authorizations ("Permits") required under all Environmental Laws in connection with the business of the Borrower have been obtained unless the failure to obtain such Permits would not have a material adverse effect on the Borrower.

(b) No notice, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and no investigation or review is pending or threatened by any governmental entity with respect to any generation, treatment, storage, recycling, transportation or disposal of any hazardous or toxic waste (including petroleum products and radioactive materials) generated or used ("Hazardous Substances") by the Borrower, which would have a material adverse effect on the LSB Borrower;

(c) Borrower has not received any request for information that is likely to lead to a claim, any notice of claim, demand or other notification that the Borrower is or may be potentially responsible with respect to any clean up of any threatened or actual release of any Hazardous Substance;

(d) There are no underground storage tanks, active or abandoned, at any property now owned, operated or leased by the Borrower.

(e) Borrower has not knowingly transported any Hazardous Substances to any location which is listed on the National Priority List under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), which is the subject of any federal or state enforcement actions which may lead to claims against Borrower for clean up costs, remedial work, damages to natural resources or for personal injury claims, including, but not limited to, claims under CERCLA which would have a material adverse effect on the Borrower Subsidiaries.

(f) No written notification of a release of Hazardous Substance has been filed by or on behalf of the Borrower or in relation to any Property now owned, operated or leased by the Borrower or previously owned, operated or leased by the Borrower at the time such property was so owned, operated or leased. No such Property is listed or proposed for listing on the National Priority List promulgated pursuant to CERCLA, or on any similar state list of sites requiring investigation or clean up.

(g) There are no environmental Liens on any material properties owned or leased by the Borrower and no governmental actions have been taken or are in process or pending which could subject any of such Properties to such Liens.

(h) The Borrower shall promptly forward a copy to Lender of any environmental written inspections, investigations or studies prepared by or to be prepared by the Borrower relating

to Properties now owned, operated or leased by the Borrower; provided, however, that Borrower makes no representation or warranty with respect to environmental inspections, investigations, studies, audits, tests, reviews or other analyses conducted by or on behalf of Lender.

8.15 No Violation of Law. Except as disclosed in Exhibit J or in reports filed by LSB with the SEC, to the Borrower's knowledge, the Borrower is not in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it which violation would have a material adverse effect on the Borrower.

8.16 No Default. The Borrower is not in default with respect to any note, loan agreement, mortgage, lease, or other agreement to which the Borrower is a party or bound, where the amount owed by Borrower under such note, loan agreement, mortgage, lease, or other agreement exceeds \$750,000.

8.17 Plans. Each Plan has been maintained at all times in compliance, in all material respects, with its provisions and applicable law, including, without limitation, compliance with the applicable provisions of ERISA and the Code. All Pension Plans are listed on Exhibit L, and those, if any, which are a Multi-employer Plan are designated as such, and a copy of each such Pension Plan which has been requested in writing by Lender has been furnished to Lender. Except as set forth on Exhibit L, no Pension Plan has incurred any accumulated funding deficiency, as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, which would have a material adverse effect on the LSB Group, taken as a whole. Except as set forth on Exhibit L, each Pension Plan, which is intended to be a qualified Pension Plan under Section 401(a) of the Code, as currently in effect has received a favorable determination letter from the Internal Revenue Service finding that the current form of the Plan is qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code. The Borrower has not incurred any liability to the PBGC other than the payment of premiums, and there are no premium payments which have become due, are unpaid, and the non-payment of which would have a material adverse effect on the Borrower. Neither LSB nor any of its Subsidiaries, nor any fiduciary of or trustee to any Plan has breached any of the responsibilities, obligations or duties imposed on it under the terms of the Plan or by ERISA with respect to any Plan the breach of which would have a material adverse effect on the Borrower and its Subsidiaries, taken as a whole. LSB has established reserves on its books to provide for the benefits earned and other liabilities accrued under each such Plan in amounts sufficient to substantially provide for such benefits and liabilities which have not been funded through the trust, if any, established for such Plan.

8.18 Taxes. The Borrower has filed all 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, against it or its Property, income, or franchise, that are due and payable, except such Taxes which are being contested in good faith and for which appropriate reserves have been established in connection therewith, or for which an extension as to the date of filing has been authorized.

8.19 Use of Proceeds. None of the transactions contemplated in this Agreement (including, without limitation, the use of certain proceeds from such loans) will violate or result in the violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including, without limitation, Regulations T, U and X of the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), 12 C.F.R., Chapter II. Borrower does not own or intend to carry or purchase any "margin stock" within the meaning of said Regulation U. None of the proceeds of the loans will be used, directly or indirectly, to purchase or carry (or refinance any borrowing, the proceeds of which were used to purchase or carry) any "security" within the meaning of the Securities Exchange Act of 1934, as amended.

8.20 Private Offerings. Borrower has not, directly or indirectly, offered the Revolving Loans for sale to, or solicited offers to buy part thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser other than Lender. Borrower hereby agrees that neither it nor anyone acting on its behalf has offered or will offer the Revolving Loan or any part thereof or any similar securities for issue or sale to or solicit any offer to acquire any of the same from anyone so as to bring the issuance thereof within the provisions of Section 5 of the Securities Act of 1933, as amended.

8.21 Broker's Fees. Borrower represents and warrants to Lender that, with respect to the financing transaction herein contemplated, no Person is entitled to any brokerage fee or other commission as a result of acts by the Borrower and Borrower agrees to indemnify and hold Lender harmless against any and all such claims if such claim is due to the acts of the Borrower.

8.22 No Material Adverse Change. No material adverse change has occurred in the Property, business, operations, or conditions (financial or otherwise) of the Borrower, since the date of the most recent Financial Statements delivered to the Lender, except as otherwise disclosed in the reports filed by LSB with the Securities and Exchange Commission, if any.

8.23 Debt. After giving effect to the making of each Revolving Loan, the Borrower has no Debt except Permitted Debt.

9. AFFIRMATIVE AND NEGATIVE COVENANTS. BORROWER covenants that, so long as any of the Obligations remain outstanding or this Agreement is in effect:

9.1 Taxes and Other Obligations. The Borrower, no later than ten days after such payments become due, shall: (a) file when due (including extensions) all tax returns and other reports which it is required to file, pay when due all taxes, fees, assessments and other governmental charges against it or upon its Property, income, and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and shall provide to the Lender, upon request, satisfactory evidence of its timely compliance with the foregoing; and (b) pay all Debt owed by it within normal business terms and consistent with past practices; provided, however, that the Borrower need not pay any tax, fee, assessment, governmental charge, or Debt, or perform or discharge any other obligation, that it is contesting in good faith by appropriate proceedings diligently pursued.

9.2 Corporate Existence and Good Standing. The Borrower shall maintain its corporate existence and its qualification and good standing in all states necessary to conduct its business and own its Property, except where the failure to so qualify would not have a material adverse effect on the Borrower, and shall obtain and maintain all licenses, permits, franchises and governmental authorizations necessary to conduct its business and own its Property.

9.3 Maintenance of Property and Insurance. The Borrower shall: (a) maintain all of its Property necessary and material in its business in good operating condition and repair, ordinary wear and tear excepted, provided, however, that Borrower shall have a period of ten (10) days after learning that repair is necessary within which to repair any Property which has not been so maintained before an Event of Default shall be deemed to have occurred; and (b) in addition to the insurance required by Section 6.7, maintain with financially sound and reputable insurers such other insurance with respect to its Property and business against casualties and contingencies of such types (including, without limitation, business interruption, public liability, product liability, and larceny, embezzlement or other criminal misappropriation), and in such amounts as is customary for Persons of established reputation engaged in the same or a similar business and similarly situated, naming the Lender, at its request, as additional insured under each such policy as to the Collateral.

9.4 Environmental Laws. Except as disclosed to Lender in writing prior to the Closing Date in connection with Section 8.14, the Borrower will use all reasonable efforts to conduct its business in substantial compliance with all Environmental Laws applicable to it, including, without limitation, those relating to the generation, handling, use, storage, and disposal of hazardous and toxic wastes and substances. The Borrower shall take prompt and appropriate action to respond to any noncompliance with Environmental Laws and shall regularly report to the Lender on such response. Without limiting the generality of the foregoing, whenever there is potential noncompliance with any Environmental Laws, the Borrower shall, at the Lender's request and the Borrower's expense: (a) cause an independent environmental engineer acceptable to the Lender to conduct such tests of the site where the Borrower's noncompliance or alleged noncompliance with Environmental Laws has occurred and prepare and deliver to the Lender a report setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof; and (b) provide to the Lender a Supplemental report of such engineer whenever the scope of the environmental problems, or the Borrower's response thereto or the estimated costs thereof, shall materially change.

9.5 Mergers, Consolidations, Acquisitions, or Sales. The Borrower shall not enter into any transaction of merger, reorganization, or consolidation in which Borrower is not the survivor, or transfer, sell, assign, lease, or otherwise dispose of all or substantially all of its Property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except sales of Inventory in the ordinary course of its business.

9.6 Guaranties. The Borrower shall not make, issue, or become liable on any secured Guaranty, except Guaranties in favor of the Lender and endorsements of instruments for deposit.

9.7 Debt. Borrower shall not incur or maintain any Debt other than Permitted Debt.

9.8 Prepayment. The Borrower shall not voluntarily prepay any Debt, except the Obligations in accordance with the terms of this Agreement.

9.9 Transactions with Affiliates. Except (a) as set forth below, or (b) as otherwise provided in this Agreement, the Borrower shall not sell, transfer, distribute, or pay any money or Property to any Affiliate, or lend or advance money or Property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any Property, of any Affiliate, or become liable on any secured Guaranty of the indebtedness, dividends, or other obligations of any Affiliate, except nothing contained herein shall limit or restrict the Borrower from (i) performing any agreements entered into with an Affiliate prior to the date hereof, or (ii) engaging in other transactions with Affiliates in the normal course of business, in amounts and upon terms disclosed to the Lender, and which are no less favorable to the Borrower than would be obtainable in a comparable arm's length transaction with a third party who is not an Affiliate, or (iii) borrowing funds from LSB in amounts not to exceed in the aggregate \$500,000 more than the amounts owed to LSB and outstanding as of April 15, 2001.

9.10 Plans and Compensation. The Borrower shall not take any action, or shall fail to take any action, that will cause or be reasonably expected to cause any representation or warranty contained in Section 8.17 (other than the listing of Pension Plans on Exhibit L), if made on and again as of any date on or after the date of this Agreement, to not be true and, without limitation and without excusing such violation, if such a prohibited action or inaction occurs or fails to occur, Borrower shall notify Lender in writing of the nature of the resulting consequences or expected consequences, and a description of the action Borrower is taking or proposing to take with respect thereto and, when known, any action taken by the Internal Revenue Service of the Department of Labor, or the PBGC, with respect thereto.

9.11 Liens. The Borrower shall not create, incur, assume, or permit to exist any Lien on any Property now owned or hereafter acquired by the Borrower, except Permitted Liens.

9.12 New Subsidiaries. The Borrower shall not, directly or indirectly, organize or acquire any new subsidiary which would have an interest in the Collateral.

9.13 Distributions and Restricted Investments. Borrower shall not (a) directly or indirectly declare or make, or incur any liability to make, any Distribution, or (b) make any Restricted Investments except Borrower may make Distributions and Restricted Investments to LSB and its Affiliates in an amount not to exceed \$500,000 plus the amount of existing Distributions and Restricted Investments as of April 15, 2001.

9.14 Capital Expenditures. Borrower shall not make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures Borrower during the Fiscal Year would exceed \$100,000.

9.15 Further Assurances. The Borrower shall execute and deliver, or cause to be executed and delivered, to the Lender such documents and agreements, and shall take or cause to be taken such actions, as the Lender may, from time to time, reasonably request to carry out the terms and conditions of this Agreement and the other Loan Documents.

10. CONDITIONS PRECEDENT TO EACH LOAN. The obligation of the Lender to make each Revolving Loan or to provide for the issuance of any Letter of Credit shall be subject to the conditions precedent that on the date of any such extension of credit, the following statements shall be true, and the acceptance by Borrower of any extension of credit shall be deemed to be a statement to the effect set forth in clauses (i) and (ii), with the same effect as the delivery to the Lender of a certificate signed by the chief executive officer and chief financial officer of the Borrower, dated the date of such extension of credit, stating that:

(i) The representations and warranties contained in this Agreement and the other Loan Documents are correct in all material respects on and as of the date of such extension of credit as though made on and as of such date, except to the extent the Lender has been notified by the Borrower that any representation or warranty is no longer correct and the reason therefor and the Lender has explicitly accepted in writing such disclosure in the exercise of its reasonable discretion; and

(ii) No Event has occurred and is continuing, or would result from such extension of credit, which constitutes an Event of Default.

11. DEFAULT; REMEDIES.

11.1 Events of Default. It shall constitute an event of default ("Event of Default") if any one or more of the following shall occur for any reason:

(a) any failure by Borrower to make payment of principal, interest, fees or premium on any of the Obligations when due;

(b) any representation or warranty made by Borrower in this Agreement, any of the other Loan Documents, any Financial Statement, or any certificate furnished by Borrower at any time to the Lender shall prove to be untrue in any material respect as of the date when made or furnished;

(c) default shall occur in the observance or performance of any of the covenants and agreements contained in this Agreement, or in any of the other Loan Documents, or if any such agreement or document shall terminate (other than in accordance with its terms or the terms hereof

or with the written consent of the Lender) or become void or unenforceable without the written consent of the Lender other than as a direct result of any conduct solely on the part of the Lender;

(d) any default by Borrower under any material agreement or instrument (other than an agreement or instrument evidencing the lending of money), which default would have a material adverse effect on the Borrower, and such default continues for thirty (30) days after such breach first occurs; provided, however, that such grace period shall not apply, and an Event of Default shall exist, promptly upon such breach, if such breach may not, in Lender's reasonable determination, be cured by Borrower during such thirty (30) day grace period;

(e) any default by Borrower in any payment of principal of or interest on any indebtedness (other than the Obligations and Intercompany Accounts) for borrowed money where the then outstanding amount exceeds \$500,000 beyond any period of grace provided with respect thereto or in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if (i) the effect of such default is to cause or permit the holder or holders of such obligation to cause, such obligation to become due prior to its stated maturity, and (ii) the effect of such default would have a material adverse effect on the Borrower.

(f) Borrower shall make a general assignment for benefit of creditors; or any proceeding shall be instituted by Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or seeking entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or for any substantial part of its property or Borrower shall take any corporate action to authorize any of the actions set forth above in this Subsection 11.1(f).

(g) an involuntary petition shall be filed or an action or proceeding otherwise commenced against Borrower seeking reorganization, arrangement or readjustment of the Borrower's debts 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 and remain undismissed or unvacated for a period of sixty (60) days;

(h) a receiver, assignee, liquidator, trustee or similar officer for Borrower for all or substantially all of its Property shall be appointed involuntarily;

(i) Borrower 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;

(j) any guaranty of the Obligations shall be terminated, revoked or declared void or invalid other than by an action undertaken by Lender;

(k) one or more final judgments for the payment of money aggregating in excess of \$1,000,000 (not covered by insurance) shall be rendered against Borrower, and LSB or Borrower shall fail to discharge the same within thirty (30) days from the date of notice of entry thereof or to appeal therefrom or reach a negotiated settlement in connection therewith;

(l) any loss, theft, damage or destruction of any item or items of Collateral occurs which: (i) materially and adversely affects the operation of the Borrower's business taken as a whole; or (ii) is material in amount and is not adequately covered by insurance;

(m) any event or condition shall occur, or exist with respect to a Plan that would, in the Lender's reasonable judgment, subject the Borrower or any Subsidiary to any tax, penalty or other liabilities under the terms of the Plan, under ERISA or under the Code which in the aggregate are material in relation to the business, operations, Property or financial or other condition of the Borrower;

(n) there occurs after the date hereof an Ownership Change (as defined below) in LSB. For purposes of this Agreement, an "Ownership Change" in LSB is deemed to have occurred if any Person (except Jack E. Golsen, members of his Immediate Family [as defined below] and any entity controlled by Jack E. Golsen or members of his Immediate Family), together with such Person's affiliates and associates, is or becomes the beneficial owner, directly or indirectly, of more than fifty percent (50%) of the outstanding Common Stock of LSB. The term "Immediate Family" of any Person means the spouse, siblings, children, mothers and mothers-in-law, fathers and fathers-in-law, sons and daughters-in-law, daughters and sons-in-law, nieces, nephews, brothers and sisters-in-law, sisters and brothers -in-law;

11.2 Remedies.

(a) If an Event of Default exists, the Lender may, without notice to or demand on Borrower, do one or more of the following at any time or times and in any order: (i) reduce the amount of or refuse to make Revolving Loans and restrict or refuse to arrange for Letters of Credit; (ii) terminate this Agreement; (iii) declare any or all Obligations to be immediately due and payable (provided however that upon the occurrence of any Event of Default described in Sections 11.1(f), 11.1(g), or 11.1(h), all Obligations shall automatically become immediately due and payable); and (iv) pursue its other rights and remedies under the Loan Documents and applicable law. The foregoing shall not be construed to limit the Lender's discretion to take the actions described in clause (i) of this subparagraph (a) at any other time.

(b) If an Event of Default exists: (i) the Lender shall have, in addition to all other rights, the rights and remedies of a secured party under the UCC; (ii) the Lender may, at any time, take possession of the Collateral and keep it on the Borrower's premises, at no cost to the Lender, or remove any part of it to such other place or places as the Lender may desire, or, the Borrower shall, upon the Lender's demand, at the Borrower's cost, assemble the Collateral and make it available to the Lender at a place reasonably convenient to the Lender; and (iii) the Lender may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices

and upon such terms as the Lender deems advisable, in its sole discretion, and may, if the Lender deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, Borrower agrees that any notice by the Lender of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable notice to the Borrower if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or is delivered personally against receipt, at least five (5) days prior to such action to the Borrower's address specified in or pursuant to Section 13.10. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Lender receives payment, and if the buyer defaults in payment, the Lender may resell the Collateral without further notice to the Borrower. In the event the Lender seeks to take possession of all or any portion of the Collateral by judicial process, Borrower irrevocably waives: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required; (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (c) any requirement that the Lender retain possession and not dispose of any Collateral until after trial or final judgment. Borrower agrees that the Lender has no obligation to preserve rights to the Collateral or marshal any Collateral for the benefit of any Person. Following the occurrence of an Event of Default that is continuing, the Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter or any similar property, in completing production of, advertising or selling any Collateral, and the Borrower's rights under all licenses and all franchise agreements shall inure to the Lender's benefit, as long as such does not violate in any manner such other loan agreements that may be in place at such time. The proceeds of sale shall be applied first to all expenses of sale, including attorneys' fees, and second, in whatever order the Lender elects, to all Obligations. The Lender will return any excess to the Borrower and the Borrower shall remain liable for any deficiency.

(c) If an Event of Default occurs and is continuing, Borrower hereby waives: (i) all rights to notice and hearing prior to the exercise by the Lender of the Lender's rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing, and (ii) all rights of set-off and counterclaim against Lender.

12. TERM AND TERMINATION. The term of this Agreement shall extend until April 1, 2002 (the "Termination Date"). This Agreement shall automatically be renewed thereafter for successive terms of one month each, unless this Agreement is terminated as provided below. The Borrower shall have the right to terminate this Agreement, without premium or penalty, at any time during the term hereof, and the Lender shall have the right to terminate this Agreement at the end of fifteen (15) days prior to the end of such term by registered or certified mail. The Lender may also terminate this Agreement without notice upon an Event of Default that has not been cured or otherwise waived to Lender's satisfaction. Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations shall become immediately due and payable. Notwithstanding the termination of this Agreement, until all Obligations are paid and performed in

full, the Lender shall retain all its rights and remedies hereunder (including, without limitation, in all then existing and after-arising Collateral)."

13. MISCELLANEOUS.

13.1 Cumulative Remedies; No Prior Recourse to Collateral. The enumeration herein of the Lender's rights and remedies is not intended to be exclusive, and such rights and remedies are in addition to and not by way of limitation of any other rights or remedies that the Lender may have under the UCC or other applicable law. The Lender shall have the right, in its sole discretion, to determine which rights and remedies are to be exercised and in which order. The exercise of one right or remedy shall not preclude the exercise of any others, all of which shall be cumulative. The Lender may, without limitation, proceed directly against the Borrower to collect the Obligations without any prior recourse to the Collateral.

13.2 No Implied Waivers. No act, failure or delay by the Lender shall constitute a waiver of any of its rights and remedies. No single or partial waiver by the Lender of any provision of this Agreement, or any other Loan Document, or of breach or default hereunder or thereunder, or of any right or remedy which the Lender may have, shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion. No waiver by the Lender shall affect its rights to require strict performance of this Agreement.

13.3 Severability. If any provision of this Agreement shall be prohibited or invalid, under applicable law, it shall be effective only to such extent, without invalidating the remainder of this Agreement.

13.4 Governing Law. THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF SUCH STATE EXCEPT THAT NO DOCTRINE OF CHOICE OF LAW SHALL BE USED TO APPLY THE LAWS OF ANY OTHER STATE OR JURISDICTION.

13.5 Consent to Jurisdiction and Venue; Service of Process. Borrower agrees that, in addition to any other courts that may have jurisdiction under applicable laws, any action or proceeding to enforce or arising out of this Agreement or any of the other Loan Documents may be commenced in the appropriate court of the State of Oklahoma for Oklahoma County, or in the United States District Court for the Western District of Oklahoma, and Borrower consents and submits in advance to such jurisdiction and agrees that venue will be proper in such courts on any such matter. Borrower hereby waives personal service of process and agrees that a summons and complaint commencing an action or proceeding in any such court shall be properly served and shall confer personal jurisdiction if served by registered or certified mail to the Borrower. Should the Borrower fail to appear or answer any summons, complaint, process or papers so served within thirty (30) days after the mailing or other service thereof, it shall be deemed in default and an order or judgment may be entered against it as demanded or prayed for in such summons, complaint, process or papers. The

choice of forum set forth in this section shall not be deemed to preclude the enforcement of any judgment obtained in such forum, or the taking of any action under this Agreement to enforce the same, in any appropriate jurisdiction.

13.6 Survival of Representations and Warranties. All of Borrower's representations and warranties contained in this Agreement shall survive the execution, delivery, and acceptance thereof by the parties, notwithstanding any investigation by the Lender or its agents, but after the Closing Date it is recognized that such representations and warranties may be amended from time to time during the term of this Agreement by written agreement between the Borrower to the Lender due to changes in circumstances.

13.7 Indemnification. BORROWER HEREBY INDEMNIFIES , DEFENDS AND HOLDS LENDER, AND ITS DIRECTORS, OFFICERS, AGENTS, EMPLOYEES AND COUNSEL, HARMLESS FROM AND AGAINST ANY AND ALL LOSSES, CLAIMS, DAMAGES, LIABILITIES, DEFICIENCIES, JUDGMENTS, PENALTIES OR EXPENSES IMPOSED ON, 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, INCLUDING, WITHOUT LIMITATION, SECURITIES, ENVIRONMENTAL, OR COMMERCIAL LAWS AND REGULATIONS, UNDER COMMON LAW OR AT EQUITABLE CAUSE, OR ON CONTRACT OR OTHERWISE) 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, ANY OTHER LOAN DOCUMENT, OR ANY UNDERTAKING OR PROCEEDING RELATED TO ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR ANY ACT, OMISSION TO ACT, EVENT OR TRANSACTION RELATED OR ATTENDANT THERETO, INCLUDING, WITHOUT LIMITATION, AMOUNTS PAID IN SETTLEMENT, COURT COSTS, AND THE FEES AND EXPENSES OF COUNSEL REASONABLY INCURRED IN CONNECTION WITH ANY SUCH LITIGATION, INVESTIGATION, CLAIM OR PROCEEDING, EXCEPT THAT THIS INDEMNIFICATION SHALL NOT APPLY TO ANY LOSSES, CLAIMS, DAMAGES, LIABILITIES, JUDGMENTS, PENALTIES OR EXPENSES IMPOSED ON, INCURRED BY OR ASSERTED AGAINST THE LENDER, AND ITS DIRECTORS, OFFICERS, AGENTS, EMPLOYEES, OR COUNSEL IF SUCH IS DUE TO AND ARISES FROM OR IN CONNECTION WITH THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF ANY OF THEM OR THE INTENTIONAL AND WRONGFUL BREACH OF THIS AGREEMENT BY LENDER. Without limiting the foregoing, if, by reason of any suit or proceeding of any kind, nature, or description against Borrower, or by Borrower or any other party against Lender, which in Lender's sole discretion makes it advisable for Lender to seek counsel for protection and preservation of its liens and security assets, or to defend its own interest, such reasonable expenses and counsel fees shall be allowed to Lender. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 13.7 may be unenforceable because it is violative of any law or public policy,

Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all indemnified matters incurred by 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.

13.8 Other Security and Guaranties. The Lender may, without, notice or demand and without affecting Borrower's obligations hereunder, from time to time: (a) take from any Person and hold collateral (other than the Collateral) for the payment of all or any part of the Obligations and exchange, enforce or release such collateral or any part thereof; and (b) accept and hold any endorsement or guaranty of payment of all or any part of the Obligations and release any such endorser or guarantor, or any Person who has given any Lien in any other collateral as security for the repayment of all or any part of the Obligations, or any other Person in any way obligated to pay all or any part of the Obligations.

13.9 Fees and Expenses. The Borrower shall pay to the Lender on demand all costs and expenses that the Lender pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement and the other Loan Documents, including, without limitation: (a) attorneys' and paralegals' fees and disbursements of counsel to the Lender (including, without limitation, a reasonable estimate of the allocable cost of in-house counsel); (b) costs and expenses (including attorneys' and paralegals' fees and disbursements, including, without limitation, a reasonable estimate of the allocable cost of in-house counsel) for any amendment, supplement, waiver, consent, or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien and title searches and title insurance; (d) fees and other charges for recording and filing financing statements and continuations, and other actions to perfect, protect, and continue the Security Interest; (e) sums paid or incurred to pay any amount or take any action required of the Borrower under the Loan Documents that Borrower was obligated to pay or take under the Loan Documents but failed to pay or take; (f) the expenses of \$750 per Lender's auditor per audit day plus actual costs of appraisals, inspections, and verifications of the Collateral, including, without limitation, travel, lodging, and meals, for inspections of the Collateral and the Borrower's operations by the Lender's agents up to three times per year and whenever an Event of Default exists; (g) costs and expenses of forwarding loan proceeds, collecting checks and other items of payment, and establishing and maintaining Payment Accounts and lock boxes; (h) all amounts that Borrower is required to pay under the Letter of Credit Agreement; (i) costs and expenses of preserving and protecting the Collateral; and (j) costs and expenses (including attorneys' and paralegals' fees and disbursements and including, without limitation, a reasonable estimate of the allocable cost of in-house counsel) paid or incurred to obtain payment of the Obligations, enforce the Security Interest, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents, or to defend any claims made or threatened against the Lender arising out of the transactions contemplated hereby (including without limitation, preparations for and consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid by the Borrower. All of the foregoing costs and expenses shall be charged to the Borrower's loan account as Revolving Loans.

13.10 Notices. All notices, demands and requests that either party is required or elects to give to the other shall be in writing, shall be delivered personally against receipt, or sent by recognized overnight courier service, or mailed by registered or certified mail, return receipt requested, postage prepaid, and shall be addressed to the party to be notified as follows:

If to the Lender: Bank of America, N.A.
55 South Lake Avenue, Suite 900
Pasadena, California 91101
Attn: Ms. Joyce White
Executive Vice President, West Division Manager

with a copy to: Jenkins & Gilchrist, A Professional Corporation
1445 Ross Avenue, Suite 3200
Dallas, Texas 75201
Attn: Linda D. Sartin, Esq.

If to the Borrower: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: Mr. Jack E. Golsen
President

with a copy to: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: Mr. Tony M. Shelby
Senior Vice President

with a copy to: LSB Industries, Inc.
Post Office Box 754
Oklahoma City, Oklahoma 73101
Attn: David M. Shear, Esq.
General Counsel

or to such other address as each party may designate for itself by like notice. Any such notice, demand, or request shall be deemed given when received if personally delivered or sent by overnight courier, or when deposited in the United States mails, postage paid, if sent by registered or certified mail.

13.11 Waiver of Notices. Unless otherwise expressly provided herein, Borrower waives presentment, protest and notice of demand or dishonor and protest as to any instrument, notice of intent to accelerate and notice of acceleration, as well as any and all other notices to which it might otherwise be entitled. No notice to or demand on the Borrower which the Lender may elect

to give shall entitle the Borrower to any further notice or demand in the same, similar or other circumstances.

13.12 Binding Effect; Assignment; Disclosure. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors and assigns of the parties hereto: provided, however, that no interest herein may be assigned by 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. Borrower agrees that the Lender may use the Borrower's name in advertising and promotional materials and in conjunction therewith disclose the general terms of this Agreement.

13.13 Modification. THIS AGREEMENT IS INTENDED BY BORROWER AND THE LENDER TO BE THE FINAL, COMPLETE, AND EXCLUSIVE EXPRESSION OF THE AGREEMENT BETWEEN THEM. THIS AGREEMENT SUPERSEDES ANY AND ALL PRIOR ORAL OR WRITTEN AGREEMENTS RELATING TO THE SUBJECT MATTER HEREOF AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE, OR AMENDMENT OF ANY PROVISION OF THIS AGREEMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY BORROWER AND A DULY AUTHORIZED OFFICER OF THE LENDER.

13.14 Counterparts. This Agreement may be executed in any number of counterparts, and by the Lender and the Borrower in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

13.15 Captions. The captions contained in this Agreement are for convenience only, are without substantive meaning and should not be construed to modify, enlarge, or restrict any provision.

13.16 Right of Set-Off. Whenever an Event of Default exists the Lender is hereby authorized at any time and from time to time, to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by Lender or any affiliate of the Lender and other indebtedness at any time owing by the Lender or any affiliate of the Lender to or for the credit or the account of the Borrower against any and all of the Obligations, whether or not then due and payable. Lender agrees promptly to notify Borrower after any such set-off and application made by Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

13.17 Participating Lender's Security Interests. If a Participating Lender shall at any time with the Borrower's knowledge participate with the Lender in the Loans, Borrower hereby grants to such Participating Lender, and the Lender and such Participating Lender shall have and are hereby given, a continuing lien on and security interest in any money, securities and other property of the Borrower in the custody or possession of the Participating Lender, including, the right of set-off,

to the extent of the Participating Lender's participation in the Obligations, and such Participating Lender shall be deemed to have the, same right of set-off, to the extent of the Participating Lender's participation in the Obligations under this Agreement, as it would have if it were a direct lender.

13.18 WAIVER OF JURY TRIAL. LENDER AND BORROWER ACKNOWLEDGE AND AGREE THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE RELATIONSHIP ESTABLISHED HEREBY WOULD BE BASED UPON DIFFICULT AND COMPLEX ISSUES, AND THEREFORE, THE PARTIES AGREE THAT ANY LAWSUIT GROWING OUT OF ANY SUCH CONTROVERSY WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT JURY. TRIAL BY A JUDGE SITTING WITHOUT A JURY WILL FURTHER RESULT IN THE AVOIDANCE OF DELAYS, A STREAMLINING OF THE PROCEEDINGS INVOLVED AND, AS A RESULT, WILL MINIMIZE THE EXPENSE OF ANY SUCH LAWSUIT FOR THE BENEFIT OF BORROWER AND LENDER. BORROWER HEREBY WAIVES TRIAL BY JURY, RIGHTS OF SET-OFF, AND THE RIGHT TO IMPOSE COUNTERCLAIMS (EXCEPT FOR COMPULSORY COUNTERCLAIMS) IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, THE OBLIGATIONS OR THE COLLATERAL, OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO OR THERETO, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING, BETWEEN THE BORROWER AND THE LENDER. BORROWER HEREBY CONFIRMS THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

13.19 AMENDMENT AND RESTATEMENT; LIMITATIONS OF SUBSIDIARY LIABILITY; WAIVERS OF CLAIMS. THIS AGREEMENT AMENDS, EXTENDS AND RESTATES IN ITS ENTIRETY THE SECOND AMENDED LOAN AGREEMENT. THE EXECUTION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HERewith DOES NOT EXTINGUISH THE INDEBTEDNESS OUTSTANDING IN CONNECTION THEREWITH NOR DOES IT CONSTITUTE A NOVATION WITH RESPECT TO THE INDEBTEDNESS OUTSTANDING IN CONNECTION WITH THE SECOND AMENDED LOAN AGREEMENT. BORROWER REPRESENTS AND WARRANTS THAT AS OF THE CLOSING DATE OF THIS AGREEMENT THERE ARE NO CLAIMS OR OFFSETS AGAINST OR DEFENSES OR COUNTERCLAIMS TO ITS OBLIGATIONS UNDER THE SECOND AMENDED LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENTS. BORROWER WAIVES ANY AND ALL SUCH CLAIMS, OFFSETS, DEFENSES OR COUNTERCLAIMS, WHETHER KNOWN OR UNKNOWN, ARISING PRIOR TO THE CLOSING DATE OF THIS AGREEMENT.

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

"BORROWER":

SUMMIT MACHINE TOOL MANUFACTURING
CORP.

By: _____

Name: _____

Title: _____

SIGNATURE PAGE 2 OF 2.

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

"LENDER":

BANK OF AMERICA, N.A.

By: _____

Name: Michael J. Jasaitas
Title: Vice President

EXHIBITS TO LOAN AGREEMENT

EXHIBIT A	-	Permitted Liens
EXHIBIT B	-	Proprietary Rights
EXHIBIT D	-	List of Borrower's Locations
EXHIBIT F	-	Subsidiaries and Affiliates
EXHIBIT G-1	-	Financial Statements
EXHIBIT G-2	-	Pro Forma Financial Statements
EXHIBIT H	-	Real Property Descriptions: Premises
EXHIBIT I	-	Trade Names, Trade Styles, Terms of Sale
EXHIBIT J	-	Pending Litigation
EXHIBIT K	-	Labor Matters
EXHIBIT L	-	ERISA Matters
EXHIBIT M	-	Schedule of Environmental Matters
EXHIBIT O	-	Amended and Restated Letter of Credit Financing Agreement - Supplement to Second Amended and Restated Loan and Security Agreement