

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K  
CURRENT REPORT

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

Date of Report (Date of earliest event reported) May 24, 2002

LSB INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other  
jurisdiction of  
incorporation)

1-7677  
(Commission File  
Number)

73-1015226  
(IRS 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

Not applicable  
(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets.

See the discussion of the repurchase by the Company's wholly owned subsidiary, ClimaChem, Inc. ("ClimaChem"), of approximately \$52.3 million aggregate principal amount of its 10 3/4% Senior Notes due 2007 (the "Senior Notes") under Item 5 of this report.

Item 5. Other Events and Regulation FD Disclosure.

On May 24, 2002, ClimaChem repurchased \$52.3 million aggregate principal amount of its Senior Notes. The purchase price per \$1,000 of aggregate principal amount of Senior Notes was approximately \$574, resulting in an aggregate purchase price of approximately \$30 million. As a result of the repurchase, the balance of the aggregate principal amount of the Senior Notes outstanding and not owned by affiliates of the Company is approximately \$18.3 million.

In order to fund the repurchase of the Senior Notes, ClimaChem entered into a financing arrangement (the "Agreement") with certain lenders identified in the Agreement attached hereto (together, the "Lenders"). Each Lender is an affiliate of the other Lenders. Pursuant to the terms of the financing arrangement, the Lenders loaned approximately \$35.0 million to ClimaChem (collectively, the "Loan"). The Loan matures on June 30, 2005, and bears interest at an annual rate equal to 10 1/2% per annum, payable quarterly, and an additional interest rate of 5 1/2% which is payable upon maturity or prepayment.

The proceeds of the Loan were used to fund the repurchase of the Senior Notes by ClimaChem from the Lenders and certain affiliates of the Lenders, to pay the closing costs, fees and expenses incurred in connection with the Loan of approximately \$3.1 million and to fund a cash collateral account of approximately \$1.8 million pursuant to the terms of the Agreement. In connection with the closing of the Loan, the Lenders entered into an Intercreditor Agreement with ClimaChem's working capital lender. The Lenders and affiliates of the Lenders owned the Senior Notes which were repurchased by ClimaChem.

The Loan is secured by (a) a first lien on (i) certain real property and equipment located at the El Dorado, Arkansas manufacturing facility (excluding the DSN Plant and other exceptions) (the "EDC Plant") owned by Northwest Financial Corporation, a subsidiary of the Company, (ii) certain real property and equipment located at the Cherokee, Alabama manufacturing facility (the "Cherokee Plant") owned by a subsidiary of LSB that is not a subsidiary of ClimaChem, (iii) certain real property and equipment located at ClimaChem's Hallowell, Kansas explosives manufacturing facility (the "UteC Plant"), which is owned by Universal Tech Corporation, a subsidiary of the Company ("UTeC"), (iv) all of the outstanding shares of common stock in UTeC, (v) a cash collateral account, and (b) a second lien on the assets upon which ClimaChem's working capital lender has a first lien. The Loan is guaranteed by the Company and certain subsidiaries of ClimaChem.

In connection with the completion of the Loan, ClimaChem and the subsidiaries of the Company which are guarantors of ClimaChem's working capital loan entered into an amendment to the working capital loan pursuant to which the Company and certain of ClimaChem's subsidiaries pledged additional collateral to secure the Company's obligations under the working capital loan, to permit the repurchase of the Senior Notes pursuant to the terms of the Agreement, and to permit the Loan pursuant to the terms of the Agreement. The additional collateral consisted of a second mortgage on the assets to which the Lenders were granted a first lien.

Prior to the repurchase of the Senior Notes as provided above, ClimaChem and the trustee under the Indenture (as defined below), with the consent of the holders of more than 66 2/3% of the aggregate principal amount of the outstanding Senior Notes (the "Holders"), entered into a Fifth Supplemental Indenture, dated May 24, 2002 (the "Supplement"), to the Indenture dated November 27, 1997, as amended (the "Indenture"), which governs ClimaChem's Senior Notes. The Supplement amends the Indenture by, among other things, (a) deleting most all of the restrictive covenants, (b) deleting the requirements upon a change of control of ClimaChem or sale of all or substantially all of the assets of ClimaChem, (c) specifying ClimaChem's subsidiaries which are guarantors of the Senior Notes and deleting the requirement that certain future subsidiaries of ClimaChem be guarantors, (d) deleting certain events from the definition of "Event of

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Default," and (e) providing for conforming changes to the Indenture and the promissory note executed by ClimaChem pursuant to the terms of the Indenture.

As required by the Lenders as a condition precedent to the completion of the Loan and the transactions contemplated by the Agreement, the Company granted to the Lenders warrants to purchase an aggregate 595,585 shares of common stock of LSB, subject to certain anti-dilution adjustments. The exercise price of the warrants is \$0.10 per share and contains a provision for cashless exercise. The warrants have a 10-year exercise period beginning on May 24, 2002. The warrants provide for certain demand registration rights and piggyback registration rights. As of May 24, 2002, there were outstanding approximately 12 million shares of the Company's common stock, and the closing price of the Company's common stock, as quoted on the over-the-counter bulletin board, was \$3.38 per share.

#### Item 7. Financial Statements and Exhibits.

##### (c) Exhibits.

4.1 Second Amendment to Loan and Security Agreement, dated May 24, 2002, by and among the Company, LSB, certain subsidiaries of the Company, Foothill Capital Corporation ("Foothill") and Congress Financial Corporation (Southwest). Omitted are exhibits and schedules attached thereto. The Agreement contains a list of such exhibits and schedules, which the Company agrees to file with the Commission supplementally upon the Commission's request.

4.2 Securities Purchase Agreement, dated May 24, 2002 ("Agreement"). Omitted are exhibits and schedules attached thereto. The Agreement contains a list of such exhibits and schedules, which the Company agrees to file with the Commission supplementally upon the Commission's request.

4.3 Fifth Supplemental Indenture, dated May 24, 2002, among the Company, the Guarantors, and Bank One, N.A.

4.4 Promissory Note, dated May 24, 2002, granted by the Company in favor of one of the Lenders in the original principal amount of \$7,786,927. Substantially similar Promissory Notes, dated May 24, 2002, were granted by the Company to each of the other Lenders in the original principal amount indicated: (a) a Promissory Note granted in favor of one Lender in the original principal amount of \$3,478,410, (b) two Promissory Notes granted in favor of a Lender in the original principal amount of \$12,000,000, (c) a Promissory Note granted in favor of a Lender in the original principal amount of \$3,734,6634. Copies of these Promissory Notes will be provided to the Commission upon request.

99.1 Warrant, dated May 24, 2002, granted by the Company to a Lender for the right to purchase up to 132,508 shares of the Company's common stock at an exercise price of \$0.10 per share. Four substantially similar Warrants, dated May 24, 2002, for the purchase of an additional 463,077 shares at an exercise price of \$0.10 were issued. Copies of these Warrants will be provided to the Commission upon request.

99.2 Intercreditor Agreement.

#### **SIGNATURES**

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 7, 2002.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby  
Tony M. Shelby,  
Senior Vice President and  
Chief Financial Officer

**SECOND AMENDMENT  
TO LOAN AND SECURITY AGREEMENT**

SECOND AMENDMENT, dated as of May 24, 2002 (the "Amendment"), to the Loan and Security Agreement dated as of April 13, 2001, as amended by the First Amendment dated as of August 3, 2001 (the "Loan Agreement"), by and among (i) **LSB INDUSTRIES, INC.**, a Delaware corporation (the "Parent"), **CLIMACHEM, INC.**, an Oklahoma corporation ("ClimaChem"), and each of the Subsidiaries of ClimaChem identified on the signature pages thereof (such Subsidiaries, together with ClimaChem, each a "Borrower", and collectively, the "Borrowers"), (ii) the lenders identified on the signature pages thereof (each a "Lender" and collectively the "Lenders") and (iii) **FOOTHILL CAPITAL CORPORATION**, a California corporation, as the arranger and administrative agent for the Lenders (the "Agent").

WHEREAS, ClimaChem desires (i) to issue and sell certain promissory notes to Guggenheim Investment Management, LLC and certain other purchasers (collectively, "Guggenheim") pursuant to a certain Securities Purchase Agreement, dated as of the date hereof, the aggregate principal amount of which shall not exceed \$36,000,000 (the "Guggenheim Notes"), (ii) to repurchase a portion of its ClimaChem Notes (as defined in the Loan Agreement) with the proceeds of the Guggenheim Notes, (iii) to cause certain of its Subsidiaries and the Parent to guaranty the obligations under the Guggenheim Notes, (iv) to secure the obligations of ClimaChem and such Subsidiaries in respect of the Guggenheim Notes by granting Guggenheim a Lien on their respective assets, and has requested the Agent and the Lenders to amend certain of the terms and conditions in the Loan Agreement in order to permit the matters set forth above;

WHEREAS, in order to induce the Agent and the Lenders to approve ClimaChem's sale of the Guggenheim Notes and the others matters described above, the Borrowers have agreed to pledge to Agent, on behalf of the Lenders, additional assets of the Borrowers (the "New Collateral") and to modify the ClimaChem Indenture (as defined in the Loan Agreement) to, among other things, permit the pledge of such New Collateral to Agent as additional collateral security for the Obligations; and

WHEREAS, Agent and the Lenders have agreed to so amend the Loan Agreement to permit the issuance of the Guggenheim Notes and the other matters described above, subject to the term and conditions of this Amendment.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto hereby agree as follows:

1. Definitions in Amendment. Any capitalized term used herein and not defined shall have the meaning assigned to it in the Loan Agreement.
2. Definitions in the Loan Agreement. Section 1.1 of the Loan Agreement is hereby amended as follows:
  - a. A definition of the term "ClimaChem Fifth Supplemental Indenture" is hereby inserted, in appropriate alphabetical order, to read as follows:

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"ClimaChem Fifth Supplemental Indenture" means that certain Fifth Supplemental Indenture dated as of May 24, 2002, among ClimaChem, as issuer, the guarantors named therein, and Bank One, N.A., as trustee, supplementing and amending the ClimaChem Indenture."

- (b) The definition of the term "Collateral" is hereby amended in its entirety to read as follows:

"Collateral" means all of each Borrower's now owned or hereafter acquired right, title, and interest in and to each of the following:

- (a) Accounts,
      - (b) Books,
      - (c) Equipment,
      - (d) General Intangibles,
      - (e) Inventory,
      - (f) Investment Property (excluding the Stock of EDN and DSN),
      - (g) Negotiable Collateral,
      - (h) Real Property,

- (i) money or other assets of each such Borrower that arise from or relate to Accounts, Books, General Intangibles and Inventory and that now or hereafter come into the possession, custody, or control of any member of the Lender Group, and

(j) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all Accounts, Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, Real Property, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof."

(c) The definition of the term "Consolidated Net Interest Expense" is hereby amended in its entirety to read as follows:

"Consolidated Net Interest Expense" means, with respect to any Person for any period, gross interest expense of such Person and its Subsidiaries for such period determined in conformity with GAAP (including, without limitation, interest expense paid to Affiliates of such Person other than a Subsidiary of Parent, but excluding any

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interest paid-in-kind in respect of the Guggenheim Notes), less the sum of interest income and non-cash accretion expense and non-cash amortization of debt origination cost for such period, each determined on a consolidated basis and in accordance with GAAP for such Person and its Subsidiaries."

(d) The definition of the term "Eligible Accounts" is hereby amended by deleting the number "\$1,000,000" set forth in paragraph (a) of such defined term and inserting the number "\$1,500,000" in lieu thereof.

(e) The definition of the term "Facility" is hereby amended in its entirety to read as follows:

"Facility" means, collectively (i) the real property owned by Northwest Financial Corporation and located in El Dorado, Arkansas, (ii) the real property owned by Cherokee and located in Cherokee, Alabama and (iii) the real property owned by Universal and located in Hallowell, Kansas, in each case including, without limitation, the land on which each such facility is located, all buildings and other improvements thereon, all fixtures located at or used in connection with each such facility, all whether now or hereafter existing."

(f) A definition of the term "Guggenheim" is hereby inserted, in appropriate alphabetical order, to read as follows:

"Guggenheim" means, collectively, Guggenheim Investment Management, LLC, a Delaware limited liability company, and each of the purchasers party to the Guggenheim Securities Purchase Agreement, and their respective successors and assigns (including any other purchaser or group of purchasers that at any time succeeds to or refinances, replaces or substitutes for all or any portion of the Guggenheim Notes at any time and from time to time)."

(g) A definition of the term "Guggenheim Intercreditor Agreement" is hereby inserted, in appropriate alphabetical order, to read as follows:

"Guggenheim Intercreditor Agreement" means that certain Intercreditor Agreement dated as of May 24, 2002 by and between Agent and Guggenheim, as the same may be amended, supplemented or otherwise modified from time to time."

(h) A definition of the term "Guggenheim Notes" is hereby inserted, in appropriate alphabetical order, to read as follows:

"Guggenheim Notes" means those certain promissory notes issued by ClimaChem to Guggenheim pursuant to the terms of the Guggenheim Securities Purchase Agreement in an aggregate principal amount of up to \$36,000,000 (plus any paid-in-kind interest added to the principal balance thereof)."

(i) A definition of the term "Guggenheim Securities Purchase Agreement" is hereby inserted, in appropriate alphabetical order, to read as follows:

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"Guggenheim Securities Purchase Agreement" means that certain Securities Purchase Agreement dated as of May 24, 2002, by and among the Parent, ClimaChem, each of the guarantors listed therein, each of the purchasers listed therein, and Guggenheim, as collateral agent."

(j) The definition of the term "Interest Reserve" is hereby amended in its entirety to read as follows:

"Interest Reserve" means, on any date of determination, a reserve equal to \$500,000."

(k) A definition of the term "Investment Property" is hereby inserted, in appropriate alphabetical order, to read as follows:

"Investment Property" means all of Borrowers' now owned or hereafter acquired right, title, and interest with respect to "investment property" as that term is defined in the Code, and any and all supporting obligations in respect thereof."

(l) The definition of the term "Mortgage" is hereby amended in its entirety to read as follows:

""Mortgage' means each mortgage, deed of trust or deed to secure debt, in form and substance satisfactory to Agent, made by Cherokee, Northwest Financial Corporation and Universal, as the case may be, in favor of Agent for the benefit of the Lenders, securing the Obligations."

(m) A definition of the term "Negotiable Collateral" is hereby inserted, in appropriate alphabetical order, to read as follows:

""Negotiable Collateral' means all of Borrowers' now owned and hereafter acquired right, title, and interest with respect to letters of credit, letter of credit rights, instruments, promissory notes, drafts, documents, and chattel paper (including electronic chattel paper and tangible chattel paper), and any and all supporting obligations in respect thereof."

(n) The definition of the term "Permitted Liens" is hereby amended by (a) deleting the word "and" at the end of clause (k) thereof, (b) deleting the period at the end of clause (l) thereof and inserting "; and" at the end thereof and (c) inserting a new clause (m) therein to read as follows:

"(m) Liens held by Guggenheim on the Second Amendment Effective Date securing the repayment of the Guggenheim Notes and all other obligations under the Guggenheim Securities Purchase Agreement, provided that the priority of, and the rights attendant to, such Liens are subject to the terms of the Guggenheim Intercreditor Agreement."

(o) A definition of the term "Personal Property Collateral" is hereby inserted, in appropriate alphabetical order, to read as follows:

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""Personal Property Collateral' means all Collateral other than Real Property."

(p) The definition of the term "Real Property" is hereby amended in its entirety to read as follows:

""Real Property' means any estates or interests in real property now owned or hereafter acquired by any Borrower and the improvements thereto to the extent such real property and improvements are subject to a Mortgage."

(q) A definition of the term "Second Amendment Effective Date" is hereby inserted, in appropriate alphabetical order, to read as follows:

""Second Amendment Effective Date' means the date on which all of the conditions precedent to the effectiveness of Second Amendment to Loan Agreement dated as of May 24, 2002, by and among the Borrowers, the Lenders and the Agent have been fulfilled or waived."

3. Creation of Security Interest. Section 4 of the Loan Agreement is hereby amended in its entirety to read as follows:

**"4. CREATION OF SECURITY INTEREST.**

**4.1 Grant of Security Interest.** Each Borrower hereby grants to Agent, for the benefit of the Lender Group, a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Personal Property Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by Borrowers of each of their covenants and duties under the Loan Documents; provided that the Personal Property Collateral shall not include Equipment subject to a Lien of the type described in subsections (c) and (e) of the definition of Permitted Liens set forth in this Agreement (hereinafter referred to as "Excluded Property") to the extent the grant of a security interest hereunder in such Equipment would violate the agreement evidencing such Permitted Lien, provided, however, that if and when the prohibition which prevents the granting by a Borrower to Agent of a security interest in any Excluded Property is removed or otherwise terminated, Agent will be deemed to have, and at all times to have had, a security interest in such Excluded Property. The Agent's Liens in and to the Personal Property Collateral shall attach to all Personal Property Collateral without further act on the part of Agent or Borrowers. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions and as otherwise permitted in Sections 7.3 and 7.4 of this Agreement, Borrowers have no authority, express or implied, to dispose of any item or portion of the Collateral.

**4.2 Negotiable Collateral.** In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, and if and to the extent

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that perfection or priority of Agent's security interest is dependent on or enhanced by possession, the applicable Borrower, immediately upon the request of Agent, shall endorse and deliver physical possession of such Negotiable Collateral to Agent.

**4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral.** At any time after the occurrence and during the continuation of an Event of Default, Agent or Agent's designee may (a) notify Account Debtors of Borrowers that the

Accounts, chattel paper, or General Intangibles have been assigned to Agent or that Agent has a security interest therein, or (b) collect the Accounts, chattel paper, or General Intangibles directly and charge the collection costs and expenses to the Loan Account. Each Borrower agrees that it will hold in trust for the Lender Group, as the Lender Group's trustee, any Collections that it receives and immediately will deliver said Collections to Agent or a Cash Management Bank in their original form as received by the applicable Borrower.

#### **4.4 Filing of Financing Statements; Commercial Tort Claims; Delivery of Additional Documentation Required.**

(a) Each Borrower authorizes Agent to file any financing statement required hereunder, and any continuation statement or amendment with respect thereto, in any appropriate filing office without the signature of such Borrower where permitted by applicable law. Each Borrower hereby ratifies the filing of any financing statement, and any continuation statement or amendment with respect thereto, filed without the signature of such Borrower prior to the date hereof. Agent shall endeavor to promptly deliver to Administrative Borrower a copy of each such financing statement so filed by Agent.

(b) If any Borrower acquires any commercial tort claims after the date hereof, such Borrower shall immediately deliver to Agent a written description of such commercial tort claim and shall deliver a written agreement, in form and substance satisfactory to Agent, pursuant to which such Borrower shall pledge and collaterally assign all of its right, title and interest in and to such commercial tort claim to Agent, for the benefit of the Lender Group, as security for the Obligations (a "Commercial Tort Claim Assignment").

(c) At any time upon the request of Agent, Borrowers shall execute and deliver to Agent, and cause its Subsidiaries that are Guarantors to execute and deliver to Agent, any and all financing statements, original financing statements in lieu of continuation statements, amendments to financing statements, fixture filings, security agreements, pledges, assignments, Commercial Tort Claim Assignments, endorsements of certificates of title, and all other documents (collectively, the "Additional Documents") that Agent may request in its Permitted Discretion, in form and substance satisfactory to Agent, to create and perfect and continue perfected or better perfect the Agent's Liens in the Collateral (whether now owned or hereafter arising or acquired, tangible or intangible, real or personal), to create and perfect Liens in favor of Agent in any Real Property acquired after the Closing Date, and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents, including any Mortgages. To the maximum extent permitted by applicable law, each Borrower

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authorizes Agent to execute any such Additional Documents in the applicable Borrower's name and authorize Agent to file such executed Additional Documents in any appropriate filing office. To the maximum extent permitted by applicable law, each Borrower authorizes the filing of any such Additional Documents without the signature of such Borrower in any appropriate filing office. In addition, on such periodic basis as Agent shall require, Borrowers shall (i) provide Agent with a report of all new patentable, copyrightable, or trademarkable materials acquired or generated by Borrowers during the prior period, (ii) cause all patents, copyrights, and trademarks acquired or generated by Borrowers that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of Borrowers' ownership thereof, and (iii) cause to be prepared, executed, and delivered to Agent supplemental schedules to the applicable Loan Documents to identify such patents, copyrights, and trademarks as being subject to the security interests created thereunder.

**4.5 Power of Attorney.** Each Borrower hereby irrevocably makes, constitutes, and appoints Agent (and any of Agent's officers, employees, or agents designated by Agent) as such Borrower's true and lawful attorney, with power to (a) if such Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Borrower on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing, sign such Borrower's name on any invoice or bill of lading relating to the Collateral, drafts against Account Debtors, or notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Borrower's name on any Collection item that may come into the Lender Group's possession, (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under such Borrower's policies of property insurance and make all determinations and decisions with respect to such policies of insurance, and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Accounts, chattel paper, or General Intangibles directly with Account Debtors, for amounts and upon terms that Agent determines to be reasonable, and Agent may cause to be executed and delivered any documents and releases that Agent determines to be necessary. The appointment of Agent as each Borrower's attorney, and each and every one of its rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and the Lender Group's obligations to extend credit hereunder are terminated.

**4.6 Right to Inspect.** Agent and each Lender (through any of their respective officers, employees, or agents) shall have the right, from time to time hereafter to inspect the Books and to check, test, and appraise the Collateral in order to verify Borrowers' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

**4.7 Control Agreements.** Each Borrower agrees that it will not transfer any Collateral or any other assets out of any Securities Accounts or deposit accounts and, if to another securities intermediary or depository, unless each of the applicable Borrower, Agent, and the substitute securities intermediary or depository have

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entered into a Control Agreement. Upon the occurrence and during the continuance of a Event of Default, Agent may notify any securities intermediary or depository to liquidate the applicable Securities Account or depository account or any related Investment Property maintained or held thereby and remit the proceeds thereof to the Agent's Account for application to the Obligations in accordance with the terms of the Loan Documents. Each Borrower hereby agrees to take any or all action that Agent requests in order for Agent to obtain control in accordance with Sections 9-104, 9-105, 9-106 and 9-107 of the Code with respect to any Collateral constituting Securities Accounts, deposit accounts, electronic chattel paper, Investment Property and letter-of-credit rights. No arrangement contemplated hereby or by a Control Agreement in respect of any Securities Accounts or other Investment Property, or any deposit accounts, electronic paper or letter-of-credit rights, shall be modified by any Borrower without the prior written consent of Agent."

4. Representations and Warranties. Article 5 of the Loan Agreement is hereby amended as follows:

a. No Encumbrances. Section 5.1 is hereby amended in its entirety to read as follows:

"Each Borrower has good and indefeasible title to its Collateral and the Real Property, free and clear of Liens except for Permitted Liens."

b. Due Authorization. (i) Section 5.9(c) is hereby amended by inserting the phrase "and the Mortgages" immediately after the phrase "Other than the filing of financing statements" set forth therein and (ii) Section 5.9(e) is hereby amended by inserting the phrase "and the Mortgages" immediately after the phrase "the filing of financing statements" set forth therein.

5. Indebtedness. Section 7.1 of the Loan Agreement is hereby amended by (a) deleting the word "and" at the end of clause (i) thereof, (b) deleting the period at the end of clause (j) thereof and inserting "; and" at the end thereof and (c) inserting a new clause (k) therein to read as follows:

"(k) Indebtedness outstanding under the Guggenheim Notes and the Guggenheim Securities Purchase Agreement, provided that (i) the aggregate principal amount of such Indebtedness shall not exceed \$36,000,000 (plus any paid-in-kind interest added to the principal balance thereof) at any time, (ii) any prepayments or repayments of the principal amount of such Indebtedness shall reduce the amount of Indebtedness permitted under this Section 7.1(k) on a dollar-for-dollar basis and such prepaid or repaid amounts shall not be reborrowed by ClimaChem without the prior written consent of the Lenders, (iii) Borrowers shall not make any payments in respect of such Indebtedness if an Event of Default has occurred and is continuing or would occur as a result of the making of such payment, except to the extent such payments are made solely from the proceeds of any Guggenheim Priority Collateral (as defined in the Guggenheim Intercreditor Agreement), and (iv) Guggenheim and the Agent have entered into the Guggenheim Intercreditor Agreement."

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6. Disposal of Assets. Section 7.4(d) of the Loan Agreement is hereby amended by (i) deleting the parenthetical clause "(after giving effect to up to \$4,200,000 of the Interest Reserve)" set forth in clause (ii) of such Section and (ii) deleting the period at the end of such Section and inserting a semi-colon at the end thereof.

(b) Section 7.4 of the Loan Agreement is hereby amended by inserting new subsections (e) and (f) therein to read as follows:

"(e) notwithstanding anything to the contrary contained herein, any Borrower and any of its respective Subsidiaries may sell, transfer or otherwise dispose of Real Property owned by such Person so long as (i) the Agent consents in writing to such transaction (which consent shall not be unreasonably withheld or delayed), (ii) Guggenheim consents in writing to such transaction to the extent Guggenheim has a Lien on the Real Property subject to such sale and (iii) the proceeds from such sale are applied in accordance with Section 2.4(b) or, if the Guggenheim Intercreditor Agreement is then in effect, in accordance with the terms of the Guggenheim Intercreditor Agreement; and

(f) Universal may lease to Slurry the Hallowell, Kansas Plant and related Equipment so long as such lease is permitted under the Guggenheim Securities Purchase Agreement to the extent Guggenheim has a Lien on the assets subject to such lease."

7. Prepayments and Amendments.

a. Section 7.8(a) of the Loan Agreement is hereby amended by inserting "and as otherwise permitted in Section 7.8(b)" at the end thereof.

b. Section 7.8(b) of the Loan Agreement is hereby amended by (i) deleting the parenthetical clause "(after giving effect to up to \$4,200,000 of the Interest Reserve)" set forth in clause (ii)(C) of such Section, and (ii) inserting a new clause (iii) at the end thereof (after the number "\$15,000,000") to read as follows:

", or (iii) with proceeds from the Indebtedness permitted under Section 7.1(k) and evidenced by the Guggenheim



c. Section 7.8(c) of the Loan Agreement is hereby amended in its entirety to read as follows:

"Except in connection with a refinancing permitted by Section 7.1(d) and except in connection with the ClimaChem Fifth Supplemental Indenture, directly or indirectly, (i) amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b), (c), (e) or (g) or (ii) amend, modify or otherwise change (or permit the amendment, modification or other change in any manner of) any of the provisions of Indebtedness permitted under Section 7.1(k) or of any instrument or agreement (including, without limitation, the Guggenheim Securities Purchase Agreement) relating to any such Indebtedness if such amendment, modification

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or change would shorten the final maturity or average life to maturity of, or require any payment to be made earlier than the date originally scheduled on, such Indebtedness, would increase the principal amount of or the interest rate applicable to such Indebtedness, would change the lien subordination provisions of such Indebtedness, or would otherwise be materially adverse to any Borrower, the Agent or the Lenders in any respect."

8. Distributions. Section 7.11(f) of the Loan Agreement is hereby amended by deleting the parenthetical clause "(without giving effect to the Interest Reserve)" set forth in clause (ii) of such Section.

9. Financial Covenants. Section 7.20 of the Loan Agreement is hereby amended as follows:

(a) Minimum EBITDA. Clause (i) of Section 7.20(a) is hereby amended in its entirety to read as follows:

"(i) **Minimum EBITDA**. EBITDA, measured on a fiscal quarter-end basis, of not less than the required amount set forth in the following table for the applicable period set forth opposite thereto;

Applicable Amount	Applicable Period
\$17,000,000	For the 12 month period ending June 30, 2002
\$18,000,000	For the 12 month period ending September 30, 2002
\$16,000,000	For the 12 month period ending December 31, 2002

Borrowers' EBITDA for the 12 month period ending each fiscal quarter after December 31, 2002 shall be determined based upon Borrowers' projected EBITDA for such period as set forth in the Projections delivered to Agent in accordance with Section 6.3(c), which Projections are in form and substance acceptable to Agent; provided, that if Agent and Borrowers cannot agree on the EBITDA covenant number based upon Borrowers' projected EBITDA, for purposes of this Section 7.20(a)(i), Borrowers' EBITDA for such 12 month period shall be determined by Agent in its Permitted Discretion and shall not be less than \$19,000,000."

(b) Clause (ii) of Section 7.20(a) is hereby amended in its entirety to read as follows:

"(ii) **Minimum EBITDA for the Climate Control Business**. EBITDA of the Borrowers comprising the Climate Control Business, measured on a fiscal quarter-end basis, of not less than \$10,000,000 for the trailing 12

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month period ending on each fiscal quarter after the Second Amendment Effective Date."

10. Minimum Availability. Section 7.21 of the Loan Agreement is hereby amended in its entirety to read as follows:

"**7.21 Minimum Availability**. Fail to maintain Excess Availability of at least \$1,500,000 immediately after giving effect to all payments (irrespective of whether such payments represent principal, interest or fees) in respect of the Guggenheim Notes and the ClimaChem Notes that are due and payable by ClimaChem at any time."

11. Capitalization Schedule. Schedule 5.8(b) to the Loan Agreement is hereby amended in its entirety to read as set forth in Annex I to this Amendment.

12. ATF License. In the event the U.S. Department of the Treasury's Bureau of Alcohol, Tobacco and Firearms reinstates Slurry's license, or grants a license to any other Borrower, authorizing such Person to manufacture explosives products at the Hallowell, Kansas Plant, then the Borrowers shall (a) promptly, but in any event within 3 days of the reinstatement or issuance of such license (as the case may be), provide written notice to the Agent of such reinstatement or issuance and (b) promptly, but in any event within 30 days after the reinstatement or issuance of such license (as the case may be), deliver to the Agent copies of Borrowers' Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to Agent, in its sole discretion, for the forthcoming year, month by month, certified by the chief financial officer or vice president/controller of Parent and of ClimaChem as being such officer's good faith best estimate of the financial performance of Parent and its Subsidiaries and of ClimaChem and its Subsidiaries, as the case may be, during the period covered thereby. Following Agent's receipt of such

revised Projections, at the Agent's request, the Agent, the Lenders and the Borrowers shall enter into another amendment to the Loan Agreement, the form and substance of which shall be satisfactory to the Lenders, in order to modify the EBITDA covenants set forth in Sections 7.20(a)(i) and (ii) of the Loan Agreement.

13. Conditions. The effectiveness of this Amendment is subject to the fulfillment, in a manner satisfactory to the Agent, of each of the following conditions precedent (the first date upon which all such conditions shall have been satisfied being herein called the "Second Amendment Effective Date"):

(a) Representations and Warranties; No Event of Default. The representations and warranties contained herein, in Section 5 of the Loan Agreement and in each other Loan Document and certificate or other writing delivered to the Agent or any Lender pursuant hereto on or prior to the Second Amendment Effective Date shall be correct in all material respects on and as of the Second Amendment Effective Date as though made on and as of such date, except to the extent that such representations and warranties (or any schedules related thereto) expressly relate solely to an earlier date (in which case such representations and warranties shall be true and correct in all material respects on and as of such date); and no Default or Event of Default shall have occurred and be continuing on the Second Amendment

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Effective Date or would result from this Amendment becoming effective in accordance with its terms.

(b) Delivery of Documents. The Agent shall have received on or before the Second Amendment Effective Date the following, each in form and substance satisfactory to the Agent and, unless indicated otherwise, dated the Second Amendment Effective Date:

- i. counterparts of this Amendment which bear the signatures of each Borrower, Agent and each Lender;
- ii. a fully executed copy of the Guggenheim Securities Purchase Agreement, certified by ClimaChem as true and correct;
- iii. a fully executed copy of the Guggenheim Intercreditor Agreement;
- iv. a fully executed copy of the ClimaChem Fifth Supplemental Indenture, certified by ClimaChem as true and correct;
- v. an amendment to the Guarantor Security Agreement, duly executed by the Guarantors;
- vi. a Mortgage and fixture filing (A) in the maximum principal amount of \$50,000,000, duly executed by Northwest Financial Corporation and (B) in the maximum principal amount of \$2,000,000, duly executed by Universal, as the case may be, with respect to the Facility owned by such Person;
- vii. (A) a Title Insurance Policy with respect to each Facility described in clause (vi) above dated as of the Second Amendment Effective Date, and (B) a survey of each Facility described in clause (vi) above, in form and substance satisfactory to the Agent, certified to the Agent and to the issuer of the applicable Title Insurance Policy, provided that the surveys described herein may be delivered to the Agent within \_\_\_\_ days of the Second Amendment Effective Date;
- viii. evidence of the filing of UCC-1 "in lieu" financing statements and UCC-3 financing statements amending the collateral description set forth in the existing UCC-1 financing statements filed by Agent on or about the Closing Date;
- ix. a copy of the resolutions of each Borrower, certified as of the Second Amendment Effective Date by an authorized officer thereof, authorizing (A) the borrowings contemplated by Guggenheim Securities Purchase Agreement and the transactions contemplated thereby and by this Amendment, and (B) the execution, delivery and performance by each such Person of this Amendment and the other Loan Documents to be executed and delivered pursuant hereto, and the performance of the Loan Agreement, as amended;
- x. a certificate of an authorized officer of each Borrower, certifying the names and true signatures of the representatives of such Person authorized to sign

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this Amendment and the other documents to be executed and delivered by such Person in connection herewith, together with evidence of the incumbency of such authorized officers;

- xi. a certificate of the appropriate official(s) of the state of organization and each state of foreign qualification of each Borrower, satisfactory to Agent, certifying as to the subsistence and good standing of, and the payment of taxes (if applicable) by, such Person in such states;
- xii. a certificate of an authorized officer of each Borrower confirming that the charter of each such Person has not been amended or otherwise modified since the Closing Date and that the copy thereof previously delivered to Agent is true, correct and complete;
- xiii. a certificate of an authorized officer of each Borrower confirming that the by-laws of each such Person have not been amended or otherwise modified since the Closing Date and that the copy thereof previously delivered to Agent is true,

correct and complete;

- xiv. an opinion of Borrowers' counsel as to such matters as Agent may reasonably request;
- xv. a certified copy of all documents and instruments effecting the transfer by Slurry to Universal of any portion of Slurry's real and personal property; and
- xvi. such other agreements, instruments, approvals, opinions and other documents as the Agent may reasonably request from the Borrowers.

(c) Amendment Fee. The Borrowers shall have paid to the Agent, for the benefit of the Lenders, in immediately available funds, a fully earned and nonrefundable amendment fee equal to \$80,000, the payment of which shall be effected by Agent charging such fee to Borrowers' Loan Account.

(d) Proceedings. All proceedings in connection with the transactions contemplated by this Amendment, and all documents incidental thereto, shall be satisfactory to the Agent and its special counsel, and the Agent and such special counsel shall have received from the Borrowers all such information and such counterpart originals or certified copies of documents, and such other agreements, instruments, approvals, opinions and other documents, as the Agent or such special counsel may reasonably request.

14. Representations and Warranties. Each Borrower hereby represents and warrants to the Agent and the Lenders as follows:

a. Representations and Warranties; No Event of Default. The representations and warranties herein, in Section 5 of the Loan Agreement and in each other Loan Document and certificate or other writing delivered to the Agent or any Lender pursuant hereto on or prior to the Amendment Effective Date are correct in all material respects on and as of the Second Amendment Effective Date as though made on and as of such date, except to the extent that such representations and warranties (or any schedules related thereto) expressly relate

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solely to an earlier date (in which case such representations and warranties are true and correct in all material respects on and as of such date); and no Default or Event of Default has occurred and is continuing on the Second Amendment Effective Date or would result from this Amendment becoming effective in accordance with its terms.

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b. Organization, Good Standing, Etc. Each Borrower (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of its organization, (ii) has all requisite power and authority to execute, deliver and perform this Amendment and the other Loan Documents to which it is a party being executed in connection with this Amendment, and to perform the Loan Agreement, as amended hereby, and (iii) is duly qualified to do business and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary except where the failure to be so qualified reasonably could not be expected to have a Material Adverse Change.

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c. Authorization, Etc. The execution, delivery and performance by each Borrower of this Amendment, and the performance by each Borrower of the Loan Agreement, as amended hereby, (i) have been duly authorized by all necessary action on the part of such Borrower, (ii) do not and will not contravene such Borrower's charter or by-laws, any applicable law or any material contractual restriction binding on or otherwise affecting it or any of its properties, (iii) do not and will not result in or require the creation of any Lien (other than pursuant to any Loan Document) upon or with respect to any of its properties, and (iv) do not and will not result in any suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to its operations or any of its properties.

15. Miscellaneous.

a. Continued Effectiveness of the Loan Agreement. Except as otherwise expressly provided herein, the Loan Agreement and the other Loan Documents are, and shall continue to be, in full force and effect and are hereby ratified and confirmed in all respects, except that on and after the Second Amendment Effective Date (i) all references in the Loan Agreement to "this Agreement", "hereto", "hereof", "hereunder" or words of like import referring to the Loan Agreement shall mean the Loan Agreement as amended by this Amendment, and (ii) all references in the other Loan Documents to which any Borrower is a party to the "Loan Agreement", "thereto", "thereof", "thereunder" or words of like import referring to the Loan Agreement shall mean the Loan Agreement as amended by this Amendment. Except as expressly provided herein, the execution, delivery and effectiveness of this Amendment shall not operate as an amendment of any right, power or remedy of the Lender under the Loan Agreement or any other Loan Document, nor constitute an amendment of any provision of the Loan Agreement or any other Loan Document.

b.

Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

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c. Headings. Section headings herein are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

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d. Governing Law. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

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e. Costs and Expenses. The Borrowers jointly and severally agree to pay on demand all reasonable fees, costs and expenses of the Agent and each Lender in connection with the preparation, execution and delivery of this Amendment and the other related agreements, instruments and documents.

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f. Amendment as Loan Document. Each Borrower hereby acknowledges and agrees that this Amendment constitutes a "Loan Document" under the Loan Agreement. Accordingly, it shall be an Event of Default under the Loan Agreement (i) if any representation or warranty made by a Borrower under or in connection with this Amendment shall have been untrue, false or misleading in any material respect when made or (ii) if Borrowers fail to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in Section 12 of this Amendment.

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g. Collateral. It is understood and agreed that all Collateral (as such term is amended pursuant to this Amendment) shall secure the Obligations under the Loan Documents. In addition, each Borrower confirms and agrees that to the extent that any Loan Document purports to assign or pledge to the Agent (on behalf of the Lenders), or to grant to the Agent (on behalf of the Lenders) a Lien on any collateral as security for the Obligations of such Borrower from time to time existing in respect of the Loan Agreement and the Loan Documents, such pledge, assignment and/or grant of a Lien is hereby ratified and confirmed in all respects. Without limiting the generality of the foregoing, each Borrower hereby grants to the Agent, for the benefit of the Lenders, a Lien on, and security interest in, all of such Borrower's Equipment, Investment Property, Negotiable Collateral and all other Collateral, as further collateral security for the Obligations.

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h. Waiver of Jury Trial. EACH BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AMENDMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

Borrowers:

**CLIMACHEM, INC.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**CLIMATE MASTER, INC.,**  
a Delaware corporation

By: /s/ Tony Shelby  
Title:

**CLIMATECRAFT, INC.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**CLIMACOOL, CORP.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**INTERNATIONAL ENVIRONMENTAL  
CORPORATION,** an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**ACP INTERNATIONAL, LIMITED,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**KOAX CORP.,** an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**LSB CHEMICAL CORP.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**THE ENVIRONMENTAL GROUP, INC.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**EL DORADO CHEMICAL COMPANY,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**SLURRY EXPLOSIVE CORPORATION,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**TRISON CONSTRUCTION, INC.,**  
an Oklahoma corporation

By: /s/ Tony Shelby  
Title:

**UNIVERSAL TECH CORPORATION,**  
an Oklahoma corporation

By: /s/ Tony Shelby Title:

Agent and Lender:

**FOOTHILL CAPITAL CORPORATION,**  
a California corporation

By: /s/ Tony Aloï  
Title:

Lender:

**CONGRESS FINANCIAL CORPORATION  
(SOUTHWEST),**

a Texas corporation

By: /s/ Mark Galovic

Title:

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**ANNEX I**

**SCHEDULE 5.8(b)**

SECURITIES PURCHASE AGREEMENT

dated as of May 24, 2002

by and among

CLIMACHEM, INC., as ISSUER

and

THE OTHER ENTITIES PARTY HERETO, as GUARANTORS

and

THE PURCHASERS PARTY HERETO

and

GUGGENHEIM INVESTMENT MANAGEMENT, LLC, as COLLATERAL AGENT

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Exhibit D	Form of Guaranty
Exhibit E	Form of Pledge Agreement
Exhibit F	Form of Opinion of Credit Parties' Counsel

**SECURITIES PURCHASE AGREEMENT**

SECURITIES PURCHASE AGREEMENT, dated as of May 24, 2002, by and among LSB Industries, Inc. ("Parent"), ClimaChem, Inc., an Oklahoma corporation, as borrower ("ClimaChem"), and each of the entities listed on Schedule A hereto, as guarantor (each such entity a "Guarantor" and collectively, the "Guarantors"; ClimaChem and each Guarantor individually, a "Credit Party" and collectively, the "Credit Parties"), each Purchaser listed on Schedule B hereto (individually, a "Purchaser" and, collectively, the "Purchasers") and Guggenheim Investment Management, LLC, as collateral agent (the "Collateral Agent")

**WITNESSETH:**

WHEREAS, ClimaChem has agreed to issue and sell to the Purchasers, and the Purchasers have agreed to purchase from ClimaChem, upon the terms and conditions hereinafter provided, secured Notes in the aggregate principal amount of \$35,000,000 in the form of Exhibit A hereto (the "Notes"); and

WHEREAS, Parent has agreed to issue to the Purchasers, upon the terms and conditions hereinafter provided, warrants to purchase common stock of Parent in the form of Exhibit B attached hereto (the "Warrants");

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, it is agreed as follows:

## 1. DEFINITIONS

"ACP" shall mean ACP International, Limited, an Oklahoma company.

"Account Debtor" shall mean any Person who is or who may become obligated under, with respect to, or on account of, an Account, chattel paper, or a General Intangible.

"Accounts" shall mean all of Credit Parties' now owned or hereafter acquired right, title, and interest with respect to "accounts" (as that term is defined in the Code), and any and all supporting obligations in respect thereof.

"Additional Documents" shall have the meaning set forth in Section 3.4.

"Additional Interest" shall have the meaning set forth in Section 2.6.

"Affiliate" shall mean, as applied to any Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person,

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whether through the ownership of Stock, by contract, or otherwise; provided, however, that, in any event: (a) any Person which owns directly or indirectly 15% or more of the securities having ordinary voting power for the election of directors or other members of the governing body of a Person or 15% or more of the partnership or other ownership interests of a Person (other than as a limited partner of such Person) shall be deemed to control such Person; (b) each director (or comparable manager) of a Person shall be deemed to be an Affiliate of such Person; and (c) each partnership or joint venture in which a Person is a general partner or joint venturer shall be deemed to be an Affiliate of such Person.

"Agreement" shall mean this Securities Purchase Agreement including all amendments, modifications and supplements hereto and any appendices, exhibits and schedules hereto or thereto, and shall refer to the Agreement as the same may be in effect at the time such reference becomes operative.

"Applicable Law" shall mean, in respect of any Person, all provisions of constitutions, statutes, rules, regulations and orders of governmental bodies or regulatory agencies applicable to such person, including, without limiting the foregoing, zoning ordinances and all Environmental Laws, and all orders, decisions, judgments and decrees of all courts and arbitrators in proceedings or actions to which the Person in question is a party or by which it is bound.

"Balance Sheet" shall have the meaning set forth in Section 5.7(a) hereof.

"Bankruptcy Code" shall mean the United States Bankruptcy Code, as in effect from time to time.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Credit Party or any Subsidiary or ERISA Affiliate of any Credit Party has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"Books" shall mean all of each Credit Party's now or hereafter acquired books and records (including all of its Records indicating, summarizing, or evidencing its assets including the Collateral) or liabilities, all of its Records relating to its business operations or financial condition, and all of its goods or General Intangibles related to such information).

"Business Day" shall mean any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

"Canadian Sub" shall mean Climate Mate, Inc., a Canadian corporation.

"Capital Lease" shall mean, with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, either would be required to be classified and accounted for as a capital lease on a balance sheet of such Person or otherwise be disclosed

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as a capital lease in a note to such balance sheet, other than, in the case of any Credit Party or a Subsidiary of any Credit Party, any such lease under which such Credit Party or such Subsidiary is the lessor.

"Capital Expenditures" shall mean all payments for any fixed assets or improvements or for replacements, substitutions or additions thereto, that have a useful life of more than one year and which are required to be capitalized under GAAP.

"Capitalized Lease Obligation" shall mean, with respect to any Capital Lease, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease or otherwise be disclosed in a note to such balance sheet.

"Cash Collateral Account" shall have the meaning set forth in Section 3.2.

"Cash Collateral Release Date" shall mean the earliest date after the date that is 18 months after the Initial Closing Date on which no Default or Event of Default is continuing.

"Cash Equivalents" shall mean (a) marketable direct obligations issued or unconditionally guaranteed by the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within 1 year from the date of acquisition thereof, (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within 1 year from the date of acquisition thereof and, at the time of acquisition, having the highest rating obtainable from either S&P or Moody's, (c) commercial paper maturing no more than 1 year from the date of acquisition thereof and, at the time of acquisition, having a rating of A-1 or P-1, or better, from S&P or Moody's, and (d) certificates of deposit or bankers' acceptances maturing within 1 year from the date of acquisition thereof either (i) issued by any bank organized under the laws of the United States or any state thereof which bank has a rating of A or A2, or better, from S&P or Moody's, or (ii) certificates of deposit less than or equal to \$100,000 in the aggregate issued by any other bank insured by the Federal Deposit Insurance Corporation.

"Cash Interest" shall have the meaning set forth in Section 2.6.

"Change of Control" shall mean (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of a greater number of shares of Parent's Stock having the right to vote for the election of members of the Board of Directors than the number of shares of such Stock held by the Permitted Holders, or (b) a majority of the members of the Board of Directors do not constitute Continuing Directors, or (c) the Parent ceases to directly or indirectly own and control 100% of the outstanding capital Stock of ClimaChem, or (d) ClimaChem ceases to directly or indirectly own and control 100% of the outstanding capital Stock of

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each Credit Party (other than ClimaChem), or (e) any Credit Party ceases to directly own and control 100% of the outstanding capital Stock of each of its Subsidiaries existing as of the Closing Date, except as provided in Section 6.2(c), or (f) a "Change of Control" as defined in the Indenture relating to the Senior Notes shall occur.

"Charges" shall mean all federal, state, county, city, municipal, local, foreign or other governmental (including, without limitation, PBGC) taxes at the time due and payable, levies, assessments, charges, liens, claims or encumbrances upon or relating to (i) any Credit Party's or any of its Subsidiaries' employees, payroll, income or gross receipts, (ii) any Credit Party's or any of its Subsidiaries' ownership or use of any of its assets, or (iii) any other aspect of any Credit Party's or any of its Subsidiaries' business.

"ClimaChem" shall have the meaning set forth in the first paragraph of this Agreement.

"ClimaCool" shall mean ClimaCool Corp., an Oklahoma corporation.

"Climate Control Business" shall mean the business consisting of the manufacture and sale of hydronic fan coils and water source heat pumps as well as other products used in commercial and residential heating, ventilation and air conditioning systems conducted by ACP, CMI, IEC, Koax, ClimateCraft, EGI and ClimaCool.

"ClimateCraft" shall mean ClimateCraft, Inc., an Oklahoma Corporation.

"Closing Fee" shall mean a fee in an amount equal to 3.25% of the difference of (i) the aggregate principal amount of the Notes purchased by the Purchasers at the Closing minus (ii) the aggregate amount of the proceeds from the issuance of the Notes held in the Cash Collateral Account.

"CMI" shall mean Climate Master, Inc., a Delaware corporation.

"COBRA" shall have the meaning set forth in Section 5.19(m) hereof.

"Code" shall mean the New York Uniform Commercial Code, as in effect from time to time.

"Collateral Agent" shall have the meaning set forth in the first paragraph of this Agreement.

"Collateral" shall mean, collectively, the First Priority Collateral and the Second Priority Collateral.

"Collateral Access Agreement" shall mean a landlord waiver, bailee letter, or acknowledgement agreement of any lessor,

warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Inventory, in each case, in form and substance satisfactory to the Required Holders.

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"Collateral Documents" shall mean the Guaranty, the Pledge Agreement and the Mortgages.

"Collections" shall mean all cash, checks, notes, instruments, and other items of payment (including insurance proceeds, proceeds of cash sales, rental proceeds and tax refunds) of the Credit Parties.

"Common Stock" shall mean the common stock, \$0.10 par value, of Parent.

"Compliance Certificate" shall mean a certificate substantially in the form of Exhibit C delivered by the chief financial officer of Parent to the Purchasers.

"Consolidated Net Interest Expense" shall mean, with respect to any Person for any period, gross interest expense of such Person and its Subsidiaries for such period determined in conformity with GAAP (including, without limitation, interest expense paid to Affiliates of such Person other than a Subsidiary of Parent), less the sum of interest income and non-cash accretion expense and non-cash amortization for debt origination cost for such period, each determined on a consolidated basis and in accordance with GAAP for such Person and its Subsidiaries.

"Continuing Director" means (a) any member of the Board of Directors who was a director (or comparable manager) of Parent on the Closing Date, and (b) any individual who becomes a member of the Board of Directors after the Closing Date if such individual was appointed or nominated for election to the Board of Directors by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors in office at the Closing Date in an actual or threatened election contest relating to the election of the directors (or comparable managers) of Parent (as such terms are used in Rule 14a-11 under the Exchange Act) and whose initial assumption of office resulted from such contest or the settlement thereof.

"Credit Party" shall have the meaning set forth in the Recitals.

"Default" shall mean any event which, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

"DSN" shall mean DSN Corporation, an Oklahoma corporation.

"EBITDA" shall mean, with respect to any fiscal period, the result of (i) ClimaChem's and its Subsidiaries consolidated net earnings (or loss), as determined in accordance with GAAP, minus (ii) the aggregate amount of all extraordinary gains of ClimaChem and its Subsidiaries for such period, as determined in accordance with GAAP, plus (iii) the aggregate amount of all extraordinary losses, interest expense, income taxes, and depreciation and amortization of ClimaChem and its Subsidiaries for such period, as determined in accordance with GAAP, plus (iv) any transaction costs directly related to the

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consummation of the transactions contemplated hereby, including costs related to the issuance of the Warrants, to the extent deducted from net earnings.

"EDN" shall mean El Dorado Nitric Company, an Oklahoma corporation, and all subsidiaries thereof.

"EGI" shall mean The Environmental Group, Inc., an Oklahoma corporation.

"Environmental Actions" shall mean any complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Substances from (a) any assets, properties, or businesses of any Credit Party or any predecessor in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Substances generated by any Credit Party or any predecessor in interest.

"Environmental Law" shall mean any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, to the extent binding on Credit Parties, relating to the environment, employee health and safety, or Hazardous Materials, including CERCLA; RCRA; the Federal Water Pollution Control Act, 33 USC Section 1251 et seq.; the Toxic Substances Control Act, 15 USC, Section 2601 et seq.; the Clean Air Act, 42 USC Section 7401 et seq.; the Safe Drinking Water Act, 42 USC Section 3803 et seq.; the Oil Pollution Act of 1990, 33 USC Section 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 USC Section 11001 et seq.; the Hazardous Material Transportation Act, 49 USC Section 1801 et seq.; and the Occupational Safety and Health Act, 29 USC, Section 651 et seq. (to the extent it regulates occupational exposure to Hazardous Substances); any state and local or foreign counterparts or equivalents, in each case

as amended from time to time.

"Environmental Liabilities and Costs" shall mean all liabilities, monetary obligations, Remedial Actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand by any Governmental Authority or any third party, and which relate to any Environmental Actions.

"Environmental Lien" shall mean any Lien in favor of any Governmental Authority for Environmental Liabilities and Costs.

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"Equipment" shall mean all of Credit Parties' now owned or hereafter acquired right, title, and interest with respect to equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, vehicles (including motor vehicles), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time and any regulations promulgated thereunder.

"ERISA Affiliate" shall mean, with respect to any Credit Party, any trade or business (whether or not incorporated) under common control with such Credit Party and which, together with such Credit Party, are treated as a single employer within the meaning of Sections 414(b), (c), (m) or (o) of the IRC, excluding the Purchasers and each other person which would not be an ERISA Affiliate if the Purchasers did not own any issued and outstanding shares of Stock of such Credit Party.

"Event of Default" shall have the meaning set forth in Section 8.1 hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and all rules and regulations promulgated thereunder.

"Facility" shall have the meaning set forth in Section 5.10 hereof.

"Fair Market Value" shall mean, with respect to any asset or property of a Person, the price which could be negotiated in an arm's length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

"First Priority Collateral" shall mean all of each Credit Party's now or hereafter acquired right, title, and interest in and to each of the following:

- (a) Cash Collateral Account,
- (b) Real estate and Equipment located at the El Dorado, Arkansas manufacturing facility, except the DSN plant, precious metals and rolling stock,
- (c) Real estate and Equipment located at the Cherokee, Alabama manufacturing facility, except precious metals and rolling stock,
- (d) All outstanding equity securities of Universal Tech Corporation,
- (e) All assets of Slurry Explosive Corporation and Universal Tech Corporation that are not collateral under the Foothill Debt, and

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(f) the proceeds and products, whether tangible or intangible of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Fixed Charge Coverage Ratio" shall mean, for any period, the ratio of (i) EBITDA for such period, to (ii) the sum of (A) all principal of Indebtedness of ClimaChem and its Subsidiaries scheduled to be paid or prepaid during such period (not including prepayments of revolving advances under the Foothill Loan Agreement unless such prepayments are accompanied by a reduction of the Revolver Commitment (as defined in the Foothill Loan Agreement) and not including the final scheduled payment of the Foothill Debt at its maturity or the Obligations at the Maturity Date), plus (B) Consolidated Net Interest Expense of ClimaChem and its Subsidiaries for such period, plus (C) all amounts paid or payable by ClimaChem and its Subsidiaries on Capitalized Lease Obligations having a scheduled due date during such period.

"Financials" shall mean the financial statements referred to in Section 5.7(a) hereof.

"Fiscal Year" shall mean the twelve month period ending December 31. Subsequent changes of the fiscal year of any Credit Party shall not change the term "Fiscal Year," unless the Required Holders shall consent in writing to such changes.

"Foothill Debt" shall mean all principal of and premium, if any, and interest on, and all other amounts owing in respect of Indebtedness for borrowed money of ClimaChem and certain Guarantors outstanding under the Foothill Loan Agreement, not exceeding \$50 million in aggregate principal amount outstanding at any time.

"Foothill Loan Agreement" shall mean that certain Loan and Security Agreement dated as of April 13, 2001 by and among ClimaChem, certain Guarantors, the lenders party thereto and Foothill Capital Corporation, as arranger and administrative agent, as amended, including any replacement or refinancing thereof as permitted in this Agreement.

"GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time, except that for purposes of the financial covenants contained in Section 6.2(s) hereof, GAAP shall be as in effect on the date of the most recent Financials and shall be applied in a manner consistent therewith.

"General Intangibles" shall mean all of the Credit Parties' now owned or hereafter acquired right, title, and interest with respect to "general intangibles" as that term is defined in the Code (including payment intangibles, contract rights, rights to payment, proprietary rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension

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funds, route lists, rights to payment and other rights under any royalty or licensing arrangements, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, catalogs, money, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), and any and all supporting obligations in respect thereof.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranty" shall mean that certain Guaranty, dated as of the Initial Closing Date, executed by the Guarantors in favor of the Collateral Agent, for the benefit of the Purchasers, in the form of Exhibit D attached hereto.

"Guaranteed Indebtedness" shall mean, as to any Person, any obligation of such Person guaranteeing any Indebtedness, lease, dividend, or other obligation ("primary obligations") of any other Person (the "primary obligor") in any manner including, without limitation, any obligation or arrangement of such Person (a) to purchase or repurchase any such primary obligation, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) to indemnify the owner of such primary obligation against loss in respect thereof.

"Hazardous Substance" shall have the meaning set forth in Section 5.10 hereof.

"Holder" shall have the meaning assigned to such term in Section 9.1 hereof.

"IEC" shall mean International Environmental Corporation, an Oklahoma corporation.

"Indebtedness" means (a) all obligations of a Credit Party for borrowed money (b) all obligations of a Credit Party evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of a Credit Party in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations of a Credit Party under Capital Leases, (d) all obligations or liabilities of others secured by a Lien on any asset of a Credit Party, irrespective of whether such obligation or liability is assumed, (e) all obligations of a Credit Party for the deferred purchase price of assets (other than trade debt incurred in the ordinary course of a Credit Party's business and repayable in accordance

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with customary trade practices), and (f) any obligation of a Credit Party guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse to a Credit Party) any obligation of any other Person.

"Initial Closing" shall have the meaning set forth in Section 2.2 hereof.

"Initial Closing Date" shall have the meaning set forth in Section 2.2 hereof.

"Insolvency Proceeding" shall mean any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or



other similar relief.

"Interest Payment Date" shall have the meaning assigned to such term in Section 2.6(a) hereof.

"Inventory" shall mean all Credit Parties' now owned or hereafter acquired right, title, and interest with respect to inventory, including goods held for sale or lease or to be furnished under a contract of service, goods that are leased by a Credit Party as lessor, goods that are furnished by a Credit Party under a contract of service, and raw materials, work in process, or materials used or consumed in a Credit Party's business.

"Investment" shall mean, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, or capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) bona fide Accounts arising from the sale of goods or rendition of services in the ordinary course of business consistent with past practice), purchases or other acquisitions for consideration of Indebtedness or Stock, and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"IRC" shall mean the Internal Revenue Code of 1986, as amended, and any successor thereto.

"IRS" shall mean the Internal Revenue Service, or any successor thereto.

"Koax" shall mean Koax Corp., an Oklahoma corporation.

"Lien" shall mean any interest in an asset securing an obligation owed to, or a claim by, any Person other than the owner of the asset, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent

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upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting real property.

"Loan Documents" shall mean this Agreement, the Notes, the Collateral Documents and all other agreements, instruments, documents and certificates, including, without limitation, pledges, powers of attorney, consents, assignments, contracts, notices, and all other written matter whether heretofore, now or hereafter executed by or on behalf of any Credit Party, and delivered to the Purchasers in connection with this Agreement or the transactions contemplated hereby, other than the Warrants.

"Material Adverse Effect" shall mean material adverse effect on (i) the business, assets, operations, prospects or financial or other condition of the Credit Parties and their Subsidiaries, taken as a whole, or (ii) ClimaChem's ability to pay the Obligations in accordance with the terms hereof and the other Loan Documents.

"Material Contracts" shall mean (i) all of each Credit Party's and its Subsidiaries' contracts, agreements, leases or other instruments to which such Person is a party or by which such Person or its properties are bound, which involve payments by or to such Person of more than \$500,000, (ii) all of each Credit Party's and its Subsidiaries' loan agreements, bank lines of credit agreements, indentures, mortgages, deeds of trust, pledge and security agreements, factoring agreements, conditional sales contracts, letters of credit or other debt instruments where such Credit Party or its Subsidiaries is an obligor, (iii) all material operating or capital leases for equipment to which any Credit Party, or any of its Subsidiaries is a party, (iv) all non-competition and similar agreements to which any Credit Party, or any of its Subsidiaries is a party, (v) all contracts for the employment of any officer or employee, (vi) all material consulting agreements, (vii) any guarantees by any Credit Party, or any of its Subsidiaries and (viii) all other material contracts not made in the ordinary course of business.

"Maturity Date" shall mean June 30, 2005.

"Maximum Lawful Rate" shall have the meaning set forth in Section 2.6(d) hereof.

"Mortgages" shall mean the mortgages executed by Universal Tech Corporation, Northwest Financial Corporation and Cherokee Nitrogen Company, dated as of the date hereof, in form and substance satisfactory to the Purchasers.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, and to which any Credit Party, any of its Subsidiaries or any ERISA Affiliate is making, is obligated to make,

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has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

"Notes" shall have the meaning set forth in the Recitals.

"Obligations" shall mean all amounts owing by the Credit Parties to the Purchasers and any of their respective assignees pursuant hereto and, all principal, interest, fees, expenses, reasonable attorneys' fees and any other sum payable by the Credit Parties to Purchasers or the Collateral Agent under any of the Loan Documents.

"Parent" shall have the meaning set forth in the first paragraph of this Agreement.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any successor thereto.

"Pension Plan" shall have the meaning set forth in Section 4.19(a) hereof.

"Permitted Dispositions" shall mean (a) sales or other dispositions by Credit Parties or Parent of Equipment that is substantially worn, damaged, or obsolete in the ordinary course of the applicable Credit Parties' or Parent's business, (b) sales by Credit Parties of Inventory to buyers in the ordinary course of business, (c) the use or transfer of money or Cash Equivalents by Credit Parties in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents, (d) the licensing by Credit Parties, on a non-exclusive basis, of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of the applicable Credit Party's business, and (e) sales or other dispositions by Credit Parties of Accounts, provided that (i) the consideration payable in connection with the sale or disposition of such Accounts shall be in cash and shall equal no less than 100% of the aggregate original invoice amount of such Accounts and (ii) the proceeds from such sales or dispositions shall be applied to the Foothill Debt or the Obligations.

"Permitted Holders" shall mean Jack E. Golsen, Barry H. Golsen, their family members, and their respective family trusts and other entities controlled by such family members.

"Permitted Indebtedness" shall mean, with respect to any Credit Party, (i) taxes or assessments or other governmental charges or levies, either not yet due and payable or to the extent that nonpayment thereof is permitted by the terms of this Agreement; (ii) obligations under workmen's compensation, unemployment insurance, social security or public liability laws or similar legislation; (iii) bids, tenders, surety or performance bonds, contracts (other than contracts for the payment of money) or leases to which any Credit Party or any of its Subsidiaries is a party as lessee made in the ordinary course of business; (iv) public or statutory obligations of any Credit Party or any of its Subsidiaries; (v) all deferred taxes and (vi) all

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unfunded pension fund and other employee benefit plan obligations and liabilities but only to the extent permitted to remain unfunded under applicable law.

"Permitted Investments" shall mean (a) Investments in Cash Equivalents, (b) Investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) Investments by any Credit Party in any other Credit Party, (e) guarantees by a Credit Party of Indebtedness permitted under Section 6.2(a), (f) guarantees permitted under Section 6.2(f), and (g) Investments made by any Credit Party in the Parent, provided the aggregate amount of such Investments do not exceed \$2,000,000 at any time outstanding.

"Permitted Liens" shall mean (a) Liens in favor of the Purchasers, (b) Liens existing on the date hereof and securing the Foothill Debt, (c) Liens for unpaid taxes that either (i) are not yet delinquent, or (ii) do not constitute an Event of Default hereunder and are the subject of Permitted Protests, (d) Liens set forth on Schedule 5.8, (e) the interests of lessors under operating leases, (f) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as such Lien attaches only to the asset purchased or acquired and the proceeds thereof, (g) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of Credit Parties' business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests, (h) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, social security and other similar laws (i) Liens or deposits to secure performance of bids, tenders, or leases incurred in the ordinary course of Credit Parties' business and not in connection with the borrowing of money, (j) Liens granted as security for surety, performance or appeal bonds in connection with obtaining such bonds in the ordinary course of Credit Parties' business, (k) Liens resulting from any judgment or award that is not an Event of Default hereunder, and (k) with respect to any real property, easements, exceptions, reservations, encroachments, restrictions, rights of way, zoning restrictions and other similar title policy exceptions or encumbrances that do not materially interfere with or impair the use or operation thereof by Credit Parties or that are reflected on the title insurance commitments or policies applicable to such properties.

"Permitted Protest" shall mean the right of the applicable Credit Party to protest any Lien (other than any such Lien that secures the Obligations), taxes (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the Books in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by the applicable Credit Party in good faith, and (c) the Required Holders are satisfied in their reasonable discretion that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Purchasers' Liens.

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"Permitted Purchase Money Indebtedness" shall mean, as of any date of determination, Purchase Money Indebtedness in an aggregate amount outstanding at any one time not in excess of \$7,500,000.

"Person" shall mean natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Plan" shall have the meaning set forth in Section 4.19(a) hereof.

"Pledge Agreement" shall mean that certain Pledge Agreement, dated as of the Closing Date, executed by LSB Chemical Corp. in favor of the Collateral Agent, for the benefit of the Purchasers, in the form of Exhibit E attached hereto.

"Prepayment Fee" shall mean, with respect to any prepayment of principal of the Notes, an amount equal to such principal amount prepaid multiplied by the following percentage:

If prepaid during the 12-month period ending on the following anniversary <u>dates of the Initial Closing Date</u>	<u>%</u>
First anniversary	2%
Second anniversary	1%
Third anniversary	.5%

"Projections" shall mean Parent's consolidated forecasted (a) balance sheets, (b) profit and loss statements and (c) cash flow statements, all prepared on a consistent basis with Parent's historical consolidated financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Purchase Money Indebtedness" shall mean Indebtedness (other than the Obligations and the Foothill Debt, but including Capitalized Lease Obligations), incurred at the time of, or within 60 days after, the acquisition of any fixed assets for the purpose of financing all or any part of the acquisition cost thereof.

"Purchaser" shall have the meaning set forth in the first paragraph of this Agreement.

"Record" shall mean information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

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"Required Holders" shall mean Persons who hold at least a majority of the outstanding principal amount of the Notes.

"Remedial Action" shall mean all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Substances in the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Substances so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) perform any pre-remedial studies, investigations, or post-remedial operation and maintenance activities, or (d) conduct any other actions authorized by 42 USC 9601.

"Retiree Welfare Plan" shall refer to any Welfare Plan providing for continuing coverage or benefits for any participant or any beneficiary of a participant after such participant's termination of employment, other than continuation coverage provided pursuant to Section 4980B of the IRC and at the sole expense of the participant or the beneficiary of the participant.

"SEC" shall mean the U.S. Securities and Exchange Commission, or any successor thereto.

"Second Priority Collateral" shall mean all of each Credit Party's now or hereafter acquired right, title, and interest in and to each of the following:

- (a) Accounts,
- (b) Books,
- (c) General Intangibles,
- (d) Inventory,
- (e) money or other assets of each such Credit Party that arise from or relate to Accounts, Books, General Intangibles and Inventory and that now or hereafter come into the possession, custody or control of any Purchaser or Collateral Agent, and

(f) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Securities" shall mean, collectively, the Notes and the Warrants.

"Securities Account" shall mean a "securities account" as that term is defined in the Code.

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"Securities Act" shall mean the Securities Act of 1933, as amended, and all rules and regulations promulgated thereunder.

"Senior Notes" shall mean the \$105,000,000 in initial aggregate principal amount of 10 3/4% Senior Notes due 2007 issued by ClimaChem pursuant to that certain Indenture dated as of November 26, 1997.

"Services Agreement" means the Services Agreement, dated as of November 21, 1997, between the Parent and ClimaChem.

"Spill" shall have the meaning set forth in Section 4.10 hereof.

"Stock" shall mean all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a111 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"Subsidiary" shall mean, with respect to any Person, (a) any corporation of which an aggregate of more than 50% of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person and/or one or more Subsidiaries of such Person, and (b) any partnership or other entity in which such Person and/or one or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%. Subsidiary shall not include EDN, DSN and each of their respective subsidiaries.

"Taxes" shall have the meaning set forth in Section 2.11(a) hereof.

"Transaction Documents" shall mean this Agreement, the Notes, the Collateral Documents and the Warrants.

"Trigger Event" shall have the meaning set forth in Section 8.

"Trigger Failure Amount" shall have the meaning set forth in Section 8.

"UK Sub" shall mean The Environmental Group International Limited, a company formed under the laws of the United Kingdom.

"Warrants" shall have the meaning set forth in the Recitals.

"Welfare Plan" shall mean any welfare plan, as defined in Section 3(1) of ERISA, which is maintained or contributed to by any Credit Party, any of its Subsidiaries or any ERISA Affiliate.

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"Withdrawal Liability" shall mean, at any time, the aggregate amount of the liabilities, if any, pursuant to Section 4201 of ERISA, and any increase in contributions pursuant to Section 4243 of ERISA with respect to all Multiemployer Plans.

References to this "Agreement" shall mean this Securities Purchase Agreement, including all amendments, modifications and supplements and any exhibits or schedules to any of the foregoing, and shall refer to the Agreement as the same may be in effect at the time such reference becomes operative.

Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given such term in accordance with GAAP, and all financial computations hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP consistently applied. That certain terms or computations are explicitly modified by the phrase "in accordance with GAAP" shall in no way be construed to limit the foregoing. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole, including the Exhibits and Schedules hereto, as the same may from time to time be amended, modified or supplemented, and not to any particular section, subsection or clause contained in this Agreement. Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, the feminine and the neuter.

## 2. PURCHASE OF SECURITIES

2.1 Purchase of Securities. (a) Subject to the terms and conditions set forth in this Agreement, each Purchaser agrees, severally and not jointly, to purchase from ClimaChem, and ClimaChem agrees to issue and sell to each Purchaser, on the Closing Date, the Notes to be issued by ClimaChem set forth opposite each Purchaser's name on Schedule B hereto at the respective purchase prices therefor set forth on Schedule B hereto. The aggregate principal amount of Notes to be purchased on the Closing Date, and the aggregate purchase price therefor, shall be \$35,000,000.

(b) Subject to the terms and conditions set forth in this Agreement, each Purchaser agrees, severally and not jointly, to purchase from Parent, and Parent agrees to issue to each Purchaser, on the Closing Date, Warrants to be issued by Parent set forth opposite each Purchaser's name on Schedule B hereto.

2.2 Closing. The closing of the purchase and sale of the Securities (the "Closing") shall take place within five Business Days after the satisfaction or waiver of the conditions set forth in Sections 7.1 and 7.2 or such date and time as shall be mutually agreed to by the parties hereto (the "Closing Date") at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York, or such other place as shall be mutually agreed to by the parties hereto.

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On the Closing Date, ClimaChem or Parent, as the case may be, will deliver to each Purchaser (i) the Note payable to such Purchaser against delivery by such Purchaser of the applicable purchase price therefor, by wire transfer of funds to the account of ClimaChem, or at the option of the Purchasers, by delivery to ClimaChem of their Senior Notes to be repurchased as set forth in Section 2.5 hereof, and (ii) the Warrant, all in accordance with Schedule B hereto.

2.3 Optional Prepayment. ClimaChem shall have the right, on 10 days prior notice to the Purchasers, to voluntarily prepay all or any portion (in multiples of not less than \$500,000 or the amount outstanding on the Notes and on a pro rata basis) of the Notes. Each prepayment shall be accompanied by the payment of accrued and unpaid Additional Interest on the amount being prepaid and all accrued and unpaid Cash Interest, each through the date of payment and the Prepayment Fee.

2.4 Repayment of Notes. ClimaChem promises to repay the entire unpaid principal amount of, and any unpaid and accrued Cash Interest and Additional Interest on, the Notes on the Maturity Date.

2.5 Use of Proceeds. The proceeds of the purchase price hereunder at the Closing shall be used solely to (a) purchase all the Senior Notes held by the Purchasers or their affiliates at a price per \$1000 of aggregate principal of such Senior Notes acceptable to the Purchasers, (b) pay for transaction costs associated with the transactions contemplated herein, (c) fund the Cash Collateral Account and (d) for working capital purposes of the Credit Parties.

2.6 Interest on Notes. (a) ClimaChem shall pay, in cash, interest ("Cash Interest") to each Purchaser, quarterly in arrears on the last day of each March, June, September and December, commencing June 30, 2002 and on the Maturity Date (each, an "Interest Payment Date"), at a rate per annum equal to 10.5%, based on a year of 360 days for the actual number of days elapsed, on such Purchaser's ratable share of the aggregate principal amount of the Notes. The Notes, other than the aggregate principal amount held in the Cash Collateral Account, shall also bear additional interest ("Additional Interest") at a rate per annum equal to 5.5%, based on a year of 360 days for the actual number of days elapsed; provided, however, that any such principal amount held in the Cash Collateral Account shall begin to accrue Additional Interest upon the earlier of (i) application of such amount to any of the Obligations and (ii) withdrawal or release of such amount from the Cash Collateral Account. Such Additional Interest shall accrue, and be compounded on each Interest Payment Date and shall be payable in cash on the earlier of any prepayment of the Notes (as to the amount prepaid) and the Maturity Date.

(b) If any payment on any Note becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate for such Note during such extension.

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(c) So long as any Event of Default shall be continuing, the rate of Cash Interest applicable to the Notes shall be increased by 2% per annum above the rate of Cash Interest otherwise applicable to the Notes.

(d) Notwithstanding anything to the contrary set forth in this Section 2.6, if at any time until payment in full of the Notes, the interest rate payable on any Notes exceeds the highest rate of interest permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto (the "Maximum Lawful Rate"), then in such event and so long as the Maximum Lawful Rate would be so exceeded, the rate of interest payable on such Notes shall be equal to the Maximum Lawful Rate; provided, however, that if at any time thereafter the interest rate payable on such Notes is less than the Maximum Lawful Rate, ClimaChem shall continue to pay interest thereunder at the Maximum Lawful Rate until such time as the total interest received by the Purchasers is equal to the total interest which they would have received had the interest rate on such Notes been (but for the operation of this paragraph) the applicable interest rate payable since the Initial Closing Date. Thereafter, the interest rate payable on such Notes shall be the applicable interest rate pursuant to clauses (a) through (c) above unless and until such rate again exceeds the Maximum Lawful Rate, in which event this paragraph shall again apply. In no event shall the total interest received by any Purchaser for any Notes pursuant to the terms hereof exceed the amount which it could lawfully have received for such Notes had the interest due hereunder for such Notes been calculated for the full term thereof at the Maximum Lawful Rate. In the event the Maximum Lawful Rate is calculated pursuant to this paragraph, such interest shall be calculated at a

daily rate equal to the Maximum Lawful Rate divided by the number of days in the year in which such calculation is made. In the event that a court of competent jurisdiction, notwithstanding the provisions of this Section 2.6(d), shall make a final determination that a Purchaser has received interest hereunder or under any of the Loan Documents in excess of the Maximum Lawful Rate, such Purchaser shall, to the extent permitted by applicable law, promptly apply such excess first to any Cash Interest due or accrued and not yet paid under the Notes, then to any Additional Interest due or accrued and not yet paid under the Notes, then to the outstanding principal of the Notes, then to other unpaid Obligations and thereafter shall refund any excess to ClimaChem or as a court of competent jurisdiction may otherwise order.

2.7 Receipt of Payments. ClimaChem shall make each payment under the Notes not later than 2:00 P.M. (New York City time) on the day when due in lawful money of the United States of America in immediately available funds to each Purchaser's respective depository bank in the United States as designated by such Purchaser from time to time for deposit in such Purchaser's depository account. For purposes only of computing interest under the Notes, all payments shall be applied by each Purchaser to the Notes on the day payment has been credited by such Purchaser's depository bank to such Purchaser's account in immediately available funds.

2.8 Application of Payments. ClimaChem irrevocably waives the right to direct the application of any and all payments at any time or times hereafter received by any Purchaser from or on behalf of ClimaChem pursuant to the terms of this Agreement, and ClimaChem irrevocably agrees that each

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Purchaser shall have the continuing exclusive right to apply any and all such payments against the then due and payable Obligations and in repayment of the Notes as the Required Holders may deem advisable. In the absence of a specific determination by the Required Holders with respect thereto, the same shall be applied in the following order: (i) then due and payable fees and expenses; (ii) then due and payable or accrued Cash Interest payments on the Notes; (iii) then due and payable or accrued Additional Interest payments on the Notes; (iv) then outstanding principal of the Notes; and (v) then other unpaid Obligations.

2.9 Sharing of Payments. If any holder of the Notes or a portion thereof shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Notes held by it in excess of its ratable share of payments on account of the Notes, held by all holders thereof, such holder shall forthwith purchase from each other holder of Notes, as applicable, such participations in the Note held by it as shall be necessary to cause such purchasing holder to share the excess payment ratably with each other holder of Notes; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing holder, such purchase shall be rescinded and such holder shall repay to the purchasing holder the purchase price to the extent of such recovery together with an amount equal to such holder's ratable share (according to the proportion of (i) the amount of such holder's required repayment to (ii) the total amount so recovered from the purchasing holder) of any interest or other amount paid or payable by the purchasing holder in respect of the total amount so recovered. ClimaChem agrees that any holder so purchasing a participation from another holder pursuant to this Section 2.9 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such holder were the direct creditor of ClimaChem in the amount of such participation. ClimaChem further agrees to make all payments on the Notes to all holders thereof on a pro rata basis, based on the principal amount of the Notes held by each.

2.10 Access. Each Purchaser and any of its officers, employees and/or agents shall have the right, exercisable as frequently as it reasonably determines to be appropriate, during normal business hours, to visit and inspect the properties and facilities of ClimaChem and its Subsidiaries and to inspect, audit and make extracts from all of ClimaChem and its Subsidiaries' records, files, corporate books and books of account and to discuss the affairs, finances and accounts of ClimaChem and its Subsidiaries with the principal officers of the respective Person, all at such reasonable times, upon reasonable notice and as often as such Purchaser may reasonably request. ClimaChem shall deliver any document or instrument reasonably necessary for such Purchaser, as it may request, to obtain records from any service bureau maintaining records for ClimaChem and its Subsidiaries. ClimaChem shall instruct its and its Subsidiaries' banking and other financial institutions to make available to such Purchaser such information and records as it may reasonably request.

2.11 Taxes. Any and all payments by ClimaChem hereunder or under the Notes shall be made, in accordance with this Section 2.11, free and clear of and without deduction for any and all present or future

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taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by the net income of the respective Purchaser, by the jurisdiction under the laws of which such Purchaser is organized or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If ClimaChem shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the Notes to any Purchaser, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.11) such Purchaser receives an amount equal to the sum it would have received had no such deductions been made, (ii) ClimaChem shall make such deductions, and (iii) ClimaChem shall pay the full amount deducted to the relevant taxing or other authority in accordance with applicable law.

(b) In addition, ClimaChem agrees to pay any present or future stamp or documentary taxes or any other sales, transfer, exercise, mortgage recording or property taxes, charges or similar levies that arise from any payment made hereunder or under the

Notes or from the execution, sale, transfer, delivery or registration of, or otherwise with respect to, any of the Transaction Documents (hereinafter referred to as "Other Taxes").

(c) ClimaChem shall indemnify each Purchaser for the full amount of Taxes or Other Taxes (including without limitation, any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.11) paid by such Purchaser and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted. This indemnification shall be made within 30 days from the date such Purchaser makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, ClimaChem shall furnish to each Purchaser the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement of any Credit Party hereunder, the agreements and obligations of ClimaChem contained in this Section 2.11 shall survive the payment in full of the Notes.

2.12 Original Issue Discount. The Credit Parties and the Purchasers hereby acknowledge and agree that the Warrants are part of an investment unit within the meaning of Section 1273(c)(2) of the IRC, which includes the Notes being purchased by the Purchasers. Notwithstanding anything to the contrary contained herein, the Credit Parties and the Purchasers hereby further acknowledge and agree that for United States federal, state and local income tax purposes the "issue price" of the Warrants and the Notes under Section 1273(b) of the IRC shall equal \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively. The Credit Parties and the Purchasers agree to use the foregoing issue prices for all income tax purposes with respect to this transaction.

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### 3. CREATION OF SECURITY INTEREST.

3.1 Grant of Security Interest. Each Credit Party grants to the Collateral Agent, for the benefit of itself and the Purchasers, a continuing security interest in all of its right, title, and interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all of the Obligations in accordance with the terms and conditions of the Loan Documents and in order to secure prompt performance by the Credit Parties of each of their covenants and duties under the Loan Documents. The Collateral Agent's Liens in and to the Collateral shall attach to all Collateral without further act on the part of the Collateral Agent, or the Credit Parties. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for Permitted Dispositions and as provided in Sections 6.2(c), 6.2(d) and 8, the Credit Parties have no authority, express or implied, to dispose of any item or portion of the Collateral.

3.2 Cash Collateral Accounts. The Collateral Agent has established a deposit account (the "Cash Collateral Account") at Harris Bank, designated as "Guggenheim ClimaChem Collateral Account". The Collateral Agent may establish one or more other deposit accounts and one or more Securities Accounts with such depositaries and securities intermediaries as it in its sole discretion shall determine. Each such account shall be in the name of the Collateral Agent (but may also have words referring to ClimaChem and the account's purpose). ClimaChem agrees that each such account shall be under the sole dominion and control of the Collateral Agent. The Collateral Agent shall be the entitlement holder with respect to each such Securities Account and the only Person authorized to give entitlement orders with respect thereto. Without limiting the foregoing, funds on deposit in any Cash Collateral Account may be invested in Cash Equivalents, and only Cash Equivalents, at the direction of the Collateral Agent and the Purchasers, on a pro rata basis, shall be entitled to any income from any such investment; *provided, however*, that the Collateral Agent shall not have any responsibility for, or bear any risk of loss of, any such investment. Neither ClimaChem nor any other Credit Party or Person claiming on behalf of or through ClimaChem or any other Credit Party shall have any right to demand payment of any of the funds held in any Cash Collateral Account at any time prior to the earlier of (i) the date on which all Obligations are irrevocably paid in full and (ii) the Cash Collateral Release Date. Upon request by ClimaChem at any time after the Cash Collateral Release Date, so long as no Default or Event of Default is then continuing, the Collateral Agent shall, at ClimaChem's expense, remit or release all amounts in the Cash Collateral Account less (i) any amount representing income earned on the funds on deposit in the Cash Collateral Accounts and (ii) all fees payable pursuant to Section 6.1(n) hereof. The Required Holders may, at any time, in their sole discretion, apply any and all amounts in any Cash Collateral Account to any Cash Interest payable on the Notes or to the other Obligations if not paid when due, after applicable grace periods.

3.3 Collection of Accounts, and General Intangibles. At any time after the occurrence and during the continuation of an Event of Default, the Collateral Agent or the Collateral Agent's designee may (a) notify Account Debtors of the Credit Parties that the Accounts, chattel paper, or General Intangibles have

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been assigned to the Collateral Agent or that the Collateral Agent has a security interest therein, or (b) collect the Accounts, chattel paper, or General Intangibles directly and include the collection costs and expenses as part of the Obligations. Subject to the rights of the parties that have a first Lien on the Accounts, chattel paper or General Intangibles of any of the Credit Parties, each Credit Party agrees that it will hold in trust for the Purchasers, as the Purchasers' trustee, any Collections that it receives and immediately will deliver said Collections to the Collateral Agent in their original form as received by the applicable Credit Party.

3.4 Delivery of Additional Documentation Required. At any time upon the request of the Collateral Agent, the Credit Parties shall execute and deliver to the Collateral Agent, any and all financing statements, original financing statements in lieu of

continuation statements, fixture filings, security agreements, pledges, assignments, endorsements of certificates of title, and all other documents (the "Additional Documents") that the Collateral Agent may request in its reasonable discretion, in form and substance satisfactory to the Collateral Agent, to perfect and continue perfected or better perfect the Collateral Agent's Liens in the Collateral (whether now owned or hereafter arising or acquired) and in order to fully consummate all of the transactions contemplated hereby and under the other Loan Documents. To the maximum extent permitted by applicable law, each Credit Party authorizes the Collateral Agent to execute any such Additional Documents in the applicable Credit Party's name and authorizes the Collateral Agent to file such executed Additional Documents in any appropriate filing office. The Collateral Agent shall forward to such Credit Party a copy of such Additional Documents before filing. In addition, on such periodic basis as the Collateral Agent shall require in its reasonable discretion, the Credit Parties shall (a) provide the Collateral Agent with a report of all new patentable, copyrightable, or trademarkable materials acquired or generated by the Credit Parties during a prior period, (b) cause all patents, copyrights, and trademarks acquired or generated by the Credit Parties that are not already the subject of a registration with the appropriate filing office (or an application therefor diligently prosecuted) to be registered with such appropriate filing office in a manner sufficient to impart constructive notice of the Credit Parties' ownership thereof, and (c) cause to be prepared, executed, and delivered to the Collateral Agent supplemental schedules to the applicable Loan Documents to identify such patents, copyrights, and trademarks as being subject to the security interests created thereunder.

3.5 Power of Attorney. Each Credit Party hereby irrevocably makes, constitutes, and appoints the Collateral Agent (and any of the Collateral Agent's officers, employees, or agents designated by the Collateral Agent) as such Credit Party's true and lawful attorney, with power to (a) if such Credit Party refuses to, or fails timely to execute and deliver any of the documents described in Section 3.3, sign the name of such Credit Party on any of the documents described in Section 3.3, (b) at any time that an Event of Default has occurred and is continuing, sign such Credit Party's name on any invoice or bill of lading relating to the Collateral, drafts against Account Debtors, or notices to Account Debtors, (c) send requests for verification of Accounts, (d) endorse such Credit Party's name on any Collection item that may come into

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the any Purchaser's possession, (e) at any time that an Event of Default has occurred and is continuing, make, settle, and adjust all claims under such Credit Party's policies of liability insurance and other insurance covering any Collateral and make all determinations and decisions with respect to such policies of insurance, and (f) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes an claims respecting the Accounts, chattel paper, or General Intangibles directly with Account Debtors, for amounts and upon terms that the Collateral Agent determines to be reasonable, and the Collateral Agent may cause to be executed and delivered any documents and releases that the Collateral Agent determines to be necessary. The appointment of the Collateral Agent as each Credit Party's attorney, and each and every one of its rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed.

3.6 Right to Inspect. The Collateral Agent and each Purchaser (through any of their respective officers, employees, or agents) shall have the right, from time to time hereafter upon reasonable notice to ClimaChem or the applicable Credit Party to inspect the books and records and to check, test, and appraise the Collateral in order to verify the Credit Parties' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

3.7 Code and Other Remedies. Subject to the rights under the Foothill Loan Agreement, during the continuance of an Event of Default, the Collateral Agent may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code or any other applicable law. Without limiting the generality of the foregoing, the Collateral Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon any Credit Party or any other Person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Collateral Agent or any Purchaser or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Collateral Agent shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in any Credit Party, which right or equity is hereby waived and released. Each Credit Party further agrees, at the Collateral Agent's request, to assemble the Collateral and make it available to the Collateral Agent at places which the Collateral Agent shall reasonably select, whether at such Credit Party's premises or elsewhere.

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The Collateral Agent shall apply the net proceeds of any action taken by it pursuant to this Section 3.7, after deducting all reasonable costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of the Collateral Agent and the Purchasers hereunder, including reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in accordance with the terms of this Agreement, and only after such application and after the payment by the Collateral Agent of any other amount required by any provision of law, need the Collateral Agent account for the surplus, if any, to any Credit Party. To the extent permitted by applicable law, each Credit Party waives all claims, damages and demands it may acquire against the Collateral Agent or any Purchaser arising out of the exercise by them of any rights hereunder, unless such claim is the result of the gross negligence or willful misconduct of the Collateral Agent. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be



deemed reasonable and proper if given at least 10 days before such sale or other disposition.

3.8 Deficiency. Each Credit Party shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the reasonable fees and disbursements of any attorneys employed by the Collateral Agent or any Purchaser to collect such deficiency.

3.9 Lien Priority and Subordination. The Collateral Agent shall have a first priority Lien on the First Priority Collateral, free and clear of all Liens and encumbrances and subject only to Permitted Liens, except that any Liens described in clause (b) of the definition of Permitted Liens shall be junior to the Lien of Collateral Agent in the First Priority Collateral. The Collateral Agent shall have a Lien on all Second Priority Collateral, free and clear of all Liens and encumbrances, subject only to Permitted Liens.

#### 4. PURCHASERS' REPRESENTATIONS AND WARRANTIES

Each Purchaser, severally and not jointly, makes the following representations and warranties to ClimaChem, each and all of which shall survive the execution and delivery of this Agreement and the Initial Closing and any Additional Closings hereunder:

4.1 Investment Intention. Such Purchaser is purchasing the Securities for its own account, for investment purposes and not with a view to the distribution thereof. Such Purchaser will not, directly or indirectly, offer, transfer, sell, assign, pledge, hypothecate or otherwise dispose of the Securities (or solicit any offers to buy, purchase, or otherwise acquire any of the Securities), except in compliance with the Securities Act.

4.2 Accredited Investor. Such Purchaser is an "accredited investor" (as that term is defined in Rule 501 of Regulation D under the Securities Act) and by reason of its business and financial experience, it has such knowledge, sophistication and experience in business and financial matters as to be capable of

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evaluating the merits and risks of the prospective investment, is able to bear the economic risk of such investment and is able to afford a complete loss of such investment.

4.3 Restricted Securities. Each Purchaser understands that the Securities it is purchasing are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from ClimaChem in a transaction not involving a public offering and that under such laws and applicable regulations such Securities may be resold without registration under the Securities Act, only in certain limited circumstances. In this connection, such Purchaser represents that it is familiar with Rule 144 of the Securities Act, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

4.4 Corporate Existence. Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the State of its organization.

4.5 Power, Authorization; Enforceable Obligations. The execution, delivery and performance by such Purchaser of this Agreement and the other Transaction Documents to be executed by it: (i) are within such Purchaser's corporate or other power; (ii) have been duly authorized by all necessary corporate or other action; (iii) are not in contravention of any provision of such Purchaser's certificate of incorporation or by-laws or other organizational documents; and (iv) will not violate any law or regulation, or any order or decree of any court or governmental instrumentality binding on such Purchaser. This Agreement and the other Transaction Documents to which such Purchaser is a party have each been duly executed and delivered by such Purchaser and constitute the legal, valid and binding obligations of such Purchaser, enforceable against it in accordance with their respective terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

#### 5. CREDIT PARTIES' REPRESENTATIONS AND WARRANTIES

Each Credit Party, and Parent, to the extent any representation relates to Parent, jointly and severally, makes the following representations and warranties, each as of the date hereof, to each Purchaser, each and all of which shall survive the execution and delivery of this Agreement and the Closing hereunder (for avoidance of doubt, nothing herein shall be construed to require any Credit Party to update the representations and warranties after the date thereof):

5.1 Authorized and Outstanding Shares of Capital Stock. After giving effect to the Closing, the authorized capital stock of Parent consists of 75,000,000 shares of common stock, \$0.10 par value, of which 11,935,583 shares are issued and outstanding, and 250,000 shares of preferred stock, \$100 par value, of which 1,294 shares are issued and outstanding, 5,000,000 shares of class C preferred stock, no

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par value, of which 907,250 shares are issued and outstanding, 20,000 shares of Class B preferred stock, \$100 par value, of which 20,000 shares are issued and outstanding and 1,000,000 shares of Class D preferred stock, no par value, of which 1,000,000 shares are issued and outstanding. All of such issued and outstanding shares are validly issued, fully paid and non-assessable. Except as

set forth on Schedule 4.1, (i) there is no existing option, warrant, call, commitment or other agreement to which Parent is a party requiring, and there are no convertible securities of Parent outstanding which upon conversion would require, the issuance of any additional shares of Stock of Parent or other securities convertible into shares of equity securities of ClimaChem, and (ii) there are no agreements to which Parent is a party with respect to the voting or transfer of the Stock of Parent. There are no stockholders' preemptive rights or rights of first refusal or other similar rights with respect to the issuance of Stock by Parent. True and correct copies of the certificate of incorporation and by-laws of Parent have been delivered to each Purchaser. Parent is the record and beneficial owner of 95% of the issued and outstanding shares of capital stock of ClimaChem and any right to acquire the same, and Prime Financial Corporation, a wholly owned subsidiary of Parent, is the record and beneficial owner of 5% of the issued and outstanding shares of capital stock of ClimaChem and any right to acquire the same.

5.2 Authorization and Issuance of the Securities. The issuance of the Securities has been duly authorized by all necessary corporate action on the part of ClimaChem and Parent and, upon delivery to each Purchaser of the Securities against payment in accordance with the terms hereof, the Securities will have been validly issued, free and clear of all pledges, liens, encumbrances and preemptive rights. The issuance of shares of Common Stock upon exercise of the Warrants has been duly authorized by all necessary corporate action on the part of Parent and, when issued upon such exercise, such Common Stock will have been validly issued and fully paid and non-assessable. Parent has duly reserved 595,585 shares of Common Stock for issuance pursuant to the terms of the Warrants.

5.3 Securities Laws. In reliance on the investment representations contained in Sections 4.1 and 4.2 hereof, the offer, issuance, sale and delivery of the Securities, as provided in this Agreement, are exempt from the registration requirements of the Securities Act and all applicable state securities laws, and are otherwise in compliance with such laws. Neither ClimaChem, Parent nor any Person acting on their behalf has taken or will take any action (including, without limitation, any offering of any securities of ClimaChem or Parent under circumstances which would require the integration of such offering with the offering of the Securities under the Securities Act and the rules and regulations of the SEC thereunder) which might subject the offering, issuance or sale of the Securities to the registration requirements of Section 5 of the Securities Act.

5.4 Corporate Existence. ClimaChem, Parent and each of the Credit Parties, (i) is a corporation duly organized, validly existing and in good standing under the laws of the State of its incorporation, as set forth on Schedules 5.4 or 5.5; (ii) is duly qualified as a foreign corporation and in good standing under the

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laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification (except for jurisdictions in which such failure to so qualify or to be in good standing would not be reasonably likely to have a Material Adverse Effect); (iii) has the requisite corporate power and authority and the legal right to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease, and to conduct its business as now being conducted and as proposed to be conducted; and (iv) except for Slurry Explosive Corporation and Universal Tech Corporation, with respect to their operation of the Hallowell, Kansas facility, has, or has applied for, all licenses, permits, consents or approvals from or by, and has made all filings with, and has given all notices to, all Governmental Authorities having jurisdiction, to the extent required for such ownership, operation and conduct, the failure of which would be reasonably likely to have a Material Adverse Effect.

5.5 Subsidiaries. There currently exist no Subsidiaries of ClimaChem other than as set forth on Schedule 5.5 hereto, which sets forth such Subsidiaries, together with their respective jurisdictions of organization, and the authorized and outstanding capital Stock of each such Subsidiary, by class and number and percentage of each class owned by ClimaChem or any other Person. There are no options, warrants, rights to purchase or similar rights covering capital Stock for any such Subsidiary.

5.6 Corporate Power; Authorization; Enforceable Obligations. The execution, delivery and performance by each Credit Party and Parent of this Agreement, the other Transaction Documents to which each is a party and all instruments and documents to be delivered by each Credit Party and Parent, and the consummation of the other transactions contemplated by any of the foregoing: (i) are within such Person's corporate power and authority; (ii) have been duly authorized by all necessary or proper corporate action; (iii) are not in contravention of any provision of such Person's certificate of incorporation or by-laws; (iv) will not violate any law or regulation, or any order or decree of any court or governmental instrumentality applicable to such Person; (v) will not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any Material Contract; (vi) will not result in the creation or imposition of any Lien upon any of the property of such Person or any of its Subsidiaries other than Permitted Liens and the Lien granted pursuant to this Agreement; and (vii) do not require the consent or approval of, or any filing with, any Governmental Authority or any other Person (except to the extent previously obtained or made or those required to perfect the Purchasers' security interest, such as filing of financing statements and/or mortgages with appropriate Governmental Authorities). On or prior to the Closing Date, each of this Agreement and the other Transaction Documents shall have been duly executed and delivered by each Credit Party and Parent party thereto and each shall then constitute a legal, valid and binding obligation of such Person, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity ,

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including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.7 Financial Statements. The audited consolidated balance sheets of Parent and its Subsidiaries and ClimaChem and its Subsidiaries as at December 31, 2001 (the "Balance Sheet"), and the related consolidated statements of income and cash flows for the year then ended, with the opinion thereon of Ernst & Young, LLP, copies of which have previously been delivered to each Purchaser, have been, except as noted therein, prepared in conformity with GAAP consistently applied throughout the periods involved and present fairly in all material respects the consolidated financial position of Parent and its Subsidiaries and ClimaChem and its Subsidiaries, as applicable, as at the dates thereof, and the consolidated results of their operations and cash flows for the periods then ended.

(b) Except as set forth on Schedule 5.7, no Credit Party nor any of its Subsidiaries has any material obligations, contingent or otherwise, including, without limitation, liabilities for Charges, except such Charges as are being contested in good faith and for which appropriate reserves have been established, or unusual forward or long-term commitments which are not reflected in the Balance Sheet, other than those incurred since December 31, 2001, in the ordinary course of business.

(c) Except as set forth on Schedule 5.7, no dividends or other distributions have been declared, paid or made upon any shares of capital Stock of any Credit Party or Parent, nor have any shares of capital Stock of any Credit Party or Parent been redeemed, retired, purchased or otherwise acquired for value by such Credit Party or Parent since December 31, 2001.

5.8 Ownership of Property. Except as set forth on Schedule 5.8, none of the Credit Parties nor any of its Subsidiaries owns any real estate. Each Credit Party and its Subsidiaries has good and marketable and insurable fee simple title to its owned real property, free and clear of all Liens, except Permitted Liens. Each Credit Party and its Subsidiaries has valid and marketable leasehold interests in the leases described on Schedule 5.8 hereto, and, except as set forth on Schedule 5.8, good and marketable title to, or valid leasehold interests in, all of its other properties and assets free and clear of all Liens, except Permitted Liens.

(b) All real property leased by each Credit Party and its Subsidiaries is set forth on Schedule 5.8. Each of such leases is valid and enforceable in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity)) and is in full force and effect. The Credit Parties have delivered or made available to each Purchaser true and complete copies of each of such leases set forth on Schedule 5.8 and all documents affecting the rights or obligations of the Credit Parties or any of

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their Subsidiaries, including, without limitation, any non-disturbance and recognition agreements, subordination agreements, attornment agreements and agreements regarding the term or rental of any of the leases. Except as set forth on Schedule 5.8, none of the Credit Parties, any of its Subsidiaries nor, to its knowledge, any other party to any such lease is in default of its obligations thereunder or has delivered or received any notice of default under any such lease, nor has any event occurred which, with the giving of notice, the passage of time or both, would constitute a default under any such lease involving more than \$500,000 per year.

(c) Except as disclosed on Schedule 5.8, no Credit Party or its Subsidiaries is obligated under or a party to, any option, right of first refusal or any other contractual right to purchase, acquire, sell, assign or dispose of any real property owned or leased by such Person involving more than \$100,000.

5.9 Material Contracts; Indebtedness. Schedule 5.9 contains a true, correct and complete list and description of all Material Contracts. Each Material Contract is a valid and binding agreement of a Credit Party or its Subsidiaries (as the case may be) enforceable against such Credit Party or such Subsidiary in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity)), and none of the Credit Parties nor any of its Subsidiaries has any knowledge that any Material Contract is not a valid and binding agreement against the other parties thereto. Each Credit Party and each of its Subsidiaries has fulfilled all material obligations required pursuant to the Material Contract to have been performed by such Credit Party or such Subsidiary on its part. Except as set forth in Schedule 5.9, none of the Credit Parties nor any of its Subsidiaries is in default or breach, nor to such Credit Party's or such Subsidiary's knowledge, is any third party in default or breach under, or with respect to, any Material Contract, which would be reasonably likely to have a Material Adverse Effect. Except as set forth on Schedule 5.9, none of the Credit Parties, nor any of its Subsidiaries has any Indebtedness or Liens on its assets except Permitted Indebtedness and Permitted Liens, respectively.

5.10 Environmental Protection. Except as set forth on Schedule 5.10, all real property owned, leased or otherwise operated by each Credit Party and its Subsidiaries (each, a "Facility") is free of contamination from any substance, waste or material (i) currently identified to be toxic or hazardous pursuant to, or which would reasonably be likely to result in liability under, any Environmental Law or (ii) within the definition of a substance which is toxic or hazardous under any Environmental Law, including, without limitation, any asbestos, pcb, radioactive substance, methane, volatile hydrocarbons, industrial solvents, oil or petroleum or chemical liquids or solids, liquid or gaseous products, or any other material or substance which has in the past or could at any time in the future cause or constitute a health, safety, or environmental hazard to any Person or property or result in any Environmental Liabilities and Costs ("Hazardous

Substance") of more than \$100,000 and which, in either case, would be reasonably likely to result in a Material Adverse Effect. Except as set forth on Schedule 5.10, none of the Credit Parties nor any of its Subsidiaries has caused or suffered to occur any release, spill, migration, leakage, discharge, spillage, uncontrolled loss, seepage, or filtration of Hazard Substances at or from the Facility (a "Spill") which could result in Environmental Liabilities and Costs in excess of \$100,000.

(b) Except as set forth on Schedule 5.10, each Credit Party and each of its Subsidiaries has generated, treated, stored and disposed of any Hazardous Substances in full compliance with applicable Environmental Laws, except for such non-compliances which would not be reasonably likely to have a Material Adverse Effect.

(c) Except as set forth on Schedule 5.10, each Credit Party and each of its Subsidiaries has obtained, or has applied for, and is in full compliance with and in good standing under all permits required under Environmental Laws (except for such failures which would not be reasonably likely to have a Material Adverse Effect) and none of the Credit Parties nor any of its Subsidiaries has any knowledge of any proceedings to substantially modify or to revoke any such permit.

(d) Except as set forth on Schedule 5.10, there are no investigations, proceedings or litigation pending or, to any Credit Party's or its Subsidiaries' knowledge, threatened affecting or against such Person or the Facilities relating to Environmental Laws or Hazardous Substances.

(e) As of the date hereof, since December 31, 2001, except for communications in connection with the matters listed on Schedule 5.10, none of the Credit Parties nor any of its Subsidiaries has received any communication or notice (including, without limitation, requests for information) indicating the potential of Environmental Liabilities and Costs against such Person.

5.11 Labor Matters. Except as set forth on Schedule 5.11, there are no strikes or other labor disputes against any Credit Party or any of its Subsidiaries pending or, to such Credit Party's or its Subsidiaries' knowledge, threatened which would be reasonably likely to result in a Material Adverse Effect. Hours worked by and payment made to employees of such Credit Party's and its Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable law dealing with such matters. All payments due from each Credit Party and each of its Subsidiaries on account of employee health and welfare insurance have been paid or accrued as a liability on the books of such Credit Party or such Subsidiary. There is no organizing activity involving any Credit Party or any of its Subsidiaries pending or, to such Credit Party's or its Subsidiaries' knowledge, threatened by any labor union or group of employees. There are no representation proceedings pending or, to any Credit Party's or its Subsidiaries' knowledge, threatened with the National Labor Relations Board, and no labor organization or group of employees of any Credit Party or its Subsidiaries has made a pending demand for recognition. There are no complaints or charges against any Credit Party or any of its Subsidiaries pending or, to such Credit Party's or its

Subsidiaries' knowledge, threatened to be filed with any federal, state, local or foreign court, governmental agency or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment by such Credit Party or any of its Subsidiaries of any individual, which is reasonably likely to have a Material Adverse Effect.

(b) Except as set forth on Schedule 5.11, no Credit Party nor any of its Subsidiaries is, or during the five years preceding the date hereof was, a party to any labor or collective bargaining agreement and there are no labor or collective bargaining agreements which pertain to employees of any Credit Party or its Subsidiaries.

5.12 Other Ventures. Except as set forth on Schedule 5.12, none of the Credit Parties nor any of its Subsidiaries is engaged in any material joint venture or partnership with any other Person.

5.13 Taxes. Except as set forth on Schedule 5.13, all federal, state, local and foreign tax returns, reports and statements required to be filed by each Credit Party, Parent and their Subsidiaries have been timely filed (after giving effect to any valid extensions related thereto) with the appropriate Governmental Authority and all such returns, reports and statements are true, correct and complete in all material respects. All Charges and other impositions due and payable for the periods covered by such returns, reports and statements have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof, or any such fine, penalty, interest, late charge or loss has been paid except such charges that are the subject of a Permitted Protest. Proper and accurate amounts have been withheld by such Credit Party, Parent and their Subsidiaries from their employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of applicable federal, state, local and foreign law and such withholdings have been timely paid to the respective governmental agencies. No Credit Party, Parent nor any of their Subsidiaries has executed or filed with the IRS or any other Governmental Authority any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any material Charges as of the date hereof. No tax audits or other administrative or judicial proceedings are pending or threatened with regard to any Charges for which any Credit Party, Parent or any of their Subsidiaries would reasonably be likely to be liable and no assessment of Charges is proposed against any Credit Party, Parent or their Subsidiaries. No Credit Party, Parent nor any of their Subsidiaries has filed a consent pursuant to IRC Section 341(f) or agreed to have IRC Section 341(f)(2) apply to any dispositions of subsection (f) assets (as such term is defined in IRC Section 341(f)(4)). None of the property owned by any Credit Party, Parent or any of their Subsidiaries is property which such Person is required to treat as being owned by any other Person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended, and in effect immediately prior to the enactment of the Tax Reform Act of 1986 or is "tax-exempt use property" within the meaning of IRC

Section 168(h). No Credit Party nor any of its Subsidiaries has agreed or has been requested to make any adjustment under IRC Section 481(a) by reason of a change in accounting method or otherwise. Except as

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set forth in Schedule 5.13, no Credit Party nor any of its Subsidiaries has any obligation under any written tax sharing agreement.

5.14 No Litigation. Except as disclosed on Schedule 5.14, no action, claim or proceeding is now pending or, to the knowledge of any Credit Party or its Subsidiaries, threatened against such Credit Party or any of its Subsidiaries, at law, in equity or otherwise, before any court, board, commission, agency or instrumentality of any federal, state, or local government or of any agency or subdivision thereof, or before any arbitrator or panel of arbitrators which would be reasonably likely to result in a Material Adverse Effect except for matters that are covered by insurance.

5.15 Brokers. Except for Durham Capital Corporation, no broker or finder acting on behalf of any Credit Party, Parent or any of their Subsidiaries brought about the consummation of the transactions contemplated pursuant to this Agreement and none of such Credit Parties, Parent nor any of their Subsidiaries has any obligation to any Person in respect of any finder's or brokerage fees (or any similar obligation) in connection with the transactions contemplated by this Agreement. The Credit Parties are solely responsible for the payment of all such finder's or brokerage fees.

5.16 Employment Agreements. Except as set forth on Schedule 5.16, there are no employment, consulting or management agreements covering management of any Credit Party or any of its Subsidiaries involving more than \$100,000 per year.

5.17 Patents, Trademarks, Copyrights and Licenses. Each Credit Party and each of its Subsidiaries owns all licenses, patents, patent applications, copyrights, service marks, trademarks and registrations and applications for registration thereof, and trade names necessary to continue to conduct its business as now being conducted by it, each of which is listed, together with Patent and Trademark Office or Copyright Office application or registration numbers, where applicable, on Schedule 5.17. As of the date hereof, to such Credit Party's knowledge, such Credit Party and each of its Subsidiaries conducts its businesses without infringement or claim of infringement of any license, patent, copyright, service mark, trademark, trade name, trade secret or other intellectual property right of others, the effect of which would be reasonably likely to result in a Material Adverse Effect, except as set forth on Schedule 5.17. To such Credit Party's knowledge, there is no infringement by others of any license, patent, copyright, service mark, trademark, trade name, trade secret or other intellectual property right of such Credit Party or any of its Subsidiaries, the effect of which would be reasonably likely to have a Material Adverse Effect except as set forth on Schedule 5.17.

5.18 No Material Adverse Effect. Except as set forth on Schedule 5.18, no event has occurred since December 31, 2001 which has had or would be reasonably likely to have a Material Adverse Effect.

5.19 ERISA. (a) Neither Parent, any Credit Party, or any of their Subsidiaries maintains or contributes to any Benefit Plan, except as set forth on Schedule 5.18.

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(b) No Purchaser will have (i) any obligation to make any contribution to any Multiemployer Plan or (ii) any withdrawal liability from any such Multiemployer Plan under Section 4201 of ERISA which it would not have had if it had not purchased the Securities from the Credit Parties and Parent at the Closing in accordance with the terms of this Agreement.

(c) To the knowledge of the Credit Parties, the Benefit Plans intended to be qualified under Section 401 of the IRC are so qualified and the trusts maintained pursuant thereto are exempt from federal income taxation under Section 501 of the IRC, and nothing has occurred with respect to the operation of the Pension Plans which could cause the loss of such qualification or exemption or the imposition of any liability, penalty, or tax under ERISA or the IRC.

(d) All contributions required by law or pursuant to the terms of the Benefit Plans (without regard to any waivers granted under Section 412 of the IRC) to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension) and no accumulated funding deficiencies exist in any of the Pension Plans.

(e) There is no "amount of unfunded benefit liabilities" as defined in Section 4001(a)(18) of ERISA in any of the respective Pension Plans. Each of the respective Pension Plans are fully funded in accordance with the actuarial assumptions used by the PBGC to determine the level of funding required in the event of the termination of the Pension Plan and all benefit liabilities do not exceed the assets of such Pension Plans.

(f) There has been no "reportable event" as that term is defined in Section 4043 of ERISA and the regulations thereunder with respect to the Pension Plans which would require the giving of notice, or any event requiring disclosure under Sections 4041(c)(3)(C), 4063(a) or 4068(f) of ERISA, the effect of which would be reasonably likely to have a Material Adverse Effect.

(g) There is no material violation of ERISA with respect to the filing of applicable reports, documents, and notices regarding the Plans with the Secretary of Labor and the Secretary of the Treasury or the furnishing of such documents to the

participants or beneficiaries of the Plans.

(h) True, correct and complete copies of the following documents, with respect to each of the Plans, have been made available or delivered to each Purchaser by each Credit Party and Parent: (A) any plans and related trust documents, and amendments thereto, (B) the most recent Forms 5500 (including any schedules thereto) and the most recent actuarial valuation report, if any, (C) the last IRS determination letter, (D) summary plan descriptions, (E) written communications to employees relating to the Plans and (F) written descriptions of all non-written agreements relating to the Plans.

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(i) There are no pending actions, claims or lawsuits which have been asserted or instituted against the Plans, the assets of any of the trusts under such Plans or the Plan sponsor or the Plan administrator, or against any fiduciary of the Plans with respect to the operation of such Plans (other than routine benefit claims), nor does any Credit Party or any of its Subsidiaries have knowledge of facts which could form the basis for any such claim or lawsuit, the effect of which would be reasonably likely to have a Material Adverse Effect.

(j) All amendments and actions required to bring the Plans into conformity in all respects with all of the applicable provisions of ERISA and other applicable laws have been made or taken except to the extent that such amendments or actions are not required by law to be made or taken until a date after the Closing Date or would not be reasonably likely to have a Material Adverse Effect.

(k) The Plans have been maintained, in all material respects, in accordance with their terms and with all provisions of ERISA (including rules and regulations thereunder) and other applicable Federal and state law, and no Credit Party nor any of its Subsidiaries or "party in interest" or "disqualified person" with respect to the Plans has engaged in a "prohibited transaction" within the meaning of Section 4975 of the IRC or Section 406 of ERISA.

(l) None of the Credit Parties, Parent, any of their Subsidiaries or any ERISA Affiliate has terminated any Pension Plan, or incurred any outstanding liability under Section 4062 of ERISA to the PBGC, or to a trustee appointed under Section 4042 of ERISA.

(m) None of the Credit Parties, Parent, any of their Subsidiaries or any ERISA Affiliate maintains retired life and retired health insurance plans which are Welfare Plans and which provide for continuing benefits or coverage for any participant or any beneficiary of a participant except as may be required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") and at the expense of the participant or the participant's beneficiary. Each Credit Party, Parent, all of their Subsidiaries and all ERISA Affiliates which maintain a Welfare Plan have complied with the notice and continuation requirements of COBRA and the regulations thereunder.

(n) None of the Credit Parties, Parent, any of their Subsidiaries or any ERISA Affiliate has contributed or been obligated to contribute to a Multiemployer Plan as of the Closing.

(o) None of the Credit Parties, Parent, any of their Subsidiaries or any ERISA Affiliate has withdrawn in a complete or partial withdrawal from any Multiemployer Plan prior to the Closing Date, nor has any of them incurred any liability due to the termination or reorganization of a Multiemployer Plan.

(p) None of the Credit Parties, Parent, any of their Subsidiaries, any ERISA Affiliate or any organization to which any Credit Party is a successor or parent corporation, within the meaning of Section 4069(b) of ERISA, has engaged in any transaction, within the meaning of Section 4069 of ERISA.

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5.20 SEC Documents. Parent and ClimaChem have made available to each Purchaser a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Parent and ClimaChem with the SEC since December 31, 2001 and prior to the date of this Agreement (the "SEC Documents"), which are all the documents (other than preliminary material) that either of them was required to file with the SEC since such date. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC thereunder applicable to such SEC Documents, and none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

5.21 Ordinary Course of Business. Except as set forth on Schedule 5.7 hereto or in response to the events described therein, since December 31, 2001, each Credit Party and each of its Subsidiaries has conducted its operations only in the ordinary course of business consistent with past practice.

5.22 Insurance. Schedule 5.22 hereto contains a complete and correct list of all policies of insurance of any kind or nature covering any Credit Party, Parent and their Subsidiaries, including, without limitation, policies of life, fire, theft, employee fidelity and other casualty and liability insurance, indicating the type of coverage, name of insured, the insurer, the premium, the expiration date of each policy and the amount of coverage, and such policies are in full force and effect. Complete and correct copies of each such policy have been furnished or made available to the Collateral Agent. Such policies are in amounts customary for the industry

in which the Credit Parties, Parent and their Subsidiaries operate.

5.23 Compliance with Law. Except as set forth on Schedule 5.23, each Credit Party and its Subsidiaries are in compliance with all Applicable Law, except where the failure to be in compliance would not have a Material Adverse Effect.

5.24 Absence of Default. Each Credit Party and its Subsidiaries are in material compliance in all respects with all of the provisions of their respective certificates of incorporation and by-laws (or the equivalent thereof), and no event has occurred or failed to occur (including, without limitation, any matter which could create a default hereunder by cross-default) which has not been remedied or waived, the occurrence or non-occurrence of which constitutes, (i) a Default or (ii) a default that has not been cured by such Credit Party or any of its Subsidiaries under any indenture, agreement or other instrument relating to Indebtedness of such Credit Party or any of its Subsidiaries in the amount of \$1,000,000 or more in the aggregate, any material license, except as set forth on Schedule 5.23, or any judgment, decree or order to which such Credit Party or any of its Subsidiaries is a party or by which such Credit Party or any of its Subsidiaries or any of their respective properties may be bound or affected.

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5.25 Agreements with Affiliates. Except for agreements or arrangements between Credit Parties and except for agreements with Affiliates wherein any Credit Party or one or more of its Subsidiaries provides services to such Affiliates for fair consideration or which are set forth on Schedule 5.25 hereto, neither Credit Party nor any of its Subsidiaries has (i) any written agreements or binding arrangements of any kind with any Affiliate or (ii) any management or consulting agreements of any kind with any Affiliate.

5.26 Minute Books. The minute books of each Credit Party, and Parent as previously made available to each Purchaser, accurately reflect all material formal corporate action of the stockholders and Board of Directors of such Credit Party or Parent, as applicable.

5.27 Full Disclosure. No information contained in this Agreement, any other Transaction Document, the Financials or any written statement furnished by or on behalf of any Credit Party or Parent pursuant to the terms of this Agreement as of the date when made contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading in light of the circumstances under which made.

## 6. COVENANTS

6.1 Affirmative Covenants. Each Credit Party and Parent, to the extent any provision is specifically identified as applicable to Parent, jointly and severally, covenant and agree that from and after the date hereof (except as otherwise provided herein, or unless the Required Holders have given their prior written consent) so long as the Notes are outstanding, it shall:

(a) Accounting System. Maintain a system of accounting that enables the Credit Parties and Parent to produce financial statements in accordance with GAAP and maintain records pertaining to the Collateral that contain information as from time to time reasonably may be requested by the Purchasers. The Credit Parties also shall keep an inventory reporting system that shows all additions, sales, claims, returns, and allowances with respect to their Inventory.

(b) Financial Statements, Reports, Certificates. Deliver to each Purchaser:

(1) as soon as available, but in any event within 30 days after the end of each month, monthly flash reports including information reasonably requested by the Required Holders,

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(2) as soon as available, but in any event within 45 days (or if such Person has filed a filing extension with the SEC, 50 days) after the end of each fiscal quarter,

(i) a company prepared consolidated and consolidating balance sheet, income statement, and statement of cash flow covering Parent's and its Subsidiaries' and ClimaChem's and its Subsidiaries' operations during such period,

(ii) a certificate signed by the chief financial officer or vice president/ controller of Parent and of ClimaChem to the effect that:

A. the financial statements delivered hereunder have been prepared in accordance with GAAP (except for the lack of footnotes and being subject to year-end audit adjustments) and fairly present in all material respects the financial condition of Parent and its Subsidiaries and ClimaChem and its Subsidiaries, as the case may be, and

B. there does not exist any condition or event that constitutes a Default or Event of Default (or, to the extent of any non-compliance, describing such non-

compliance as to which he or she may have knowledge and what action the Credit Parties have taken, are taking, or propose to take with respect thereto), and

(iii) for each month that is the date on which a financial covenant in Section 6.2(s) is to be tested, a Compliance Certificate demonstrating, in reasonable detail, compliance at the end of such period with the applicable financial covenants contained in Section 6.2(s), and

(3) as soon as available, but in any event within 90 days (or, if such Person has filed a filing extension with the SEC, 105 days) after the end of each of ClimaChem's Fiscal Years,

(i) financial statements of Parent and its Subsidiaries and of ClimaChem and its Subsidiaries for each such Fiscal Year, prepared on a consolidated and consolidating basis, audited (in the case of the consolidated financial statements) by independent certified public accountants reasonably acceptable to the Purchasers and certified, without any qualifications (or in the case of the Parent, without any qualification as to scope of audit), by such accountants to have been prepared in accordance with GAAP (such audited financial statements to include a balance sheet, income statement, and statement of cash flow and, if prepared, such accountants' letter to management),

(ii) a certificate of such accountants addressed to the Purchasers stating that such accountants do not have knowledge of the existence of any continuing Default or Event of Default under Section 6.2(s),

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(4) as soon as available, but in any event within 30 days prior to the start of each of ClimaChem's Fiscal Years,

(i) copies of the Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to the Purchasers, in their sole discretion, for the forthcoming year, month by month, certified by the chief financial officer or vice president/controller of Parent and of ClimaChem as being such officer's good faith best estimate of the financial performance of Parent and its Subsidiaries and of ClimaChem and its Subsidiaries, as the case may be, during the period covered thereby,

(5) if and when filed by any Credit Party or Parent,

(i) 10-Q quarterly reports, Form 10-K annual reports, and Form 8-K current reports,

(ii) any other filings made by any Credit Party or Parent with the SEC,

(iii) copies of each Credit Party's federal income tax returns (if requested by any Purchaser), and any amendments thereto, filed with the Internal Revenue Service, and

(iv) any other information that is provided by Parent to its shareholders generally,

(6) if and when filed by any Credit Party and as requested by any Purchaser, satisfactory evidence of payment of applicable excise taxes in each jurisdiction (i) in which any Credit Party conducts business or is required to pay any such excise tax, (ii) where any Credit Party's failure to pay any such applicable excise tax would result in a Lien on the properties or assets of any Credit Party, or (iii) where any Credit Party's failure to pay any such applicable excise tax would reasonably be expected to result in a Material Adverse Effect,

(7) as soon as a Credit Party or Parent has knowledge of any event or condition that constitutes a Default or an Event of Default, notice thereof and a statement of the curative action that the Credit Parties or Parent propose to take with respect thereto, and

(8) upon the request of any Purchaser, any other report reasonably requested relating to the financial condition of the Credit Parties or Parent.

In addition to the financial statements referred to above, the Credit Parties and Parent agree to deliver financial statements prepared on both a consolidated and consolidating basis and that no Credit Party, Parent or any Subsidiary of a Credit Party or Parent, will have a Fiscal Year different from that of ClimaChem. The Credit Parties agree that their independent certified public accountants are authorized to

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communicate with the Purchasers and to release to the Purchasers whatever financial information concerning the Credit Parties and Parent that the Purchasers reasonably may request. Each Credit Party waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by the Purchasers pursuant to or in accordance with this Agreement, and agree that the Purchasers may contact directly any such accounting firm or service bureau in order to obtain such information. Notwithstanding the foregoing, the Purchasers will use reasonable good faith efforts to permit a representative of the Credit Parties or Parent to be present or participate in any communication with such accountants.

(c) Return. Cause returns and allowances as between the Credit Parties and their Account Debtors, to be on the same basis and in accordance with the usual customary practices of the applicable Credit Party, as they exist at the time of the execution and delivery of this Agreement. If any Account Debtor returns any inventory to any Credit Party, the applicable Credit Party promptly shall determine the reason for such return and, if the applicable Credit Party accepts such return, issue a credit memorandum in the appropriate amount to such Account Debtor.

(d) Maintenance of Properties. Maintain and preserve all of its properties which are necessary or useful in the proper conduct to its business in good working order and condition, ordinary wear and tear excepted, and comply at all times with the provisions of all leases to which it is a party as lessee, so as to prevent any loss or forfeiture thereof or thereunder.

(e) Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against the Credit Parties, Parent or any of their assets to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. The Credit Parties will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish the Purchasers with proof satisfactory to the Purchasers indicating that the applicable Credit Party has made such payments or deposits. The Credit Parties shall deliver satisfactory evidence of payment of applicable excise taxes in each jurisdiction in which any Credit Party is required to pay any such excise tax.

(f) Insurance.

(1) At the Credit Parties' or Parent's expense, maintain insurance respecting their property and assets wherever located, covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. The Credit Parties also shall maintain business interruption, public liability, and product liability insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation. All such

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policies of insurance shall be in such amounts and with such insurance companies as are reasonably satisfactory to the Purchasers. The Credit Parties shall deliver copies of all such policies of the Credit Parties to the Collateral Agent with a satisfactory lender's loss payable endorsement naming the Collateral Agent as a loss payee or additional insured, as its interest may appear and as appropriate with respect to the policies covering any Collateral. Each such policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to the Collateral Agent in the event of cancellation of the policy for any reason whatsoever.

(2) Give the Collateral Agent prompt notice of any loss covered by such insurance. Any monies received as payment for any loss under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall be paid over to the Collateral Agent, subject to the prior rights of any first lien pursuant to the Foothill Loan Agreement, to be applied, at the sole option of the Required Holders, either to the prepayment of the Obligations or shall be disbursed to the Credit Parties under staged payment terms reasonably satisfactory to the Required Holders, for application to the cost of repairs, replacements, or restorations. Any such repairs, replacements, or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction.

(3) The Credit Parties shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 5.1(f), unless the Collateral Agent is included thereon as named insured as its interests may appear with the loss payable to the Collateral Agent under a lender's loss payable endorsement or its equivalent. The Credit Parties immediately shall notify the Collateral Agent whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and copies of such policies promptly shall be provided to the Collateral Agent.

(g) Location of Inventory. Keep the Inventory only at the locations identified on Schedule 6.1(g); provided, however, that the Credit Parties may amend Schedule 6.1(g) so long as such amendment occurs by written notice to the Collateral Agent not less than 30 days prior to the date on which the Inventory is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, the applicable Credit Party provides any financing statements necessary to perfect and continue perfected the Collateral Agent's Liens on such assets and also provides to the Collateral Agent a Collateral Access Agreement.

(h) Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with

which, individually or in the aggregate, would not result in and reasonably could not be expected to result in a Material Adverse Effect.

(i) Leases. Pay when due all rents and other amounts payable under any leases to which any Credit Party is a party or by which any Credit Party's properties and assets are bound, unless such payments are the subject of a Permitted Protest.

(j) Existence. At all times preserve and keep in full force and effect each Credit Party's and Parent's valid existence and good standing and any rights and franchises material to the Credit Parties' and Parent's businesses.

(k) Environmental. (a) Keep any property either owned or operated by any Credit Party or that constitutes Collateral free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens, (b) comply, in all material respects, with Environmental Laws and provide to the Purchasers documentation of such compliance which any Purchaser reasonably requests, (c) promptly notify the Purchasers of any release of a Hazardous Material of any reportable quantity from or onto property owned or operated by any Credit Party and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, and (d) promptly provide the Purchasers with written notice within 10 days of the receipt of any of the following: (i) notice that an Environmental Lien has been filed against any of the real or personal property of any Credit Party or any Collateral, (ii) commencement of any Environmental Action or notice that an Environmental Action will be filed against any Credit Party or Parent, and (iii) notice of a violation, citation, or other administrative order which reasonably could be expected to result in a Material Adverse Effect.

(l) Disclosure Updates. Promptly and in no event later than 5 Business Days after obtaining knowledge thereof, (a) notify the Purchasers if any written information, exhibit, or report furnished to the Purchasers contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and (b) correct any defect or error that may be discovered therein or in any Transaction Document or in the execution, acknowledgement, filing, or recordation thereof

(m) Board Observer. Provide the Purchasers with the right to designate an observer, without voting rights, who will be entitled to attend all meetings of Parent's and ClimaChem's Boards of Directors (including committees). Any observer designated by Purchasers shall be entitled to notice of all meetings of Parent's and ClimaChem's Boards of Directors (including committee meetings) and to all information provided to members of such Board of Directors. Such observer shall be reimbursed for reasonable out-of-pocket expenses incurred in connection with attendance at Board of Directors and committee meetings, such expenses to be in accordance with Parent's and ClimaChem's travel policies. Each Purchaser agrees to keep confidential and not to disclose to any third party any non-public confidential information it may receive pursuant to its exercise of its rights under this Section 6.2 without the prior

approval of ClimaChem nor use such confidential information for its benefit in connection with trading activities in equity securities of Parent; provided, however, that this provision shall not apply to information which is required to be disclosed by law and any disclosure of information to assignees or prospective assignees of the Notes or Warrants or to participants or prospective participants in the Notes or Warrants.

(n) Cash Collateral Account. (i) At all times on or prior to the Cash Collateral Release Date, maintain cash or Cash Equivalents in an amount equal to at least 6 months of Cash Interest on the Notes in the Cash Collateral Account and (ii) upon any application of any amount in the Cash Collateral Account to the Obligations or any withdrawal, release or remittal of any amount in the Cash Collateral Account, pay to the Purchasers or their designee an amount equal to 3.25% of the amount so applied, withdrawn, released or remitted.

6.2 Negative and Financial Covenants. Each Credit Party covenants and agrees that from and after the date hereof (except as otherwise provided herein, or unless the Required Holders have given their prior written consent) so long as the Notes are outstanding it shall not:

(a) Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except Permitted Indebtedness and:

- (1) Indebtedness evidenced by this Agreement and the other Loan Documents;
- (2) the Foothill Debt, together with Indebtedness to any underlying issuers of Letters of Credit;
- (3) Indebtedness set forth on Schedule 6.2(a);
- (4) Permitted Purchase Money Indebtedness;

(5) refinancings, renewals, replacements or extensions of Indebtedness permitted under clauses (2) and (3) of this Section 6.2(a) (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of

such refinancings, renewals, replacements or extensions do not, in the Required Holders' judgment, materially impair the prospects of repayment of the Obligations by ClimaChem or any other Credit Party or materially impair the Credit Parties' creditworthiness, (ii) such refinancings, renewals, replacements or extensions do not result in an increase in the principal amount of, or interest rate with respect to, the Indebtedness so amended, refinanced, renewed, replaced or extended, except for (A) increases in the principal amount or line of credit, as applicable, of such Indebtedness not exceeding the principal amount of such Indebtedness originally financed under such Indebtedness, provided that any increases in the principal amount of, or line of credit under, as applicable, such Indebtedness exceeding the then outstanding principal amount or available line of credit, as applicable, of such

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Indebtedness shall be used to pay the Indebtedness evidenced by this Agreement and (B) increases in the principal amount of such Indebtedness owing by DSN to The CIT Group/Business Credit, Inc., provided that the maximum principal amount of such Indebtedness shall not exceed \$11,000,000, and (iii) such refinancings, renewals, replacements or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, replaced or extended, nor are they on terms or conditions, that, taken as a whole, are materially more burdensome or restrictive to the applicable Credit Party;

(6) Indebtedness outstanding under the Senior Notes in an aggregate principal amount not to exceed \$18,300,000 at any one time outstanding;

(7) Indebtedness owing by any Credit Party to any other Credit Party;

(8) subordinated Indebtedness the terms and conditions of which, including provisions subordinating such Indebtedness to the Obligations, are satisfactory to the Required Holders;

(9) Indebtedness owing by any Credit Party to any Subsidiary of Parent that is not also a Subsidiary of ClimaChem, provided that the aggregate principal amount of such Indebtedness shall not exceed \$200,000 at any time;

(10) other unsecured Indebtedness in an aggregate amount not to exceed \$500,000 at any time;

(11) Indebtedness that is a Permitted Investment; and

(12) Indebtedness (including sale/leaseback transactions) secured solely by ClimaChem's precious metal catalyst not exceeding \$1,500,000 in the aggregate.

(b) Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of the Credit Parties' assets, of any kind, or the Collateral, in each case, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced, renewed, replaced or extended in accordance with Section 6.2(a) and so long as the replacement Liens only encumber those assets that secured the refinanced, renewed, or extended Indebtedness) and Liens on ClimaChem's precious metal catalyst.

(c) Restrictions on Fundamental Changes.

(1) Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify any Credit Party's Stock.

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(2) Liquidate, wind up, or dissolve any Credit Party or Parent (or suffer any liquidation or dissolution).

(3) Convey, sell, lease, license, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of any Credit Party's assets.

Clauses (1), (2) and (3) of this Section 5.2(c) shall not apply to the merger, consolidation, or sale or lease of assets of a Credit Party, other than ClimaChem, with and into another Credit Party or ClimaChem, so long as in any merger or consolidation involving ClimaChem, ClimaChem is the surviving entity in such merger or consolidation.

(d) Disposal of Assets. Other than Permitted Dispositions and as provided in Section 6.2(c) and Section 8, convey, sell, lease, license, assign, transfer, or otherwise dispose of any of the assets of any Credit Party or any of the Collateral, except that, so long as no Default or Event of Default has occurred and is continuing or would result therefrom, a Credit Party may sell or otherwise dispose of any of its assets, provided that (i) in the case of assets with respect to which the Purchasers have a first priority Lien, (x) such Credit Party receives fair market value (as determined in good faith by the board of directors and agreed upon by the Required Purchasers) as consideration for such assets and (y) the proceeds from such sale or disposition are applied to prepay the Obligations and (ii) in the case of all other assets of a Credit Party, the proceeds from such sale or disposition are either applied to the Foothill Debt in accordance with its terms or the Obligations.

(e) Change Name. Change any Credit Party's name, Federal Employee Identification Number, corporate structure or

identity, or add any new fictitious name; provided, however, that a Credit Party may change its name or add any new fictitious name upon at least 30 days prior written notice by a Credit Party to the Collateral Agent of such change and so long as, at the time of such written notification, such Credit Party provides any financing statements or fixture filings necessary to perfect and continue perfected the Collateral Agent's Liens.

(f) Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except (i) by endorsement of instruments or items of payment for deposit to the account of Credit Parties or which are transmitted or turned over to the Purchasers or to the agent with respect to the Foothill Debt, (ii) for guarantees of Indebtedness permitted under Section 6.2(a) and guarantees set forth on Schedule 6.2(f) and (iii) for guarantees of performance, surety or appeal bonds of any Credit Party.

(g) Nature of Business. Make any change in the principal nature of Credit Party's business.

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(h) Prepayments and Amendments.

(1) Except in connection with a refinancing permitted by Section 6.2(a)(5), prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of any Credit Party, other than the Obligations in accordance with this Agreement and the Foothill Debt in accordance with the terms thereof, and

(2) Except in connection with a refinancing permitted by Section 6.2(a)(5), directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 6.2(a)(2), (3), (5) or (6).

(i) Change of Control. Cause, permit, or suffer to exist, directly or indirectly, any Change of Control.

(j) Consignments. Consign any Inventory or sell any Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

(k) Distributions. Other than distributions or the declaration and payment of dividends by a Credit Party to another Credit Party, make any distribution or declare or pay any dividends (in cash or other property, other than common Stock) on, or purchase, acquire, redeem, or retire any of any Credit Party's Stock, of any class, whether now or hereafter outstanding or pay any management or similar fees; provided, that:

(1) each Credit Party may make distributions and pay dividends to any Credit Party;

(2) each Credit Party may make advances, distributions and pay dividends to EDN, provided that (i) no Default or Event of Default has occurred and is continuing or would result from the making of such distributions or dividends, (ii) the aggregate amount of such distributions and dividends does not exceed \$1,000,000 during any week and (iii) the aggregate amount of such distributions and dividends paid to EDN by the Credit Parties shall not exceed the aggregate amount of distributions and dividends paid by EDN to the Credit Parties at any time;

(3) each Credit Party may make distributions and pay dividends to Parent in repayment of the costs and expenses incurred by Parent that are directly allocable to the Credit Parties for Parent's provision of the Services (as defined in the Services Agreement) on behalf of the Credit Parties pursuant to the Services Agreement;

(4) so long as no Default or Event of Default has occurred and is continuing or would result therefrom, ClimaChem may make distributions and pay dividends to Parent (i) in respect of the management fees payable by ClimaChem to Parent in accordance with the Management Agreement

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between Parent and ClimaChem dated November 26, 1997 ("Management Agreement"), provided that (A) the aggregate amount of all such payments made by ClimaChem during any Fiscal Year of ClimaChem pursuant to this clause (4) shall not exceed the lesser of (x) \$1,800,000 and (y) the maximum management fees payable to Parent each calendar quarter under the Management Agreement and (B) after giving effect to all management fees paid to Parent and all management fees that have been paid to the Parent and thereafter reimbursed by the Parent to the Credit Parties, in each case in any Fiscal Year, the difference between (x) EBITDA (as calculated pursuant to this Agreement) for such Fiscal Year and (y) the management fees paid to and retained by the Parent in such Fiscal Year shall not be less than \$26,000,000, (ii) an aggregate amount not to exceed, during each Fiscal Year, the consolidated income tax liability of the Credit Parties for such Fiscal Year calculated as if each Credit Party was a separate consolidated taxpayer (without double counting any distributions or dividends received by a Credit Party from another Credit Party) and (iii) an aggregate amount not to exceed, during each Fiscal Year, 50% of the actual consolidated net income of the Credit Parties for the immediately preceding Fiscal Year determined in accordance with GAAP based on audited financial statements of the Credit Parties (calculated after deducting all other dividends and distributions made by the Credit Parties to Parent during such Fiscal Year and not already deducted in calculating net income in accordance with GAAP).

(l) Accounting Methods. Modify or change any Credit Party's or Parent's method of accounting (other than as may be

required to conform to GAAP) or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Credit Parties' or Parent's accounting records without said accounting firm or service bureau agreeing to provide the Purchasers information regarding the assets with respect to which the Purchasers have a Lien or the Credit Parties' and Parent's financial condition.

(m) Investments. Except for Permitted Investments and as set forth in Schedule 6.2(m), directly or indirectly, make or acquire any Investment, or incur any liabilities (including contingent obligations) for or in connection with any Investment; provided, however, that Credit Parties shall not have Investments (other than in the Cash Collateral Account and any cash management account securing the Foothill Debt and the Obligations) in excess of \$100,000 outstanding at any one time.

(n) Transactions with Affiliates. Except for agreements set forth on Schedule 6.2(n) or transactions among the Credit Parties, directly or indirectly enter into or permit to exist any transaction with any Affiliate of any Credit Party except for transactions that are in the ordinary course of such Credit Parties' business, upon fair and reasonable terms, that are fully disclosed to the Credit Parties, and that are no less favorable to such Credit Parties than would be obtained in an arm's length transaction with a non-Affiliate.

(o) Suspension. Suspend or go out of a substantial portion of any Credit Party's or Parent's business.

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(p) Compensation. Pay or accrue total cash compensation, during any year, to its officers and senior management employees in an aggregate amount in excess of the amount established by the compensation committee of Parent.

(q) Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without the Credit Parties providing 30 days prior written notification thereof to the Collateral Agent and so long as, at the time of such written notification, the applicable Credit Party provides any financing statements or fixture filings necessary to perfect and continue perfected the Collateral Agent's Liens and also provides the Collateral Agent a Collateral Access Agreement with respect to such new location. The Inventory and Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without the Required Holder's prior written consent.

(r) Securities Accounts. Maintain assets in any Securities Account other than the Cash Collateral Account.

(s) Financial Covenants.

(1) Fail to maintain

(i) Minimum EBITDA. EBITDA, measured on a fiscal quarter-end basis, of not less than the required amount set forth in the following table for the applicable period set forth opposite thereto;

Applicable Amount	Applicable Period
\$17,000,000	For the 12 month period ending June 30, 2002
\$18,000,000	For the 12 month period ending September 30, 2002
\$16,000,000	For the 12 month period ending December 31, 2002

EBITDA for the 12 month period ending each fiscal quarter after December 31, 2002 shall be determined based upon projected EBITDA for such period as set forth in the Projections delivered to the Purchasers in accordance with Section 6.1(b)(4), which Projections are in form and substance acceptable to the Required Holders in their reasonable discretion; provided, that if the Required Holders and the Credit Parties cannot agree on the EBITDA covenant number based upon projected EBITDA, for purposes of this Section 6.2(s)(i), EBITDA for such 12 month period shall be determined by the Required Holders and shall not be less than \$19,000,000.

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(ii) Minimum EBITDA for the Climate Control Business. EBITDA of the Credit Parties comprising the Climate Control Business, measured on a fiscal quarter-end basis, of not less than \$10,000,000 for the 12-month period ending each fiscal quarter after the date hereof.

(iii) Fixed Charge Coverage Ratio. A Fixed Charge Coverage Ratio, measured on a fiscal year-end basis commencing with the fiscal year ending December 31, 2002, of not less than 1.00:1.00.

(2) Make Capital Expenditures, measured on a fiscal quarter-end basis, in excess of \$11,118,000 for the 12-month period ending each fiscal quarter after the date hereof.

(t) Inactive Subsidiaries. Permit either Canadian Sub or UK Sub to become an active company, have operations, conduct business or own any assets.

## 7. CONDITIONS PRECEDENT

7.1 Conditions Precedent. The obligation of each Purchaser to purchase the Securities at the Closing pursuant to Sections 2.1 and 2.2 hereof, is subject to the condition that such Purchaser shall have received, on the Closing Date, the following, each dated the Closing Date unless otherwise indicated, in form and substance satisfactory to such Purchaser:

(a) Favorable opinions of David Shear and Conner & Winters, P.C., counsel to the Credit Parties and Parent, substantially in the form attached hereto as Exhibit F, it being understood that to the extent that any such opinion of counsel to the Credit Parties and Parent shall rely upon any other opinion of counsel, each such other opinion shall be in form and substance reasonably satisfactory to the Purchasers and shall provide that Purchasers may rely thereon.

(b) Resolutions of the Board of Directors or committee thereof of each Credit Party and Parent, certified by the Secretary or Assistant Secretary of such Credit Party or Parent, as of the Closing Date, to be duly adopted and in full force and effect on such date, authorizing (i) the consummation of each of the transactions contemplated by this Agreement and (ii) specific officers to execute and deliver this Agreement and each other Transaction Document to which it is a party.

(c) Governmental certificates, dated the most recent practicable date prior to the Closing Date` showing that each Credit Party and Parent is organized and in good standing in the state of its organization, and is qualified as a foreign corporation and in good standing in all other jurisdictions in which it is qualified to transact business.

(d) A copy of the certificate of incorporation and all amendments thereto of each Credit Party and Parent, certified as of a recent date by the Secretary of State of the state of its organization, and

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copies of each Credit Party's and Parent's by-laws, certified by the Secretary or Assistant Secretary of such Credit Party or Parent, as applicable, as true and correct as of the Closing Date.

(e) The letter from each Credit Party and Parent to its accountants confirming the authorization referred to in Section 6.1(b).

(f) Each of the Notes and Warrants, dated as of the Closing Date, duly executed by ClimaChem and Parent, respectively.

(g) Each of the Collateral Documents, duly executed by the parties thereto.

(h) UCC-1 financing statements duly executed by each Credit Party in favor of Collateral Agent, for the benefit of the Purchasers, in form and substance satisfactory to the Purchasers.

(i) Certificates of the Secretary or an Assistant Secretary of each Credit Party and Parent, dated the Closing Date, as to the incumbency and signatures of the officers of such Person executing this Agreement, the Securities, each other Transaction Document to which it is a party and any other certificate or other document to be delivered pursuant hereto or thereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(j) Certificate of the President or Chairman of each Credit Party and Parent, dated as of the Closing Date, stating that all of the representations and warranties of such Credit Party or, as applicable, Parent contained herein or in the other Transaction Documents are true and correct on and as of the Closing Date as if made on such date and that no breach of any covenant contained in Section 6 has occurred or would result from the Closing hereunder.

7.2 Additional Conditions. The obligation of each Purchaser to purchase the Securities at the Closing pursuant to Sections 2.1 and 2.2 is subject to the additional conditions precedent that:

(a) Such Purchaser shall have received evidence that the insurance policies provided for in Section 5.22 are in full force and effect, certified by the insurer thereof.

(b) Such Purchaser shall have received a copy of an amendment to the Foothill Loan Agreement, duly executed by ClimaChem and the Guarantors party thereto and the lenders party thereto, in form and substance satisfactory to such Purchaser, in its sole discretion, and no default or event of default shall be continuing under any agreements governing the Foothill Debt.

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(c) The Credit Parties shall have paid the Closing Fee and all fees required to be paid by them pursuant to Section 12.2 hereof for which the Credit Parties shall have received an invoice on or prior to the Closing Date.

(d) Except as disclosed pursuant to Section 5.18 hereof, as of the Closing Date, there shall not have occurred any event or condition since December 31, 2001 which would reasonably be likely to have a Material Adverse Effect.

(e) All of the representations and warranties of Company contained herein or in the other Transaction Documents shall be true and correct on and as of the Closing Date as if made on such date and no Default or Event of Default shall have occurred or would result from the Closing hereunder.

(f) Certain covenants selected by the Purchasers in the Indenture related to the Senior Notes shall have been amended or deleted on terms acceptable to the Purchasers.

(g) All required consents and approvals from any third parties to consummate the transactions contemplated hereby, including pursuant to the Foothill Loan Agreement, shall have been obtained.

(h) The Closing shall have occurred no later than May 24, 2002.

## 8. TRIGGERING CONDITION

If, as of the end of any fiscal quarter beginning after the Closing Date, ClimaChem fails to maintain EBITDA for the twelve-month period ending on the last day of any such fiscal quarter equal to at least \$17,000,000 (a "Trigger Event"), then, within 180 days of the end of such fiscal quarter, ClimaChem shall pay to the Purchasers an amount equal to 33.3% of then outstanding principal of the Notes plus any Additional Interest applicable to such payment and all accrued and unpaid Cash Interest (the "Trigger Failure Amount"); provided, however, that if as of the end of each of the two fiscal quarters immediately following any Trigger Event, ClimaChem maintains EBITDA for the twelve-month period ending on the last day of the respective fiscal quarter equal to at least \$17,000,000, then, within 210 days of such Trigger Event, ClimaChem shall pay to the Purchasers an amount equal to 10.0% of then outstanding principal of the Notes plus any Additional Interest applicable to such payment and all accrued and unpaid Cash Interest instead of the Trigger Failure Amount. If ClimaChem defaults in the making of any such payment, the Purchasers may, at any time after such default, at the sole expense of the Credit Parties, hire an advisor reasonably acceptable to ClimaChem (which consent shall not be unreasonably withheld) to assist ClimaChem in obtaining financing or selling its assets or its business, in separate parts or in its entirety, sufficient to pay all Obligations. All proceeds from any such sales of assets shall be paid to the Purchasers for application to the Obligations, subject to the prior rights of any first Lien on such assets pursuant to the Foothill Loan Agreement. For purposes of this Section 8 only, EBITDA for the fiscal quarter ending June 30, 2002 shall

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be deemed to be \$2,000,000 more than the amount resulting from a calculation of EBITDA pursuant to the definition thereof.

## 9. EVENTS OF DEFAULT; RIGHTS AND REMEDIES

9.1 Events of Default. The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an "Event of Default" hereunder and under the Notes:

(a) ClimaChem shall fail to make any payment of principal of, or interest on or any other amount owing in respect of, the Notes, or any of the other Obligations when due and payable or declared due and payable which, other than principal or interest, shall have remained unremedied for a period of 10 days.

(b) Any Credit Party or Parent, with respect to any provision applicable to Parent, fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in Sections 6.1(a), (b), (d), (g), (h), (i) and (l) of this Agreement, or comparable provisions of the other Loan Documents, within 10 days of the date when required (or within 5 days of the date when required in the case of Section 6.1(b)), or if a Credit Party otherwise fails to perform, keep, or observe any other term, provision, condition, covenant, or agreement contained in this Agreement or in any of the other Loan Documents;

(c) Any material portion of the Collateral or any Credit Party's or any of its Subsidiaries' assets, when such assets of a Credit Party and its Subsidiaries' assets are taken as a whole, is attached, seized, subjected to a writ or distress warrant, levied upon, or comes into the possession of any third Person;

(d) An Insolvency Proceeding is commenced by any Credit Party, Parent or any of their Subsidiaries;

(e) An Insolvency Proceeding is commenced against any Credit Party, Parent or any of their Subsidiaries, and any of the following events occur: (a) the applicable Credit Party, Parent or the Subsidiary consents to the institution of the Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted, (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof, (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, any Credit Party, Parent or any of their Subsidiaries, or (e) an order for relief shall have been entered therein;

(f) Any Credit Party, Parent or any of their Subsidiaries is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

(g) A notice of Lien (other than a Permitted Lien ), levy, or assessment securing or otherwise with respect to Indebtedness or an obligation for the payment of money in an aggregate amount in excess of \$500,000 is filed of record with respect to any Credit Party's or any of its Subsidiaries' assets or the Collateral by the United States, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien (other than a Permitted Lien), whether choate or otherwise, upon any Credit Party's or any of its Subsidiaries' assets or any Collateral and the same is not paid on the payment date thereof;

(h) A judgment or other claim against any Credit Party, or with respect to clause (i), Parent, for an amount in excess of \$500,000 (i) becomes a Lien or encumbrance upon any portion of any Credit Party's, or any of its Subsidiaries' properties or assets or any Collateral, or (ii) shall not be stayed, vacated, bonded, paid or discharged for a period 60 days;

(i) There is a default under any Material Contract to which any Credit Party or any of its Subsidiaries is a party and such default (a)(i) occurs at the final maturity of the obligations thereunder, or (ii) results in a right by the other party thereto, irrespective of whether exercised, to accelerate the maturity of the applicable Credit Party's or its Subsidiaries' obligations thereunder, to terminate such agreement, or to refuse to renew such agreement pursuant to an automatic renewal right therein, and (b) involves Indebtedness or an obligation for the payment of money in an aggregate amount in excess of \$500,000;

(j) Any Credit Party or any of its Subsidiaries makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

(k) Any material misstatement or misrepresentation exists now or hereafter in any warranty, representation or statement made to the Purchasers by any Credit Party, Parent, their Subsidiaries, or any officer, employee, agent, or director of any Credit Party, Parent or any of their Subsidiaries;

(l) The obligation of any Guarantor under the Guaranty is limited or terminated by operation of law or by such Guarantor thereunder;

(m) This Agreement or any other Loan Document that purports to create a Lien, shall, for any reason not as a result of any act or omission of the Purchasers, fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, first priority Lien on or security interest in the Collateral covered hereby or thereby; or

(n) Any provision of any Loan Document shall at any time for any reason be declared to be null and void, or the validity or enforceability thereof shall be contested by any Credit Party, or a proceeding

shall be commenced by any Credit Party, Parent or by any Governmental Authority having jurisdiction over any Credit Party, Parent seeking to establish the invalidity or unenforceability thereof, or any Credit Party or Parent shall deny that any Credit Party or Parent has any liability or obligation purported to be created under any Loan Document.

9.2 Remedies. If any Event of Default specified in Section 8.1 shall have occurred and be continuing, the Required Holders may, without notice, declare all Obligations to be forthwith due and payable, whereupon all such Obligations shall become and be due and payable, without presentment, demand, protest or further notice of any kind, all of which are expressly waived by ClimaChem ; provided, however, that upon the occurrence of an Event of Default specified in Section 8.1(c), (d) or (e) hereof, such Obligations shall become due and payable without declaration, notice or demand by any Purchaser.

Any Purchaser may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in its best interests, including any action (or the failure to act) pursuant to the Loan Documents.

9.3 Waivers by the Credit Parties. Except as otherwise provided for in this Agreement and applicable law, the Credit Parties and Parent waive (i) presentment, demand and protest and notice of presentment, dishonor notice of intent to accelerate and notice of acceleration, (ii) all rights to notice and a hearing prior to the Purchasers' taking possession or control of, or to the Purchasers' replevy, attachment or levy upon, any Collateral securing the Obligations or any bond or security which might be required by any court prior to allowing the Purchasers to exercise any of their remedies, and (iii) the benefit of all valuation, appraisal and exemption laws. The Credit Parties and Parent acknowledge that they has been advised by counsel of their choice with respect to this Agreement, the other Loan Documents and the transactions evidenced by this Agreement and the other Loan Documents.

9.4 Right of Set-Off. Upon the occurrence and during the continuance of any Event of Default, each Purchaser is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Purchaser to or for the credit or the account of ClimaChem against any and all of the obligations of ClimaChem now or hereafter existing under this Agreement and the Notes held by Purchaser irrespective of whether or not such Purchaser shall have made any demand under this Agreement or the Note and although such obligations may be unmaturred. Each Purchaser agrees promptly to



notify ClimaChem after any such set-off and application made by such Purchaser; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Purchasers under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which the Purchasers may have.

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## 10. INDEMNIFICATION

ClimaChem agrees to indemnify and hold harmless each Purchaser, the Collateral Agent and their Affiliates and their respective officers, directors and employees from and against any losses, liabilities, obligations, damages, penalties, actions, proceedings, judgments, suits, claims, costs, fees, expenses and disbursements (including, without limitation, reasonable attorneys' fees and disbursements) of any kind ("Losses") which may be imposed upon, incurred by or asserted against such Purchaser, Collateral Agent or such other indemnified Persons as a result of such Purchaser or Collateral Agent having entered into this Agreement or any of the other Loan Documents or relating to or arising out of any untrue representation, breach of warranty or failure to perform any covenants or agreement by any Credit Party contained herein or in any certificate or document delivered pursuant hereto or arising out of any Environmental Law applicable to any Credit Party or its Subsidiaries or otherwise relating to or arising out of the transactions contemplated hereby; provided, however, that ClimaChem shall not be liable for such indemnification to such indemnified Person to the extent that any such Losses result from such indemnified Person's gross negligence or willful misconduct or losses due to loss of income by any of the Purchasers.

## 11. COLLATERAL AGENT

11.1 Collateral Agency Provisions. (a) Appointment. Guggenheim Investment Management, LLC is hereby appointed to act on behalf of all the Purchasers as the Collateral Agent under this Agreement, and the other Loan Documents. The provisions of this Section 11.1 are solely for the benefit of the Collateral Agent and the Purchasers, and no Credit Party nor any other Person shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement, the Collateral Agent shall act solely as an agent of the Purchasers and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any Credit Party or any other Person. The Collateral Agent shall have no duties or responsibilities except for those expressly set forth in this Agreement. The duties of the Collateral Agent shall be mechanical and administrative in nature and the Collateral Agent shall not have, or be deemed to have, by reason of this Agreement or otherwise a fiduciary relationship in respect of any Purchaser. The Purchasers hereby authorize the Collateral Agent to execute the Intercreditor Agreement, dated as of the date hereof, with Foothill Capital Corporation in substantially the same form and substance as previously delivered to the Purchasers.

(b) Actions. If the Collateral Agent shall request instructions from the Required Holders or all Purchasers affected thereby with respect to any act or action (including failure to act) in connection with this Agreement, then the Collateral Agent shall be entitled to refrain from such act or taking such action unless and until the Collateral Agent shall have received instructions from the Required Holders or all Purchasers affected thereby, as the case may be, and the Collateral Agent shall not incur liability to any Person by reason of so refraining. The Collateral Agent shall be fully justified in failing or refusing to take any action

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hereunder (a) if such action would, in the opinion of the Collateral Agent, be contrary to law or the terms of this Agreement, (b) if such action would, in the opinion of the Collateral Agent, expose the Collateral Agent to any liability or (c) if the Collateral Agent shall not first be indemnified to its satisfaction against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Without limiting the foregoing, no Purchaser shall have any right of action whatsoever against the Collateral Agent as a result of the Collateral Agent acting or refraining from acting hereunder in accordance with the instructions of the Required Holders or all affected Purchasers, as applicable.

(c) Collateral Agent's Reliance, etc. Neither the Collateral Agent nor any of its Affiliates nor any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for damages caused by its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Collateral Agent: (a) may treat the payee of any Note as the holder thereof until the Collateral Agent receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Collateral Agent; (b) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Purchaser and shall not be responsible to any Purchaser for any statements, warranties or representations made in or in connection with this Agreement; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of any Credit Party or to inspect the Collateral including the books and records of any Credit Party; (e) shall not be responsible to any Purchaser for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto or thereto; and (f) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy, telegram, cable or telex) believed by it to be genuine and signed or sent by the proper party or parties.

(d) Purchaser Credit Decisions. Each Purchaser acknowledges that it has, independently and without reliance upon the Collateral Agent or any other Purchaser and based on such financial statements and other documents and information as it has deemed appropriate, made its own credit and financial analysis of the Credit Parties and its own decision to enter into this

Agreement. Each Purchaser also acknowledges that it will, independently and without reliance upon the Collateral Agent or any other Purchaser and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement. Each Purchaser acknowledges the potential conflict of interest of each other Purchaser as a result of the Purchasers holding disproportionate interests in the Notes, and expressly consents to, and waives any claim based upon, such conflict of interest.

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(e) Successor Collateral Agent. The Collateral Agent may resign at any time by giving not less than 30 days' prior written notice thereof to the Purchasers and ClimaChem. Upon any such resignation, the Required Holders shall have the right to appoint a successor Collateral Agent. If no successor Collateral Agent shall have been so appointed by the Required Holders and shall have accepted such appointment within 30 days after the resigning Collateral Agent's giving notice of resignation, then the resigning Collateral Agent may, on behalf of the Purchasers, appoint a successor Collateral Agent, which shall be a Purchaser, if a Purchaser is willing to accept such appointment, or otherwise shall be a commercial bank or financial institution or a subsidiary of a commercial bank or financial institution if such commercial bank or financial institution is organized under the laws of the United States of America or of any State thereof and has a combined capital and surplus of at least \$300,000,000. If no successor Collateral Agent has been appointed pursuant to the foregoing by the 30th day after the date such notice of resignation was given by the resigning Collateral Agent, such resignation shall become effective and the Required Holders shall thereafter perform all the duties of the Collateral Agent hereunder until such time, if any, as the Required Holders appoint a successor Collateral Agent as provided above. Prior to the occurrence and continuation of an Event of Default any successor Collateral Agent appointed by the Collateral Agent or the Required Holders shall be subject to the prior approval of ClimaChem, such approval not to be unreasonably withheld or delayed. Upon the acceptance of any appointment as the Collateral Agent hereunder by a successor Collateral Agent, such successor Collateral Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the resigning Collateral Agent. Upon the earlier of the acceptance of any appointment as the Collateral Agent hereunder by a successor Collateral Agent or the effective date of the resigning Collateral Agent's resignation, the resigning Collateral Agent shall be discharged from its duties and obligations under this Agreement, except that any indemnity rights or other rights in favor of such resigning Collateral Agent shall continue. After any resigning Collateral Agent's resignation hereunder, the provisions of this Section 11.1 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was the Collateral Agent under this Agreement.

(f) Indemnification by the Purchasers. The Purchasers agree to indemnify the Collateral Agent (to the extent the Collateral Agent is not reimbursed by the Credit Parties and without limiting the obligations of ClimaChem hereunder), ratably on a pro rata basis based on the principal amount outstanding under the Notes from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Collateral Agent in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted by the Collateral Agent in connection therewith; provided, however, that no Purchaser shall be liable to the extent it is finally judicially determined that such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements arose primarily from the Collateral Agent's gross negligence or willful misconduct.

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## 12. MISCELLANEOUS

12.1 Complete Agreement; Modification of Agreement; Sale of Interest. The Transaction Documents constitute the complete agreement between the parties with respect to the subject matter hereof and thereof, supercede any previous agreement or understanding between them relating hereto or thereto and may not be modified, altered or amended except as provided therein, or in the case of the Loan Documents by an agreement in writing signed by the Credit Parties and the Purchasers in accordance with Section 10.1(d) hereof. The Credit Parties and Parent may not sell, assign or transfer any of the Loan Documents or any portion thereof, including, without limitation, their rights, title, interests, remedies, powers and duties hereunder or thereunder. The Purchasers hereby consent to any Purchaser's sale of participations, assignment, transfer or other disposition, at any time or times, of any of the Loan Documents or of any portion thereof or interest therein, including, without limitation, such Purchaser's rights, title, interests, remedies, powers or duties thereunder, whether evidenced by a writing or not.

(b) In the event any Purchaser assigns or otherwise transfers all or any part of any of the Notes, ClimaChem shall, upon the request of such Purchaser issue new Notes to effectuate such assignment or transfer.

(c) Any Purchaser may sell, assign, transfer or negotiate to one or more other lenders, commercial banks, insurance companies, other financial institutions or any other Person acceptable to such Purchaser all or a portion of its rights and obligations under the Notes held by such Purchaser and this Agreement; provided, however, that acceptance of such assignment by any assignee shall constitute the agreement of such assignee to be bound by the terms of this Agreement applicable to such Purchaser. From and after the effective date of such an assignment, (x) the assignees thereunder shall, in addition to the rights and obligations hereunder held by it immediately prior to such effective date, have the rights and obligations hereunder that have been assigned to it pursuant to such assignment and (y) the assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such assignment, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an assignment and acceptance covering all or the remaining portion of an assignor's rights and obligations under this Agreement, such assignor shall cease to be a party hereto).

(d) No amendment or waiver of any provision of this Agreement, the Notes or any other Loan Document, nor consent to any departure by any Credit Party or Parent therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Holders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by each holder of a Note affected thereby do any of the following: (i) subject such holder to any additional obligations, (ii) reduce the principal of, or interest on, any Note or other amounts payable hereunder or release or discharge ClimaChem from its obligations to make such payments, (iii) postpone any date fixed for any payment of principal of, or interest on, any Note or other amounts payable hereunder, (iv) change the aggregate unpaid principal amount of any Note, or the number of holders thereof, which shall be required for such holders or any of them to take any action hereunder, or (v) amend this Section 12.1(d).

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12.2 Fees and Expenses. ClimaChem shall pay all reasonable out-of-pocket costs, fees and expenses of the Purchasers in connection with the preparation of the Transaction Documents and the transactions contemplated thereby, including, without limitation, all reasonable legal fees and expenses of Weil, Gotshal & Manges LLP, counsel to the Purchasers, and any other local counsel. If, at any time or times, regardless of the existence of an Event of Default (except with respect to paragraph (iii) below, which shall be subject to an Event of Default having occurred and be continuing), the Required Holders or, in the case of paragraphs (ii) or (iii) below, any Purchaser, shall employ counsel or other advisors for advice or other representation or shall incur reasonable legal or other costs and expenses in connection with:

- (i) any amendment, modification or waiver, or consent with respect to, any of the Loan Documents or advice in connection with the administration of the loans made pursuant hereto or its rights hereunder or thereunder;
- (ii) any litigation, contest, dispute, suit, proceeding or action (whether instituted by such Purchaser, any Credit Party, Parent, any Subsidiary of such Credit Party, Parent or any other Person) in any way relating to any of the Loan Documents or any other agreements to be executed or delivered in connection herewith; or
- (iii) any attempt to enforce any rights of such Purchaser against any Credit Party, Parent, any of their Subsidiaries or any other Person, that may be obligated to such Purchaser by virtue of any of the Loan Documents;

then, and in any such event, the reasonable attorneys' and other parties' fees arising from such services, including those of any appellate proceedings, and all expenses, costs, charges and other fees incurred by such counsel and others in any way or respect arising in connection with or relating to any of the events or actions described in this Section shall be payable, on demand, by ClimaChem to such Purchaser and shall be additional Obligations under this Agreement and the other Loan Documents. Without limiting the generality of the foregoing, such expenses, costs, charges and fees may include: paralegal fees, costs and expenses; accountants' and investment bankers' fees, costs and expenses; court costs and expenses; photocopying and duplicating expenses; court reporter fees, costs and expenses; long distance telephone charges; air express charges; telegram charges; secretarial overtime charges; expenses for travel, lodging and food paid or incurred in connection with the performance of such legal services; and costs and expenses of the Collateral Agent.

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12.3 No Waiver by Purchaser. Any Purchaser's failure, at any time or times, to require strict performance by any Credit Party or Parent of any provision of this Agreement and any of the other Loan Documents shall not waive, affect or diminish any right of such Purchaser thereafter to demand strict compliance and performance therewith. Any suspension or waiver by such Purchaser of an Event of Default by any Credit Party under the Loan Documents shall not suspend, waive or affect any other Event of Default by any Credit Party under this Agreement and any of the other Loan Documents whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of any Credit Party or Parent contained in this Agreement or any of the other Loan Documents and no Event of Default by any Credit Party under this Agreement and no defaults by any Credit Party under any of the other Loan Documents shall be deemed to have been suspended or waived by any Purchaser, unless such suspension or waiver is by an instrument in writing signed by an officer of such Purchaser and the Required Holders and directed to any Credit Party or Parent specifying such suspension or waiver.

12.4 Remedies. Each Purchaser's rights and remedies under this Agreement shall be cumulative and nonexclusive of any other rights and remedies which such Purchaser may have under any other agreement, including without limitation, the Loan Documents, the other Transaction Documents, by operation of law or otherwise.

12.5 Waiver of Jury Trial. The parties hereto waive all right to trial by jury in any action or proceeding to enforce or defend any rights under the Transaction Documents.

12.6 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12.7 Binding Effect; Benefits. This Agreement and the other Transaction Documents shall be binding upon, and inure to the benefit of, the successors of each Credit Party, Parent and each Purchaser and the assigns, transferees and endorsees of each Purchaser.

12.8 Conflict of Terms. Except as otherwise provided in this Agreement or any of the other Loan Documents by specific reference to the applicable provisions of this Agreement, if any provision contained in this Agreement is in conflict with, or inconsistent with, any provision in any of the other Loan Documents, the provision contained in this Agreement shall govern and control.

12.9 Governing Law. Except as otherwise expressly provided in any of the Transaction Documents, in all respects, including all matters of construction, validity and performance, this Agreement

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and the Obligations arising hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflict of laws, and any applicable laws of the United States of America. Each Purchaser and each Credit Party agree to submit to personal jurisdiction and to waive any objection as to venue in the federal or New York State courts located in the County of New York, State of New York. Service of process on Purchaser or Company in any action arising out of or relating to any of the Transaction Documents shall be effective if mailed to such party at the address listed in Section 12.10 hereof. Nothing herein shall preclude any Purchaser or any Credit Party from bringing suit or taking other legal action in any other jurisdiction.

12.10 Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by another, or whenever any of the parties desires to give or serve upon another any such communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and either shall be delivered in person with receipt acknowledged or by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback addressed to the respective party hereto at the address indicated for such party on Schedule A and Schedule B; provided, however, any party may substitute such other address by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied and confirmed by telecopy answerback, or three (3) business days after the same shall have been deposited with the United States mail. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to the persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

12.11 Survival. The representations and warranties of the Credit Parties in this Agreement shall survive the execution, delivery and acceptance hereof by the parties hereto and the closing of the transactions described herein or related hereto.

12.12 Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

12.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

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12.14 Publicity. Neither any Credit Party, Parent nor their Subsidiaries nor any Purchaser shall issue any press release or make any public disclosure regarding the transactions contemplated hereby unless such press release or public disclosure is approved by the other party in advance. Notwithstanding the foregoing, each of the parties hereto may, in documents required to be filed by it with the SEC or other regulatory bodies, make such statements with respect to the transactions contemplated hereby as each may be advised by counsel is legally necessary or advisable, and may make such disclosure as it is advised by its counsel is required by law, subject to advance consultation with the Purchasers.

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IN WITNESS WHEREOF, the Credit Parties, Parent and the Purchasers have executed this Agreement as of the day and year first above written.

Issuer:

CLIMACHEM, INC.

By: /s/ Tony M. Shelby

Name: Tony M. Shelby  
Title: Vice President

Parent:

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Other Guarantors:

NORTHWEST FINANCIAL CORP.  
EL DORADO CHEMICAL CO.  
SLURRY EXPLOSIVE CORP.  
UNIVERSAL TECH CORP.  
THE ENVIRONMENTAL GROUP, INC.  
KOAX CORP.  
INTERNATIONAL ENVIRONMENTAL CORP.  
CLIMATE MASTER, INC.  
THE CLIMATE CONTROL GROUP, INC.  
CLIMATECRAFT, INC.  
CLIMACOOOL CORP.  
TRISON CONSTRUCTION, INC.  
LSB CHEMICAL CORP.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Purchasers:

UPPER COLOMBIA CAPITAL COMPANY,  
LLC

By: /s/ Todd L. Boehly  
Name: Todd L. Boehly  
Title: Manager

FORTWIRTH CDO LTD.

By: /s/ Todd L. Boehly  
Name: Todd L. Boehly  
Title: Managing Director

NORTH AMERICAN COMPANY FOR  
LIFE AND HEALTH INSURANCE

By: /s/ Todd L. Boehly  
Name: Todd L. Boehly  
Title: Managing Director

NORTH AMERICAN COMPANY FOR  
LIFE AND HEALTH INSURANCE OF  
NEW YORK

By: /s/ Todd L. Boehly  
Name: Todd L. Boehly  
Title: Managing Director

Collateral Agent:

GUGGENHEIM INVESTMENT  
MANAGEMENT, LLC

By: /s/ Todd L. Boehly  
Name: Todd L. Boehly  
Title: Managing Director

**CLIMACHEM, INC.,**

**Issuer,**

**and**

**THE GUARANTORS NAMED HEREIN**

**and**

**BANK ONE, NA**

**Trustee**

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**FIFTH SUPPLEMENTAL INDENTURE**

**Dated as of May 24, 2002**

To

INDENTURE

Dated as of November 26, 1997

as amended by the

First Supplemental Indenture, dated February 8, 1999,  
Second Supplemental Indenture, dated June 25, 1999,  
Third Supplemental Indenture, dated August 10, 2000, and  
Fourth Supplemental Indenture, dated May 30, 2001

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\$105,000,000

10 3/4% Senior Notes due 2007

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**This FIFTH SUPPLEMENTAL INDENTURE**, dated as of May 24, 2002, is among ClimaChem, Inc., an Oklahoma corporation (the "Issuer"), the Guarantors referred to in the Indenture (as defined below) and Bank One, NA, a national banking association, as trustee under the Indenture ("Trustee").

**W I T N E S S E T H**

**WHEREAS**, the Company and the Trustee executed an Indenture, dated as of November 26, 1997, as amended by the First Supplemental Indenture, dated February 8, 1999, the Second Supplemental Indenture, dated June 25, 1999, the Third Supplemental Indenture, dated August 10, 2000, and the Fourth Supplemental Indenture, dated May 30, 2001 (the "Indenture"), providing for the issuance of \$105,000,000 aggregate principal amount of 10 3/4% Senior Notes due 2007;

**WHEREAS**, for all purposes of this Fifth Supplemental Indenture, except as otherwise defined or unless the context otherwise requires, terms used in capitalized form in this Fifth Supplemental Indenture and defined in the Indenture have the meanings specified in the Indenture;

**WHEREAS**, Section 9.2 of the Indenture permits the Company and the Trustee, with the written consent of the Holders of at least a majority of the aggregate principal amount of the outstanding Securities (and as to Sections 10.1 and 4.13 of the Indenture, at least 66 2/3% of the aggregate principal amount of the outstanding Securities), to amend, supplement, or modify the Indenture or the Securities, or enter into indentures supplemental to the Indenture, or modify the rights of the Holders as hereinafter provided;

**WHEREAS**, the Holders of at least 66-2/3% of the aggregate principal amount of the outstanding Securities as of the date hereof have consented to the execution and delivery of this Fifth Supplemental Indenture and the adoption of the amendments provided herein by the Company and the Trustee;

**WHEREAS**, the Board of Directors of the Company has duly authorized the execution and delivery of this Fifth Supplemental Indenture, the Company has delivered an Officers' Certificate and an Opinion of Counsel to the Trustee pursuant to Section 9.6 of the Indenture, and the Company has done and taken all acts and satisfied all conditions and requirements necessary to make this Fifth Supplemental Indenture a valid and binding agreement in accordance with its terms and for the purposes herein set forth; and

**WHEREAS**, pursuant to Section 9.2 and 9.6 of the Indenture, the Trustee is authorized to execute and deliver this Fifth Supplemental Indenture;

**NOW THEREFORE**, in consideration of the above premises, each party hereto agrees, for the benefit of the other party and for the equal and ratable benefit of the Holders of the Securities, as follows:

## **ARTICLE I**

### **DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION**

#### Section 1.1 Definitions.

For all purposes of the Indenture and this Fifth Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires, the words "herein," "hereof" and "hereunder" and other words of similar import refer to the Indenture and this Fifth Supplemental Indenture as a whole and not to any particular Article, Section or subdivision.

#### Section 1.2 Effect Of Headings.

The Article and Section headings of this Fifth Supplemental Indenture are for convenience only and shall not affect the construction hereof. Except as otherwise specifically set forth herein, all references to Articles and Sections in the Indenture shall remain unchanged.

#### Section #9; 1.3 Successors And Assigns.

All covenants and agreements in this Fifth Supplemental Indenture by the Company shall bind its successors and assigns, or any other obligor on the Securities, whether expressed or not.

#### Section 1.4 Severability Clause.

If any provision in this Fifth Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

#### Section 1.5 Benefits of Fifth Supplemental Indenture.

Nothing in this Fifth Supplemental Indenture, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Fifth Supplemental Indenture.

#### Section 1.6 Governing Law.

This Fifth Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York and all rights and remedies shall be governed by such laws without reference to their conflict of laws provision.

#### Section 1.7 Counterparts.

This Fifth Supplemental Indenture may be executed in any number of counterparts, each to be deemed an original, but all of which together will represent one and the same agreement.

#### Section 1.8 Conflicts With TIA.

If, and to the extent that, any provision of this Fifth Supplemental Indenture limits, qualifies or conflicts with another provision that is required to be included in this Fifth Supplemental Indenture or in the Indenture by the TIA, the required provision of the TIA shall control.

#### Section 1.9 Effectiveness.

The provisions of this Fifth Supplemental Indenture shall become effective immediately upon the execution and delivery by the Trustee of this Fifth Supplemental Indenture (the "Effective Time").



## ARTICLE II

### AMENDMENTS

#### Section 2.1 Amendments to Section 1.1.

(a) Section 1.1 of the Indenture is hereby amended by deleting each of the following definitions in its entirety, together with any and all references thereto in the Indenture:

- (1) "Acquired Indebtedness;"
- (2) "Affiliate Transaction;"
- (3) "Asset Sale;"
- (4) "Asset Sale Offer;"
- (5) "Asset Sale Offer Amount;"
- (6) "Asset Sale Offer Price;"
- (7) "Attributable Value;"
- (8) "Average Life;"
- (9) "Change of Control;"
- (10) "Change of Control Offer;"
- (11) "Change of Control Period;"
- (12) "Change of Control Purchase Date;"
- (13) "Change of Control Purchase Price;"
- (14) "Consolidated Cash Flow;"
- (15) "Consolidated Coverage Ratio;"
- (16) "Consolidated Fixed Charges;"
- (17) "Consolidated Net Income;"
- (18) "Consolidated Net Worth;"
- (19) "Consolidated Subsidiary;"
- (20) "Credit Agreement;"
- (21) "Debt Incurrence Ratio;"
- (22) "Disqualified Capital Stock;"
- (23) "Equity Interest;"
- (24) "Event of Loss;"
- (25) "Excluded Person;"

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- (26) "Exempted Affiliate Transaction;"
- (27) "Incurrence Date;"
- (28) "Investment;"
- (29) "Lien;"
- (30) "Net Cash Proceeds;"
- (31) "Permitted Indebtedness;"
- (32) "Permitted Investment;"
- (33) "Permitted Lien;"
- (34) "Public Equity Offering;"
- (35) "Purchase Money Indebtedness"
- (36) "Qualified Capital Stock;"
- (37) "Qualified Exchange;"
- (38) "Reference Period;"
- (39) "Refinancing Indebtedness;"
- (40) "Restricted Payment;"
- (41) "Subordinated Indebtedness;" and
- (42) "TES."

(b) The definition of "Affiliate" in Section 1.1 of the Indenture is hereby amended by replacing the term "10%" with the term "50%."

(c) The definition of "Guarantors" in Section 1.1 of the Indenture is hereby amended to read in its entirety as follows:

"Guarantors" means The Environmental Group, Inc., International Environmental Corporation, Climate Master, Inc., KOAX Corp., The Climate Control Group, Inc. (formerly known as APR Corporation), Climate Mate, Inc., The Environmental Group International Limited, LSB Chemical Corp., El Dorado Chemical Company, Slurry Explosive Corporation, Universal Tech Corporation, Northwest Financial Corporation, DSN Corporation, ClimateCraft, Inc., ACP International Limited, ThermalClima, Inc. (formerly known as MultiClima Holdings, Inc.), ClimaCool Corp. and Trison Construction, Inc.

(d) The definition of "incur" in Section 1.1 of the Indenture is hereby amended to read in its entirety as follows:

"incur" or, as appropriate, "incurrence" means to, directly or indirectly, issue, assume, guarantee, incur, become directly or indirectly liable with respect to (including as a result of an Acquisition), or otherwise become responsible for, contingently or otherwise.

(e) The definition of "Indebtedness" in Section 1.1 of the Indenture is hereby amended to read in its entirety as follows:

"Indebtedness" of any Person means, without duplication, (a) all liabilities and obligations, contingent or otherwise, evidenced by the Securities of such Person, including any guarantees of the Securities by the Guarantors, and (b) any and all deferrals, renewals, extensions of, or amendments, modifications or supplements to, any liability of the kind described in the preceding clause (a), whether or not between or among the same parties.

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(f) The definition of "Maturity Date" in Section 1.1 of the Indenture is hereby amended to read in its entirety as follows:

"Maturity Date," when used with respect to any Security, means the date on which the principal of such Security becomes due and payable as therein or herein provided, whether at Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

(g) The definition of "Unrestricted Subsidiary" in Section 1.1 of the Indenture is hereby amended to read in its entirety as follows:

"Unrestricted Subsidiary" means any subsidiary of the Issuer that does not own any Capital Stock of the Issuer or any other Subsidiary of the Issuer and that shall be designated an Unrestricted Subsidiary by the Board of Directors of the Issuer; provided that (i) such subsidiary shall not engage, to any substantial extent, in any line or lines of business activity other than a Related Business, and (ii) neither immediately prior thereto nor after giving pro forma effect to such designation would there exist a Default or Event of Default. The Board of Directors of the Issuer may designate any Unrestricted Subsidiary to be a Subsidiary, provided, that no Default or Event of Default is existing or will occur as a consequence thereof. Each such designation shall be evidenced by filing with the Trustee a certified copy of the resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions.

#### Section 2.2 Amendments to Section 2.3.

Section 2.3 of the Indenture is hereby amended by replacing the phrase "Article III, VIII, X, and Section 4.13" in the second sentence thereof with the phrase "Article III and VIII".

#### Section 2.3 Amendments to Section 2.6.

(a) Section 2.6 of the Indenture is hereby amended by replacing the phrase "Article II, Article X, Section 3.7, 4.13 or 9.5" in paragraph (a)(4) thereof with the phrase "Article II, Section 3.7, or 9.5".

(b) Section 2.6 of the Indenture is hereby amended by replacing the phrase "Section 2.2, 2.10, 3.5, 4.13, 9.5 or 10.1" in the fourth paragraph under paragraph (b) thereof with the phrase "Section 2.2, 2.10, 3.5 or 9.5".

#### Section 2.4 Amendments to Section 3.1.

Sections 3.1 of the Indenture is hereby amended by deleting the second paragraph thereof.

#### Section 2.5 Amendments to Article IV.

(a) Sections 4.3, 4.5, 4.7, 4.8, 4.9, 4.10, 4.11, 4.12, 4.12, 4.13, 4.14, 4.15, 4.16, 4.17, 4.18, and 4.19 of the Indenture are hereby deleted in their entireties, together with any and all references thereto in the Indenture.

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(b) Section 4.6 is hereby amended by deleting in their entirety paragraphs (b) and (c) thereof.

#### Section 2.6 Amendments to Article V.

(a) Section 5.1 of the Indenture is hereby amended to read in its entirety as follows:

"Section 5.1 Limitation on Merger, Sale or Consolidation. The Issuer will not, directly or indirectly, consolidate with or merge with or into another Person or sell, lease, convey or transfer all or substantially all of its assets (computed on a consolidated basis), whether in a single transaction or a series of related transactions, to another Person or group of affiliated Persons or adopt a Plan of Liquidation, unless (i) either (a) the Issuer is the continuing entity or (b) the resulting, surviving or

transferee entity or, in the case of a Plan of Liquidation, the entity which receives the greatest value from such Plan of Liquidation expressly assumes by supplemental indenture all of the obligations of the Issuer in connection with the Notes and the Indenture."

(b) Section 5.2 of the Indenture is hereby amended to read in its entirety as follows:

"Section 5.2 Successor Corporation Substituted. Upon any consolidation or merger in accordance with the foregoing, the successor corporation formed by such consolidation or into which the Issuer is merged may exercise every right and power of, the Issuer, under the Indenture with the same effect as if such successor corporation had been named therein as the Issuer, and the Issuer shall be released from the obligations under the Notes and the Indenture except with respect to any obligations that arise from, or are related to, such transaction."

Section 2.7 Amendments to Article VI.

(a) Paragraphs (3), (6), and (7) of Section 6.1 of the Indenture are hereby deleted in their entireties, together with any and all references thereto in the Indenture.

(b) Paragraph (2) of Section 6.1 of the Indenture is hereby amended to read in its entirety as follows:

"(2) the failure by the Issuer to pay all or any part of the principal, or premium, if any, on the Securities when and as the same becomes due and payable at maturity, redemption, by acceleration or otherwise;"

(c) Paragraph (4) of Section 6.1 of the Indenture is hereby amended to read in its entirety as follows:

"(4) a decree, judgment, or order by a court of competent jurisdiction shall have been entered adjudicating the Issuer as bankrupt, or approving as properly filed a petition seeking reorganization of the Issuer under any bankruptcy or similar law, and such decree or order shall have continued undischarged and unstayed for a period of 60 consecutive days; or a decree or order of a court of competent jurisdiction, judgment appointing a receiver, liquidator, trustee, or assignee in bankruptcy for the Issuer shall have been

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entered, and such decree, judgment, or order shall have remained in force undischarged and unstayed for a period of 60 days;"

(d) Paragraph (5) of Section 6.1 of the Indenture is hereby amended to read in its entirety as follows:

"(5) the Issuer shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under any bankruptcy or similar law or similar statute, or shall consent to the filing of any such petition, or shall consent to the appointment of a trustee in bankruptcy of it."

Section 2.8 Amendments to Section 7.5.

Section 7.5 of the Indenture is hereby amended to read in its entirety as follows:

"If a Default or an Event of Default occurs and is continuing and if it is actually known to the Trustee, the Trustee shall mail to each Securityholder notice of the uncured Default or Event of Default within 90 days after such Default or Event of Default occurs. Except in the case of a Default or an Event of Default in payment of principal (or premium, if any) of, or interest (and Liquidated Damages, if any) on, any Security (including the payment of the Redemption Price on the Redemption Date), the Trustee may withhold the notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or a Trust Officer of the Trustee in good faith determines that withholding the notice is in the interest of the Securityholders."

Section 2.9 Amendments to Section 8.3.

Section 8.3 of the Indenture is hereby amended by replacing the phrase "4.3, 4.6, 4.7, 4.9, 4.10, 4.11, 4.12, 4.13, 4.14, 4.16, and 4.18, Article V and Article X" in the first sentence thereof with the phrase "Section 4.6(a) or Article V," and by deleting the last sentence thereof.

Section 2.10 Amendments to Article X.

Article X of the Indenture is hereby deleted in its entirety, together with any references thereto in the Indenture.

Section 2.11 Amendments to Article XI.

(a) Paragraph (a) of Section 11.1 of the Indenture is hereby amended to delete both occurrences of the phrase ", upon a Change of Control Offer, an Asset Sale Offer".

(b) Paragraph (b) of Section 11.3 of the Indenture is hereby deleted in its entirety, together with any references thereto in the Indenture.

(c) Section 11.4 of the Indenture is hereby amended to read in its entirety as follows:

"Upon the sale or disposition (whether by merger, stock purchase, asset sale or otherwise) of a Guarantor or all or substantially all of its assets to an entity which is not a Guarantor, which transaction is otherwise in compliance with the Indenture, such Guarantor will be deemed released from its obligations under its Guarantee of the Notes."

(d) Section 11.5 of the Indenture is hereby deleted in its entirety, together with any references thereto in the Indenture.

Section 2.12 Amendment to Exhibit C.

Exhibit C of the Indenture entitled "Form of Promissory Note" is hereby deleted in its entirety, together with any references thereto in the Indenture.

Section 2.13 Conforming Amendments.

Notwithstanding any provision of the Indenture to the contrary, all references to the defined terms deleted pursuant to the provisions of Article II of this Fifth Supplemental Indenture, including, but not limited to, the terms, "Asset Sale," "Asset Sale Offer," "Asset Sale Offer Price," "Change of Control," "Change in Control Purchase Price," and "Change in Control Purchase Date," and the phrases, "in the case of," "or this," "or the," and "or reduce the," which may precede the occurrence of any defined term deleted by Article II of this Fifth Supplemental Indenture, and the phrase, "on the relevant purchase date," which may immediately follow the occurrence of any such term, are hereby deleted in their entirety and any reference to such term or terms or phrase or phrases contained in the Indenture are null and void and of no force or effect for all purposes.

### ARTICLE III

#### NOTICE; AMENDMENT OF, AND NOTATION ON, SECURITIES

Section 3.1 Notice to Securityholders.

Promptly after the Effective Time, the Company shall mail to Holders a notice briefly describing the Amendments in accordance with Section 9.02 of the Indenture.

Section 3.2 Amendment of Securities.

Outstanding Securities shall be deemed amended as set forth in this Fifth Supplemental Indenture, and the terms of the Indenture, as amended, shall govern the terms of the Securities.

Section 3.3 Notation on Securities.

Securities authenticated and delivered after the Effective Time shall, at the Company's expense, be affixed by the Trustee with the following notation:

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"The Company and the Trustee have entered into a Fifth Supplemental Indenture, dated as of March 18, 2002, which amended or deleted, among other things, certain covenants, change of control and asset sale provisions, and events of defaults. Reference is hereby made to such Fifth Supplemental Indenture, copies of which are on file with Bank One, NA, as Trustee. The Indenture as supplemented governs the terms of the Securities."

The Trustee may, but shall not be required to, require Holders of Securities authenticated and delivered prior to the Effective Time to deliver such Securities to the Trustee so the Trustee may affix them with the aforementioned notation.

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**SIGNATURE**

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

CLIMACHEM, INC.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

BANK ONE, NA,  
as Trustee

By: /s/ Jon A. Beacham  
Name: Jon A. Beacham  
Title: Authorized Signer

THE GUARANTORS:

International Environmental Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Climate Master, Inc.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

KOAX Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

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The Climate Control Group, Inc.  
(f/k/a APR Corporation)

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

LSB Chemical Corp.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Slurry Explosive Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Universal Tech Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Northwest Financial Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

DSN Corporation

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

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Climate Mate, Inc.

By: /s/ David R. Goss  
Name: David R. Goss  
Title: President

El Dorado Chemical Company

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

The Environmental Group International  
Limited

By: /s/ David R. Goss  
Name: David R. Goss  
Title: Director

The Environmental Group, Inc.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

ClimateCraft, Inc.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

ACP International Limited

By: /s/ Tony M. Shelby

Name: Tony M. Shelby  
Title: Vice President

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ThermalClime, Inc.  
(f/k/a MultiClima Holdings, Inc.)

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

ClimaCool Corp.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Trison Construction, Inc.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

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**EXHIBIT A**

**FORM OF NOTE**

\$7,786,927 New York, New York

May 24, 2002

FOR VALUE RECEIVED, the undersigned, CLIMACHEM, INC., an Oklahoma corporation (the "Company"), hereby unconditionally promises to pay to the order of UPPER COLOMBIA CAPITAL COMPANY, LLC ("Holder"), at the office of Holder, c/o Guggenheim Partners, 135 East 57th Street, 9th Floor, New York, New York 10022, or at such other place as the holder of this Note (this "Note") may designate from time to time in writing, in lawful money of the United States of America and in immediately available funds, the principal amount of SEVEN MILLION SEVEN HUNDRED EIGHTY-SIX THOUSAND NINE HUNDRED TWENTY-SEVEN DOLLARS (\$7,786,927), together with interest on the unpaid principal amount of this Note outstanding from time to time from the date hereof, at the rate provided in the Purchase Agreement (as hereinafter defined).

This Note is issued pursuant to that certain Securities Purchase Agreement dated as of May 24, 2002 among the Company, the other Credit Parties party thereto, and the Purchasers party thereto and Guggenheim Investment Management, LLC, as Collateral Agent for such Purchasers (the "Purchase Agreement"), to which reference is hereby made for a statement of all of the terms and conditions under which the loan evidenced hereby is made. All capitalized terms, unless otherwise defined herein, shall have the meanings ascribed to them in the Purchase Agreement.

The principal amount of the indebtedness evidenced hereby shall be payable in the amounts and on the dates specified in the Purchase Agreement and, if not sooner paid in full, on June 30, 2005. Interest thereon, including Additional Interest, shall be paid until such principal amount is paid in full at such interest rates and at such times as are specified in the Purchase Agreement.

If any payment on this Note becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

Upon and after the occurrence of an Event of Default, this Note may, as provided in the Purchase Agreement, and without demand, notice or legal process of any kind, be declared, and immediately shall become, due and payable.

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Demand, presentment, protest and notice of nonpayment and protest are hereby waived by the Company.

This Note has been executed, delivered and accepted at New York, New York and shall be interpreted, governed by and construed in accordance with, the laws of the State of New York.

CLIMACHEM, INC.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

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**WARRANT**  
**To Purchase Common Stock of**  
**LSB INDUSTRIES, INC.**

THIS WARRANT AND THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE TRANSFERRED IN VIOLATION OF SUCH ACT, THE RULES AND REGULATIONS THEREUNDER OR THE PROVISIONS OF THIS WARRANT.

No. of Shares of Common Stock: 132,508

**WARRANT**  
**To Purchase Common Stock of**  
**LSB INDUSTRIES, INC.**

THIS IS TO CERTIFY THAT, UPPER COLOMBIA CAPITAL COMPANY, LLC or registered assigns, is entitled, at any time prior to the Expiration Date (as hereinafter defined), to purchase from LSB INDUSTRIES, INC., a Delaware corporation ("Company"), 132,508 shares of Common Stock (as hereinafter defined and subject to adjustment as provided herein), in whole or in part, including fractional parts, at a purchase price of \$0.10 per share, all on the terms and conditions and pursuant to the provisions hereinafter set forth.

1. DEFINITIONS

As used in this Warrant, the following terms have the respective meanings set forth below (all capitalized used herein and not defined shall have the same meanings ascribed to them in the Purchase Agreement):

"Additional Shares of Common Stock" shall mean all shares of Common Stock issued by Company after the Initial Closing Date, other than Warrant Stock.

"Commission" shall mean the Securities and Exchange Commission or any other federal agency then administering the Securities Act and other federal securities laws.

"Common Stock" shall mean (except where the context otherwise indicates) the Common Stock, \$0.10 par value, of Company as constituted on the Initial Closing Date, and any capital stock into which such Common Stock may thereafter be changed, and shall also include (i) capital stock of Company of any other class (regardless of how denominated) issued to the holders of shares of Common Stock upon any reclassification thereof which is also not preferred as to dividends or assets over any other class of stock of Company and which is not subject to redemption and (ii) shares of common stock of any successor or acquiring corporation received by or distributed to the holders of Common Stock of Company.

"Convertible Securities" shall mean evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable, with or without payment of additional consideration in cash or property, for Additional Shares of

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Common Stock, either immediately or upon the occurrence of a specified date or a specified event.

"Current Market Price" shall mean, in respect of any share of Common Stock on any date herein specified, (a) if there shall then be a public market for the Common Stock, the average of the daily market prices for 30 consecutive Business Days commencing 45 days before such date. The daily market price for each such Business Day shall be (i) the last sale price on such day on the principal stock exchange or NASDAQ Stock Market ("NASDAQ") on which such Common Stock is then listed or admitted to trading, (ii) if no sale takes place on such day on any such exchange or NASDAQ, the average of the last reported closing bid and asked prices on such day as officially quoted on any such exchange or NASDAQ, (iii) if the Common Stock is not then listed or admitted to trading on any stock exchange or NASDAQ, the average of the last reported closing bid and asked prices on such day in the over-the-counter market, as furnished by the National Association of Securities Dealers Automatic Quotation System or the National Quotation Bureau, Inc., (iv) if neither such corporation at the time is engaged in the business of reporting such prices, as furnished by any similar firm then engaged in such business, or (v) if there is no such firm, as furnished by any member of the NASD selected mutually by the Majority Holders and Company or, if they cannot agree upon such selection, as selected by two such members of the NASD, one of which shall be selected by the Majority Holders and one of which shall be selected by Company, or (b) if there is no such public market, the fair market value thereof as determined in good faith by Company's Board of Directors.

"Current Warrant Price" shall mean, in respect of a share of Common Stock at any date herein specified, the price at which a share of Common Stock may be purchased pursuant to this Warrant on such date.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

"Exercise Period" shall mean the period during which this Warrant is exercisable pursuant to Section 2.1.

"Expiration Date" shall mean the tenth anniversary of the Initial Closing Date.

"Holder" shall mean the Person in whose name the Warrant set forth herein is registered on the books of Company maintained for such purpose.

"Majority Holders" shall mean the holders of Warrants exercisable for in excess of 50% of the aggregate number of shares of Common Stock then purchasable upon exercise of all Warrants, whether or not then exercisable.

"NASD" shall mean the National Association of Securities Dealers, Inc., or any successor corporation thereto.

"Other Property" shall have the meaning set forth in Section 4.3.

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"Outstanding" shall mean, when used with reference to Common Stock, at any date as of which the number of shares thereof is to be determined, all issued shares of Common Stock, except shares then owned or held by or for the account of Company or any subsidiary thereof, and shall include all shares issuable in respect of outstanding scrip or any certificates representing fractional interests in shares of Common Stock.

"Purchase Agreement" shall mean the Securities Purchase Agreement dated as of the date hereof by and among ClimaChem, Inc., Company, the other entities party thereto as guarantors, the purchasers named therein and Guggenheim Investment Management, LLC, as collateral agent for such purchasers or any successor agreement among such parties.

"Restricted Common Stock" shall mean shares of Common Stock which are, or which upon their issuance on the exercise of this Warrant would be, evidenced by a certificate bearing the restrictive legend set forth in Section 9.1(a).

"Securities Act" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect at the time.

"Transfer" shall mean any disposition of any Warrant or Warrant Stock or of any interest in either thereof, which would constitute a sale thereof within the meaning of the Securities Act.

"Transfer Notice" shall have the meaning set forth in Section 9.2.

"Warrants" shall mean this Warrant and all other Warrants issued pursuant to the Purchase Agreement, and all warrants issued upon transfer, division or combination of, or in substitution for, any thereof. All Warrants shall at all times be identical as to terms and conditions and date, except as to the number of shares of Common Stock for which they may be exercised.

"Warrant Price" shall mean an amount equal to (i) the number of shares of Common Stock being purchased upon exercise of this Warrant pursuant to Section 2.1, multiplied by (ii) the Current Warrant Price as of the date of such exercise.

"Warrant Stock" shall mean the shares of Common Stock purchased by the holders of the Warrants upon the exercise thereof.

## 2. EXERCISE OF WARRANT

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**2.1 Manner of Exercise.** From and after the Initial Closing Date and until 5:00 P.M., New York time, on the Expiration Date, Holder may exercise this Warrant, on any Business Day, for all or any part of the number of shares of Common Stock purchasable hereunder.

In order to exercise this Warrant, in whole or in part, Holder shall deliver to Company at its principal office at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107, or at the office or agency designated by Company pursuant to Section 12, (i) a written notice of Holder's election to exercise this Warrant, which notice shall

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specify the number of shares of Common Stock to be purchased, (ii) payment of the Warrant Price and (iii) this Warrant. Such notice shall be substantially in the form of the subscription form appearing at the end of this Warrant as Exhibit A, duly executed by Holder or its agent or attorney. Upon receipt thereof, Company shall, as promptly as practicable, and in any event within ten (10) Business Days thereafter, execute or cause to be executed and deliver or cause to be delivered to Holder a certificate or certificates representing the aggregate number of full shares of Common Stock issuable upon such exercise, together with cash in lieu of any fraction of a share, as hereinafter provided. The stock certificate or certificates so delivered shall be, to the extent possible, in such denomination or denominations as such Holder shall request in the notice and shall be registered in the name of Holder or, subject to Section 9, such other name as shall be designated in the notice. This Warrant shall be deemed to have been exercised and such certificate or certificates shall be deemed to have been issued, and Holder or any other Person so designated to be named therein shall be deemed to have become a holder of record of such shares for all

purposes, as of the date the notice is received by Company so long as the cash or cashier's certified check or other payment as provided below and this Warrant are received by Company promptly thereafter and all taxes required to be paid by Holder, if any, pursuant to Section 2.2 prior to the issuance of such shares have been paid. If this Warrant shall have been exercised in part, Company shall, at the time of delivery of the certificate or certificates representing Warrant Stock, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased shares of Common Stock called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant, or, at the request of Holder, appropriate notation may be made on this Warrant and the same returned to Holder. Notwithstanding any provision herein to the contrary, Company shall not be required to register shares in the name of any Person who acquired this Warrant (or part hereof) or any Warrant Stock otherwise than in accordance with this Warrant.

Payment of the Warrant Price shall be made at the option of the Holder by (i) cash or cashier's certified check, and/or (ii) by the Holder's surrender to Company of that number of shares of Warrant Stock (or the right to receive such number of shares) or shares of Common Stock having an aggregate Current Market Price equal to or greater than the Current Warrant Price for all shares then being purchased (including those being surrendered), or (iii) any combination thereof, duly endorsed by or accompanied by appropriate instruments of transfer duly executed by Holder or by Holder's attorney duly authorized in writing.

**2.2 Payment of Taxes.** Company shall pay all expenses in connection with, and all taxes and other governmental charges that may be imposed with respect to, the issuance or delivery of the shares of Common Stock issuable upon exercise of this Warrant, unless such tax or charge is imposed by law upon Holder, in which case such taxes or charges shall be paid by Holder. Company shall not be required, however, to pay any tax or other charge imposed in connection with any transfer involved in the issue of any certificate for shares of Common Stock issuable upon exercise of this Warrant in any name other than that of Holder, and in such case Company shall not be required to issue or deliver any stock certificate until such tax or other charge has been paid or it has been established to the reasonable satisfaction of Company that no such tax or other charge is due.

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**2.3 Fractional Shares.** Company shall not be required to issue a fractional share of Common Stock upon exercise of any Warrant. As to any fraction of a share which the Holder of one or more Warrants, the rights under which are exercised in the same transaction, would otherwise be entitled to purchase upon such exercise, Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the Current Market Price per share of Common Stock on the date of exercise.

**2.4 Continued Validity.** A holder of shares of Common Stock issued upon the exercise of this Warrant, in whole or in part (other than a holder who acquires such shares after the same have been publicly sold pursuant to a registration statement under the Securities Act or sold pursuant to Rule 144 thereunder), shall continue to be entitled with respect to such shares to all rights to which it would have been entitled as Holder under Sections 9, 10, 14 and 15 of this Warrant. Company will, at the time of each exercise of this Warrant, in whole or in part, upon the request of the holder of the shares of Common Stock issued upon such exercise hereof, acknowledge in writing, in form reasonably satisfactory to such holder, its continuing obligation to afford to such holder all such rights; provided, however, that if such holder shall fail to make any such request, such failure shall not affect the continuing obligation of Company to afford to such holder all such rights.

### 3. TRANSFER, DIVISION AND COMBINATION

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**3.1 Transfer.** Subject to compliance with Section 9, transfer of this Warrant and all rights hereunder, in whole or in part, shall be registered on the books of Company to be maintained for such purpose, upon surrender of this Warrant at the principal office of Company referred to in Section 2.1 or the office or agency designated by Company pursuant to Section 12, together with a written assignment of this Warrant substantially in the form of Exhibit B hereto duly executed by Holder or its agent or attorney. Upon such surrender, Company shall, subject to Section 9, execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned in compliance with Section 9, may be exercised by a new Holder for the purchase of shares of Common Stock without having a new Warrant issued.

**3.2 Division and Combination.** Subject to Section 9, this Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office or agency of Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by Holder or its agent or attorney. Subject to compliance with Section 3.1 and with Section 9, as to any transfer which may be involved in such division or combination, Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

**3.3 Expenses.** Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 3.

**3.4 Maintenance of Books.** Company agrees to maintain, at its aforesaid office or agency, books for the registration and the registration of transfer of the Warrants.

#### 4. **ADJUSTMENTS**

The number of shares of Common Stock for which this Warrant is exercisable, or the price at which such shares may be purchased upon exercise of this Warrant, shall be subject to adjustment from time to time as set forth in this Section 4.

**4.1 Stock Dividends, Subdivisions and Combinations.** If at any time Company shall:

- a. take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, Additional Shares of Common Stock,
- b. subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or
- c. combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (i) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event, and (ii) the Current Warrant Price shall be adjusted to equal (A) the Current Warrant Price multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment divided by (B) the number of shares for which this Warrant is exercisable immediately after such adjustment.

**4.2 Certain Other Distributions.** If at any time Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution of:

- a. cash,
- b. any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock), or
- c. any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of its stock or any other securities or property of any nature whatsoever (other than cash, Convertible Securities or Additional Shares of Common Stock),

Holder shall be entitled to receive such dividend or distribution upon Holder's exercise of the Warrant.

**4.3 Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets.** In case Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another corporation (where Company is not the surviving corporation or where there is a change in or distribution with respect to the Common Stock of Company), or sell, transfer or otherwise dispose of all or substantially all its property, assets or business to another corporation and, pursuant to the terms of such reorganization, reclassification, merger, consolidation or disposition of assets, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property"), are to be received by or distributed to the holders of Common Stock of Company, then each Holder shall have the right thereafter to receive, upon exercise of such Warrant, the number of shares of common stock of the successor or acquiring corporation or of Company, if it is the surviving corporation, and Other Property receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. In case of any such reorganization, reclassification, merger, consolidation or disposition of assets, the successor or acquiring corporation (if other than Company) shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant to be performed and observed by Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed appropriate (as determined by resolution of the Board of Directors of Company) in order to provide for adjustments of shares of Common Stock for which this Warrant is

exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 4. For purposes of this Section 4.3, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 4.3 shall similarly apply to successive reorganizations, reclassifications, mergers, consolidations or disposition of assets.

## 5. NOTICES TO WARRANT HOLDERS

5.1 Notice of Adjustments. Whenever the number of shares of Common Stock for which this Warrant is exercisable, or whenever the price at which a share of such Common Stock may be purchased upon exercise of the Warrants, shall be adjusted pursuant to Section 4, Company shall forthwith prepare a certificate to be executed by the chief financial officer of Company setting forth, in reasonable detail, the event requiring the adjustment and the method by which such adjustment was calculated, specifying the number of shares of Common Stock for which this Warrant is exercisable and (if such adjustment was made pursuant to Section 4.2 or 4.3) describing the number and kind of any other shares of stock or Other Property for which this Warrant is exercisable, and any change in the purchase price or prices thereof, after giving effect to such adjustment or

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change. Company shall promptly cause a signed copy of such certificate to be delivered to each Holder in accordance with Section 15.2. Company shall keep at its office or agency designated pursuant to Section 12 copies of all such certificates and cause the same to be available for inspection at said office during normal business hours by any Holder or any prospective purchaser of a Warrant designated by a Holder thereof.

5.2 Notice of Corporate Action. If at any time

- a. Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, or any right to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property, or to receive any other right, or
- b. there shall be any capital reorganization of Company, any reclassification or recapitalization of the capital stock of Company or any consolidation or merger of Company with, or any sale, transfer or other disposition of all or substantially all the property, assets or business of Company to, another Person, or
- c. there shall be a voluntary or involuntary dissolution, liquidation or winding up of Company;

then, in any one or more of such cases, Company shall give to Holder (i) at least 20 days' prior written notice of the date on which a record date shall be selected for such dividend, distribution or right or for determining rights to vote in respect of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up, and (ii) in the case of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up, at least 20 days' prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing clause also shall specify (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, the date on which the holders of Common Stock shall be entitled to any such dividend, distribution or right, and the amount and character thereof, and (ii) the date on which any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up is to take place and the time, if any such time is to be fixed, as of which the holders of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up. Each such written notice shall be delivered to Holder in accordance with Section 15.2.

## 6. NO IMPAIRMENT

Company shall not avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder against impairment. Without limiting the generality of the foregoing, Company will (a) take all such action as may be necessary or appropriate in order that Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, including such

action as is necessary for the Current Warrant Price to be not less than the par value of the shares of Common Stock issuable upon exercise of this Warrant, and (b) use reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable Company to perform its obligations under this Warrant.

Upon the request of Holder, Company will at any time during the period this Warrant is outstanding acknowledge in writing, in form reasonably satisfactory to Holder, the continuing validity of this Warrant and the obligations of Company hereunder.

## 7. RESERVATION AND AUTHORIZATION OF COMMON STOCK; REGISTRATION WITH OR APPROVAL OF ANY GOVERNMENTAL AUTHORITY

From and after the Initial Closing Date, Company shall at all times reserve and keep available for issue upon the exercise of Warrants such number of its authorized but unissued shares of Common Stock as will be sufficient to permit the exercise in full of all outstanding Warrants. All shares of Common Stock which shall be so issuable, when issued upon exercise of any Warrant and payment therefor in accordance with the terms of such Warrant, shall be duly and validly issued and fully paid and nonassessable, and not subject to preemptive rights.

Before taking any action which would cause an adjustment reducing the Current Warrant Price below the then par value, if any, of the shares of Common Stock issuable upon exercise of the Warrants, Company shall take any corporate action which may be necessary in order that Company may validly and legally issue fully paid and non-assessable shares of such Common Stock at such adjusted Current Warrant Price.

Before taking any action which would result in an adjustment in the number of shares of Common Stock for which this Warrant is exercisable or in the Current Warrant Price, Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

If any shares of Common Stock required to be reserved for issuance upon exercise of Warrants require registration or qualification with any governmental authority or other governmental approval or filing under any federal or state law (otherwise than as provided in Section 9 or as required by any blue sky laws) before such shares may be so issued, Company will in good faith and as expeditiously as possible and at its expense endeavor to cause such shares to be duly registered.

## 8. TAKING OF RECORD; STOCK AND WARRANT TRANSFER BOOKS

In the case of all dividends or other distributions by Company to the holders of its Common Stock with respect to which any provision of Section 4 refers to the taking of a record of such holders, Company will in each such case take such a record and will take such record as of the close of business on a Business Day. Company will not at any time, except upon dissolution, liquidation or winding up of Company, close its

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stock transfer books or warrant transfer books so as to result in preventing or delaying the exercise or transfer of any Warrant.

## 9. RESTRICTIONS ON TRANSFERABILITY

The Warrants and the Warrant Stock shall not be transferred, hypothecated or assigned before satisfaction of the conditions specified in this Section 9, which conditions are intended to ensure compliance with the provisions of the Securities Act with respect to the Transfer of any Warrant or any Warrant Stock. Holder, by acceptance of this Warrant, agrees to be bound by the provisions of this Section 9.

**9.1 Restrictive Legend.** Except as otherwise provided in this Section 9, each certificate for Warrant Stock initially issued upon the exercise of this Warrant, and each certificate for Warrant Stock issued to any subsequent transferee of any such certificate, shall be stamped or otherwise imprinted with a legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and may not be transferred in violation of such Act or the rules and regulations thereunder."

(b) Except as otherwise provided in this Section 9, each Warrant shall be stamped or otherwise imprinted with a legend in substantially the following form:

"This Warrant and the securities represented hereby have not been registered under the Securities Act of 1933, as amended, and may not be transferred in violation of such Act, the rules and regulations thereunder or the provisions of this Warrant."

**9.2 Notice of Proposed Transfers; Requests for Registration.** Prior to or promptly following any Transfer of any Warrants or any shares of Restricted Common Stock, the holder of such Warrants or Restricted Common Stock shall give written notice (a "Transfer Notice") to Company of such Transfer. Each certificate, if any, evidencing such shares of Restricted Common Stock issued upon

such Transfer shall bear the restrictive legend set forth in Section 9.1(a), and each Warrant issued upon such Transfer shall bear the restrictive legend set forth in Section 9.1(b), unless in the opinion of counsel to such holder which is reasonably acceptable to Company such legend is not required in order to ensure compliance with the Securities Act.

The holders of Warrants and Warrant Stock shall have the right to request registration of such Warrant Stock pursuant to Sections 9.3 and 9.4.

**9.3 Required Registration.** Upon receipt of a written request from the holders of Warrants and/or Warrant Stock representing at least an aggregate of 33% of the total of (i) all shares of Warrant Stock then subject to purchase upon exercise of all Warrants and (ii) all shares of Warrant Stock then outstanding, and which are Restricted Common Stock requesting that Company effect the registration of Warrant Stock issuable upon

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the exercise of such holder's Warrants or of any of such holder's Warrant Stock under the Securities Act and specifying the intended method or methods of disposition thereof, Company shall promptly notify all holders of Warrants and Warrant Stock in writing of the receipt of such request and each such holder, in lieu of exercising its rights under Section 9.4, may elect (by written notice sent to Company within ten Business Days from the date of such holder's receipt of the aforementioned Company's notice) to have its shares of Warrant Stock included in such registration thereof pursuant to this Section 9.3. Thereupon Company shall, as expeditiously as is possible, use its reasonable efforts to effect the registration under the Securities Act of all shares of Warrant Stock which Company has been so requested to register by such holders for sale, all to the extent required to permit the disposition (in accordance with the intended method or methods thereof, as aforesaid) of the Warrant Stock so registered; provided, however, that Company shall not be required to effect more than three registrations of any Warrant Stock pursuant to this Section 9.3, unless Company shall be eligible to file a registration statement on Form S-3 (or other comparable short form) under the Securities Act, in which event there shall be no limit on the number of such registrations pursuant to this Section 9.3.

**9.4 Incidental Registration.** If Company at any time proposes to file on its behalf and/or on behalf of any of its security holders (the "demanding security holders") a registration statement under the Securities Act on any form (other than a registration statement on Form S-4 or S-8 or any successor form for securities to be offered in a transaction of the type referred to in Rule 145 under the Securities Act or to employees of Company pursuant to any employee benefit plan, respectively) for the general registration of securities to be sold for cash with respect to its Common Stock or any other class of equity security (as defined in Section 3(a)(11) of the Exchange Act) of Company, it will give written notice to all holders of Warrants or Warrant Stock at least 30 days before the initial filing with the Commission of such registration statement, which notice shall set forth the intended method of disposition of the securities proposed to be registered by Company. The notice shall offer to include in such filing the aggregate number of shares of Warrant Stock, and the number of shares of Common Stock for which this Warrant is exercisable, as such holders may request.

Each holder of any such Warrants or any such Warrant Stock desiring to have Warrant Stock registered under this Section 9.4 shall advise Company in writing within 30 days after the date of receipt of such offer from Company, setting forth the amount of such Warrant Stock for which registration is requested. Company shall thereupon include in such filing the number of shares of Warrant Stock for which registration is so requested, subject to the next sentence, and shall use reasonable efforts to effect registration under the Securities Act of such shares. If the managing underwriter of a proposed public offering shall advise Company in writing that, in its opinion, the distribution of the Warrant Stock requested to be included in the registration concurrently with the securities being registered by Company or such demanding security holder would materially and adversely affect the distribution of such securities by Company or such demanding security holder, then all selling security holders (other than any demanding security holder or Company who initially requested such registration) shall reduce the amount of securities each intended to distribute through such offering on a pro rata basis.

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**9.5 Registration Procedures.** If Company is required by the provisions of this Section 9 to use its reasonable efforts to effect the registration of any of its securities under the Securities Act, Company will, as expeditiously as possible:

- a. prepare and file with the Commission a registration statement with respect to such securities and use reasonable efforts to cause such registration statement to become and remain effective for a period of time required for the disposition of such securities by the holders thereof, but not to exceed 180 days;
- b. prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all securities covered by such registration statement until the earlier of such time as all of such securities have been disposed of in a public offering or the expiration of 180 days;
- c. furnish to such selling security holders such number of copies of a summary prospectus or other prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents, as such selling security holders may reasonably request;

- d. use reasonable efforts to register or qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions within the United States and Puerto Rico as each holder of such securities shall request (provided, however, that Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service or process), and do such other reasonable acts and things as may be required of it to enable such holder to consummate the disposition in such jurisdiction of the securities covered by such registration statement;
- e. furnish, at the request of any holder requesting registration of Warrant Stock pursuant to Section 9.3 where the Warrant Stock is to be sold through underwriters, on the date that such shares of Warrant Stock are delivered to the underwriters for sale pursuant to such registration, (1) an opinion, dated such date, of the independent counsel representing Company for the purposes of such registration, addressed to the underwriters, in customary form and covering matters of the type customarily covered in such legal opinions; and (2) a comfort letter dated such date, from the independent certified public accountants of Company, addressed to the underwriters, in a customary form and covering matters of the type customarily covered by such comfort letters as the underwriters shall reasonably request;
- f. enter into customary agreements (including an underwriting agreement in customary form) and take such other actions as are reasonably required in order to expedite or facilitate the disposition of such securities; and
- g. otherwise use reasonable efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as

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reasonably practicable, but not later than 18 months after the effective date of the registration statement, an earnings statement covering the period of at least 12 months beginning with the first full month after the effective date of such registration statement, which earnings statements shall satisfy the provisions of Section 11(a) of the Securities Act.

It shall be a condition precedent to the obligation of Company to take any action pursuant to this Section 9 in respect of the securities which are to be registered at the request of any holder of Warrants or Warrant Stock that such holder shall furnish to Company such information regarding the securities held by such holder and the intended method of disposition thereof as Company shall reasonably request and as shall be required in connection with the action taken by Company.

**9.6 Expenses.** All expenses incurred in complying with Section 9, including, without limitation, all registration and filing fees (including all expenses incident to filing with the NASD), printing expenses, fees and disbursements of counsel for Company, the reasonable fees and expenses of one counsel for the selling security holders (selected by those holding a majority of the shares being registered) in connection with all registrations pursuant to Section 9.3 and in connection with one registration pursuant to Section 9.4, expenses of any special audits incident to or required by any such registration and expenses of complying with the securities or blue sky laws of any jurisdictions pursuant to Section 9.5(d), shall be paid by Company, except that

- a. all such expenses in connection with any amendment or supplement to the registration statement or prospectus filed more than 180 days after the effective date of such registration statement because any holder of Warrant Stock has not effected the disposition of the securities requested to be registered shall be paid by such holder; and
- b. Company shall not be liable for any fees, discounts or commissions to any underwriter or any fees or disbursements of counsel for any underwriter in respect of the securities sold by such holder of Warrant Stock.

**9.7 Indemnification and Contribution.** In the event of any registration of any of the Warrant Stock under the Securities Act pursuant to this Section 9, Company shall indemnify and hold harmless the holder of such Warrant Stock, such holder's directors and officers, and each other Person (including each underwriter) who participated in the offering of such Warrant Stock and each other Person, if any, who controls such holder or such participating Person within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which such holder or any such director or officer or participating Person or controlling Person may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based up on (i) any alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which such securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or (ii) any alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse such holder or such director, officer or participating Person or controlling Person for any legal or any other expenses

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reasonably incurred by such holder or such director, officer or participating Person or controlling Person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any alleged untrue statement or alleged omission made in such registration statement, preliminary prospectus, prospectus or amendment or supplement in reliance upon and in conformity with written information furnished to Company by such holder specifically for use therein or (in



the case of any registration pursuant to Section 9.3) so furnished for such purposes by any underwriter. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such holder or such director, officer or participating Person or controlling Person, and shall survive the transfer of such securities by such holder.

(b) Each holder of any Warrant Stock, by acceptance thereof, agrees to indemnify and hold harmless Company, its directors and officers and each other Person, if any, who controls Company within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several, to which Company or any such director or officer or any such Person may become subject under the Securities Act or any other statute or at common law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon information in writing provided to Company by such holder of such Warrant Stock specifically for use in the following documents and contained, on the effective date thereof, in any registration statement under which securities were registered under the Securities Act at the request of such holder, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, but in an amount not to exceed the net proceeds received by such holder in the offering.

(c) If the indemnification provided for in this Section 9 from the indemnifying party is unavailable to an indemnified party hereunder in respect of any losses, claims, damages, liabilities or expenses referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified parties in connection with the actions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified parties shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified parties, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. The liability of any holder of Warrant Stock hereunder shall not exceed the net proceeds received by it in the offering.

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The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 9.7(c) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

**9.8 Termination of Restrictions.** Notwithstanding the foregoing provisions of Section 9, the restrictions imposed by this Section upon the transferability of the Warrants, the Warrant Stock and the Restricted Common Stock (or Common Stock issuable upon the exercise of the Warrants) and the legend requirements of Section 9.1 shall terminate as to any particular Warrant or share of Warrant Stock or Restricted Common Stock (or Common Stock issuable upon the exercise of the Warrants) (i) when and so long as such security shall have been effectively registered under the Securities Act and disposed of pursuant thereto or (ii) when Company shall have received an opinion of counsel reasonably satisfactory to it that such shares may be transferred without registration thereof under the Securities Act. Whenever the restrictions imposed by Section 9 shall terminate as to this Warrant, as hereinabove provided, the Holder hereof shall be entitled to receive from Company, at the expense of Company, a new Warrant bearing the following legend in place of the restrictive legend set forth hereon:

"THE RESTRICTIONS ON TRANSFERABILITY OF THE WITHIN WARRANT CONTAINED IN SECTION 9 HEREOF TERMINATED ON \_\_\_\_\_, \_\_\_\_\_, AND ARE OF NO FURTHER FORCE AND EFFECT."

All Warrants issued upon registration of transfer, division or combination of, or in substitution for, any Warrant or Warrants entitled to bear such legend shall have a similar legend endorsed thereon. Whenever the restrictions imposed by this Section shall terminate as to any share of Restricted Common Stock, as hereinabove provided, the holder thereof shall be entitled to receive from Company, at Company's expense, a new certificate representing such Common Stock not bearing the restrictive legend set forth in Section 9.1(a).

**9.9 Listing on Securities Exchange.** If Company shall list any shares of Common Stock on any securities exchange, it will, at its expense, list thereon, maintain and, when necessary, increase such listing of, all shares of Common Stock issued or, to the extent permissible under the applicable securities exchange rules, issuable upon the exercise of this Warrant so long as any shares of Common Stock shall be so listed during the Exercise Period.

**9.10 Certain Limitations on Registration Rights.** Notwithstanding the other provisions of Section 9,

- i. Company shall not be obligated to register the Warrant Stock of any holder if, in the opinion of counsel to Company reasonably satisfactory to the holder and its counsel (or, if the holder has engaged an investment banking firm, to such

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investment banking firm and its counsel), the sale or other disposition of such holder's Warrant Stock, in the manner

proposed by such holder (or by such investment banking firm), may be effected without registering such Warrant Stock under the Securities Act.

- ii. Company shall not be obligated to register the Warrant Stock of any holder pursuant to Section 9.3, if Company has had a registration statement, under which such holder had a right to have its Warrant Stock included pursuant to Sections 9.3 or 9.4, declared effective within six months prior to the date of the request pursuant to Section 9.3.
- iii. The Company shall not be obligated to register the Warrant Stock of any holder if the restrictions imposed by this Section upon the transferability of the Warrant Stock of such holder are terminated pursuant to Section 9.8 hereof.

**9.11 Selection of Managing Underwriters.** The managing underwriter or underwriters for any offering of Warrant Stock to be registered pursuant to Section 9.3 shall be selected by the holders of a majority of the shares being so registered (other than any shares being registered pursuant to Section 9.4) and shall be reasonably acceptable to Company.

## **10. SUPPLYING INFORMATION**

Company shall cooperate with each Holder of a Warrant and each holder of Restricted Common Stock in supplying such information as may be reasonably necessary for such holder to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of an exemption from the Securities Act for the sale of any Warrant or Restricted Common Stock.

## **11. LOSS OR MUTILATION**

Upon receipt by Company from any Holder of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of this Warrant and indemnity reasonably satisfactory to it (it being understood that the written agreement of such Holder shall be sufficient indemnity), and in case of mutilation upon surrender and cancellation hereof, Company will execute and deliver in lieu hereof a new Warrant of like tenor to such Holder; provided, in the case of mutilation, no indemnity shall be required if this Warrant in identifiable form is surrendered to Company for cancellation.

## **12. OFFICE OF COMPANY**

As long as any of the Warrants remain outstanding, Company shall maintain an office or agency (which may be the principal executive offices of Company) where the Warrants may be presented for exercise, registration of transfer, division or combination as provided in this Warrant.

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## **13. Fillings**

Company will file on or before the required date all regular or periodic reports (pursuant to the Exchange Act) with the Commission and will deliver to Holder promptly upon their becoming available one copy of each report, notice or proxy statement sent by Company to its stockholders generally, and of each regular or periodic report (pursuant to the Exchange Act) and any registration statement, prospectus or written communication (other than transmittal letters) (pursuant to the Securities Act), filed by Company with (i) the Commission or (ii) any securities exchange on which shares of Common Stock are listed.

## **14. LIMITATION OF LIABILITY**

No provision hereof, in the absence of affirmative action by Holder to purchase shares of Common Stock, and no enumeration herein of the rights or privileges of Holder hereof, shall give rise to any liability of such Holder for the purchase price of any Common Stock or as a stockholder of Company, whether such liability is asserted by Company or by creditors of Company.

## **15. MISCELLANEOUS**

**15.1 Nonwaiver and Expenses.** No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies. If Company fails to make, when due, any payments provided for hereunder, or fails to comply with any other provision of this Warrant, Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

**15.2 Notice Generally.** Any notice, demand, request, consent, approval, declaration, delivery or other communication hereunder to be made pursuant to the provisions of this Warrant shall be sufficiently given or made if in writing and either delivered in person with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, or by telecopy and confirmed by telecopy answerback, addressed as follows:

- a. If to any Holder or holder of Warrant Stock, at its last known address appearing on the books of Company maintained for such purpose.

b. If to Company at

LSB Industries, Inc.  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Attention: David Shear  
Telecopy Number: 405-235-5067

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or at such other address as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration, delivery or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied and confirmed by telecopy answerback, or three (3) Business Days after the same shall have been deposited in the United States mail. Failure or delay in delivering copies of any notice, demand, request, approval, declaration, delivery or other communication to the person designated above to receive a copy shall in no way adversely affect the effectiveness of such notice, demand, request, approval, declaration, delivery or other communication.

**15.3 Remedies.** Each holder of Warrant and Warrant Stock, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under Section 9 of this Warrant. Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of Section 9 of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

**15.4 Successors and Assigns.** Subject to the provisions of Sections 3.1 and 9, this Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors of Company and the successors and assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and, with respect to Section 9 hereof, holders of Warrant Stock, and shall be enforceable by any such Holder or holder of Warrant Stock.

**15.5 Amendment.** This Warrant and all other Warrants may be modified or amended or the provisions hereof waived with the written consent of Company and the Majority Holders, provided that no such Warrant may be modified or amended to reduce the number of shares of Common Stock for which such Warrant is exercisable or to increase the price at which such shares may be purchased upon exercise of such Warrant (before giving effect to any adjustment as provided therein) without the prior written consent of the Holder thereof.

**15.6 Severability.** Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Warrant.

**15.7 Headings.** The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

**15.8 Governing Law.** This Warrant, other than issues relating to the validity of the Common Stock, shall be governed by the laws of the State of New York, without regard to the provisions thereof relating to conflict of laws.

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**15.9 Waiver of Jury Trial.** Company hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Warrant or the enforcement of all rights and defenses under this Warrant.

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IN WITNESS WHEREOF, Company has caused this Warrant to be duly executed and its corporate seal to be impressed hereon and attested by its Secretary or an Assistant Secretary.

Dated: May 24, 2002

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby  
Name: Tony M. Shelby  
Title: Vice President

Attest:

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

Name:

Title:

EXHIBIT A

SUBSCRIPTION FORM

[To be executed only upon exercise of Warrant]

The undersigned registered owner of this Warrant irrevocably exercises this Warrant for the purchase of \_\_\_\_\_ shares of Common Stock of LSB Industries, Inc. and herewith makes payment therefor, all at the price and on the terms and conditions specified in this Warrant and requests that certificates for the shares of Common Stock hereby purchased (and any securities or other property issuable upon such exercise) be issued in the name of and delivered to \_\_\_\_\_ whose address is \_\_\_\_\_ and, if such shares of Common Stock shall not include all of the shares of Common Stock issuable as provided in this Warrant, that a new Warrant of like tenor and date for the balance of the shares of Common Stock issuable hereunder be delivered to the undersigned.

\_\_\_\_\_  
(Name of Registered Owner)

\_\_\_\_\_  
(Signature of Registered Owner)

\_\_\_\_\_  
(Street Address)

\_\_\_\_\_  
(City) (State) (Zip Code)

NOTICE: The signature on this subscription must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT B

ASSIGNMENT FORM

FOR VALUE RECEIVED the undersigned registered owner of this Warrant hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned under this Warrant, with respect to the number of shares of Common Stock set forth below:

Name and Address of Assignee

No. of Shares of  
Common Stock

and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney-in-fact to register such transfer on the books of LSB Industries, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Print Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Witness: \_\_\_\_\_

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## INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT ("Intercreditor Agreement"), dated as of May 24, 2002, is by and among Guggenheim Investment Management, LLC, a Delaware limited liability company, in its capacity as collateral agent pursuant to the Guggenheim Loan Agreement (as hereinafter defined) for the purchasers who are party from time to time thereto (in such capacity, together with its successors and assigns in such capacity, "Guggenheim", as hereinafter further defined), the purchasers from time to time party to the Guggenheim Loan Agreement (the "Guggenheim Purchasers" as hereinafter further defined), Foothill Capital Corporation, a California corporation, in its capacity as agent pursuant to the Working Capital Loan Agreement (as hereinafter defined) for the lenders who are party from time to time thereto (in such capacity, together with its successors and assigns in such capacity, the "Agent", as hereinafter further defined) and the lenders from time to time party to the Working Capital Loan Agreement (the "Working Capital Lenders" as hereinafter further defined).

### R E C I T A L S:

A. Guggenheim Purchasers have entered into one or more financing arrangements with ClimaChem (as herein defined), pursuant to which Guggenheim and the Guggenheim Purchasers have made and may, upon certain terms and conditions, continue to make loans to ClimaChem secured by a security interest in substantially all of the assets and properties of ClimaChem and certain other Obligors (as hereinafter defined).

B. Working Capital Lenders have entered into one or more financing arrangements with Borrowers (as herein defined), including ClimaChem, pursuant to which Agent and the Working Capital Lenders have made and may, upon certain terms and conditions, continue to make loans and provide other financial accommodations to Borrowers secured by a security interest in substantially all of the assets and properties of Borrowers and certain other Obligors.

C. Guggenheim, Guggenheim Purchasers, Agent and Working Capital Lenders desire to enter into this Intercreditor Agreement to (i) confirm the relative priorities of the security interests of Guggenheim and Guggenheim Purchasers, on the one hand, and Agent and Working Capital Lenders, on the other hand, in the assets and properties of Borrowers and certain Obligors, and (ii) provide for the orderly sharing among them, in accordance with such priorities, of the proceeds of such assets and properties upon any foreclosure thereon or other disposition thereof.

In consideration of the mutual benefits accruing to Guggenheim, Guggenheim Purchasers, Agent and Working Capital Lenders hereunder and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

#### 1. DEFINITIONS.

As used above and in this Intercreditor Agreement, the following terms shall have the meanings ascribed to them below:

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1.1 "Agent" shall mean Foothill Capital Corporation, a California corporation, in its capacity as agent pursuant to the Working Capital Loan Agreement for the benefit and on behalf of Working Capital Lenders, and its successors and assigns (and including, without limitation, any successor, assignee or additional person at any time acting as agent for the benefit of or on behalf of it and/or Working Capital Lenders).

1.2 "Agreements" shall mean, collectively, the Guggenheim Loan Documents and the Working Capital Loan Documents.

1.3 "Borrower" or "Borrowers" shall mean (a) with respect to the Guggenheim Loan Documents, ClimaChem and each of the guarantors party to the Guggenheim Loan Agreement as credit parties and (b) with respect to the Working Capital Loan Documents, ClimaChem and each of the subsidiaries of ClimaChem identified on the signature pages of the Working Capital Loan Agreement, and in each case, their successors and assigns, including, without limitation, any receiver, trustee or debtor-in-possession on behalf of such person or on behalf of any successor or assign.

1.4 "Cherokee" means Cherokee Nitrogen Company, an Oklahoma corporation.

1.5 "ClimaChem" shall mean ClimaChem, Inc., an Oklahoma corporation.

1.6 "Collateral" shall mean, collectively, the Guggenheim Priority Collateral and the Working Capital Priority Collateral.

1.7 "EDC" shall mean El Dorado Chemical Company, an Oklahoma corporation.

1.8 "Event of Default" means each "Event of Default" or similar term, as such term is defined in any Guggenheim Loan Documents or any Working Capital Loan Documents, so long as any such Agreement is in effect.

1.9 "Guggenheim" shall mean Guggenheim Investment Management, LLC, a Delaware limited liability company, in its capacity as collateral agent pursuant to the Guggenheim Loan Agreement for the benefit and on behalf of Guggenheim Purchasers, and its successors and assigns (and including, without limitation, any successor, assignee or additional person at any time acting as agent for the benefit of or on behalf of it and/or Guggenheim Purchasers).

1.10 "Guggenheim Debt" shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by Borrower or any Obligor to Guggenheim and/or the Guggenheim Purchasers arising under the Guggenheim Loan Documents, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, including principal, interest, charges, fees, costs, indemnities and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Guggenheim Loan Documents or after the commencement of any Insolvency Proceeding with respect to Borrower or any Obligor (and

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including, without limitation, the payment of interest which would accrue and become due but for the commencement of such Insolvency Proceeding whether or not such interest is allowed or allowable in whole or in part in any such Insolvency Proceeding). The foregoing limitation shall not apply to, and the term "Guggenheim Debt" shall include, obligations consisting of interest, fees, indemnities, costs or expenses, in each case whether or not charged by Guggenheim to the loan account of Borrower maintained by Guggenheim pursuant to the Guggenheim Loan Agreement.

1.11 "Guggenheim Loan Agreement" shall mean the Securities Purchase Agreement, dated as of May 24, 2002, among ClimaChem, the Obligors, Guggenheim and the Guggenheim Purchasers, as such agreement may hereafter be amended, modified, supplemented, extended, renewed or restated.

1.12 "Guggenheim Loan Documents" shall mean the Guggenheim Loan Agreement and all agreements, documents and instruments at any time executed and/or delivered by Borrower or any Obligor or any other person with, to or in favor of Guggenheim or Guggenheim Purchasers in connection therewith or related thereto, as all of the foregoing now exist or may hereafter be amended, modified, supplemented, extended, renewed or restated.

1.13 "Guggenheim Priority Collateral" shall mean (a) the real estate and all equipment located at the El Dorado, Arkansas manufacturing facility of EDC, except the DSN plant, precious metals and rolling stock, (b) the real estate and all equipment located at the Cherokee, Alabama manufacturing facility of Cherokee, except precious metals and rolling stock, (c) the real estate and all equipment located at the Hallowell, Kansas manufacturing facility of Universal, except precious metals and rolling stock, (d) all shares of capital stock issued by Universal that are owned by ClimaChem or any Obligor, and (e) the proceeds and products, whether tangible or intangible of any of the foregoing, including proceeds of insurance covering any or all of the foregoing and any condemnation awards received by ClimaChem or any Obligor in respect of the foregoing, and any and all tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

1.14 "Guggenheim Purchasers" shall mean the Persons from time to time party to the Guggenheim Loan Agreement as purchasers, and their successors and assigns (including any other purchaser or group of purchasers that at any time succeeds to or refinances, replaces or substitutes for all or any portion of the Guggenheim Debt at any time and from time to time).

1.15 "Guggenheim Termination Date" shall mean the date that Guggenheim and the Guggenheim Purchasers have received payment in full in cash or other immediately available funds of all of the Guggenheim Debt and the agreement of Guggenheim and the Guggenheim Purchasers to make any further loans or provide any further financial accommodations to ClimaChem shall have been terminated.

1.16 "Insolvency Proceeding" shall mean, as to any Person, any of the following: (a) any case or proceeding with respect to such Person under the U.S. Bankruptcy Code or any other Federal or State bankruptcy, insolvency, reorganization or other law affecting creditors' rights or any other or similar proceedings seeking any stay, reorganization,

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arrangement, composition or readjustment of the obligations and indebtedness of such Person or (b) any proceeding seeking the appointment of any trustee, receiver, liquidator, custodian or other insolvency official with similar powers with respect to such Person or any of its assets or (c) any proceeding for liquidation, dissolution or other winding up of the business of such Person or (d) any assignment for the benefit of creditors or any marshalling of assets of such Person.

1.17 "Lenders" shall mean, collectively, Guggenheim, Guggenheim Purchasers, Agent and Working Capital Lenders, and their respective successors and assigns, being sometimes referred to herein individually as a "Lender".

1.18 "Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance (including, but not limited to, easements, rights of way and the like), lien (statutory or other), security agreement or transfer intended as security, including without limitation, any conditional sale or other title retention agreement, the interest of a lessor under a capital lease or any financing lease having substantially the same economic effect as any of the foregoing.

1.19 "Lien Enforcement Action" means (a) any action by any Lender to foreclose on the Lien of such Person in all or a material portion of the applicable Collateral, (b) any action by any Lender to take possession of, sell or otherwise realize (judicially or non-judicially) upon all or any material portion of the applicable Collateral (including, without limitation, by setoff or notification of account debtors), and/or (c) the commencement by any Lender of any legal proceedings against or with respect to all or any material portion of the applicable Collateral to facilitate the actions described in (a) and (b) above.



1.20 "Obligors" shall mean, individually and collectively, any person (other than a Borrower or Parent) liable on or in respect of the Working Capital Debt or the Guggenheim Debt, and each of their successors and assigns, including, without limitation, a receiver, trustee or debtor-in-possession on behalf of such person or on behalf of any such successor or assign.

1.21 "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including without imitation, any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock company, trust, joint venture, or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.22 "Release Event" means (a) prior to the occurrence of an Insolvency Proceeding by or against any Borrower or Obligor, either (i) the existence of an uncured or unwaived Event of Default under the Guggenheim Loan Agreement or the Working Capital Loan Agreement, as applicable, or (ii) the taking of any Lien Enforcement Action with respect to the Guggenheim Priority Collateral by Guggenheim or the Working Capital Priority Collateral by the Agent, provided that any Release Event occurring prior to an Insolvency Proceeding by or against any Borrower or Obligor shall, except as otherwise provided in clause (b) below, cease to constitute a Release Event as to a particular Lender as of the occurrence of such Insolvency Proceeding if such Lender continues making loans or providing letter of credit accommodations

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or other financial accommodations (whether pursuant to such Lender's applicable Agreements or otherwise) or consents to the use of cash collateral after the occurrence of such Insolvency Proceeding or (b) after the occurrence of an Insolvency Proceeding by or against any Borrower or Obligor, the occurrence of any of the following: (i) the entry of an order of the Bankruptcy Court pursuant to Section 363 of the U.S. Bankruptcy Code authorizing the sale of all or substantially all of the Borrower's and Obligors' assets or (ii) the taking of any Lien Enforcement Action with respect to the Guggenheim Priority Collateral by Guggenheim or the Working Capital Priority Collateral by the Agent, as applicable, or by any Lender or the entry of an order of the Bankruptcy Court pursuant to Section 362 of the U.S. Bankruptcy Code vacating the automatic stay and authorizing any Lender to take any Lien Enforcement Action with respect to the Guggenheim Priority Collateral or the Working Capital Priority Collateral, as applicable.

1.23 "Universal" shall mean Universal Tech Corporation, an Oklahoma corporation.

1.24 "Working Capital Debt" shall mean all obligations, liabilities and indebtedness of every kind, nature and description owing by Borrowers or any Obligor to Agent and/or any of the Working Capital Lenders arising under the Working Capital Loan Documents, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, including principal, interest, charges, fees, costs, indemnities and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Working Capital Loan Documents or after the commencement of any Insolvency Proceeding with respect to Borrower or any Obligor (and including, without limitation, the payment of interest which would accrue and become due but for the commencement of such Insolvency Proceeding, whether or not such interest is allowed or allowable in whole or in part in any such Insolvency Proceeding). For the avoidance of doubt, the term "Working Capital Debt" shall include obligations consisting of interest, fees, indemnities, costs or expenses, in each case whether or not charged by Agent to the loan account of Borrowers maintained by Agent pursuant to the Working Capital Loan Agreement.

1.25 "Working Capital Lenders" shall mean the financial institutions from time to time party to the Working Capital Loan Agreement, and their successors and assigns (including any other lender or group of lenders that at any time succeeds to or refinances, replaces or substitutes for all or any portion of the Working Capital Debt at any time and from time to time).

1.26 "Working Capital Loan Agreement" shall mean the Loan and Security Agreement, dated as of April 13, 2001, by and among Borrowers, Obligors, Agent and Working Capital Lenders, as such agreement has been prior to the date hereof and may hereafter be amended, modified, supplemented, extended, renewed or restated.

1.27 "Working Capital Loan Documents" shall mean the Working Capital Loan Agreement and all agreements, documents and instruments at any time executed and/or delivered by any Borrower or any Obligor or any other person with, to or in favor of Agent or Working Capital Lenders in connection therewith or related thereto, as all of the foregoing now exist or may hereafter be amended, modified, supplemented, extended, renewed or restated.

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1.28 "Working Capital Priority Collateral" shall mean all assets and properties of any kind whatsoever, real or personal, tangible or intangible, and wherever located that are owned by any Borrower or any Obligor (including, without limitation, all accounts, inventory, equipment, general intangibles, investment property, financial assets, books and records and all proceeds and products of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof), except for the Guggenheim Priority Collateral.

1.29 "Working Capital Termination Date" shall mean the date that the Agent and the Working Capital Lenders have received payment in full in cash or other immediately available funds of all of the Working Capital Debt and the agreement of the Agent and

the Working Capital Lenders to make any further loans or provide any further financial accommodations to Borrower shall have been terminated.

1.30 All terms defined in the Uniform Commercial Code as in effect in the State of New York, unless otherwise defined herein shall have the meanings set forth therein. All references to any term in the plural shall include the singular and all references to any term in the singular shall include the plural.

## 2. SECURITY INTERESTS; PRIORITIES; REMEDIES.

2.1 Guggenheim and Guggenheim Purchasers hereby acknowledge that Agent acting for and on behalf of the Working Capital Lenders has been granted Liens upon all of the Collateral pursuant to the Working Capital Loan Documents to secure the Working Capital Debt. Agent and Working Capital Lenders hereby acknowledge that Guggenheim acting for and on behalf of the Guggenheim Purchasers has been granted Liens upon all of the Collateral pursuant to the Guggenheim Loan Documents to secure the Guggenheim Debt.

2.2 Notwithstanding the order or time of attachment, or the order, time or manner of perfection, or the order or time of filing or recordation of any document or instrument, or other method of perfecting a Lien in favor of each Lender in any Collateral, and notwithstanding any conflicting terms or conditions which may be contained in any of the Agreements, (a) the Liens upon the Guggenheim Priority Collateral of Guggenheim and Guggenheim Purchasers have and shall have priority over the Liens upon the Guggenheim Priority Collateral of Agent and Working Capital Lenders and such Liens of Agent and Working Capital Lenders upon the Guggenheim Priority Collateral are and shall be junior and subordinate to the Liens of Guggenheim and Guggenheim Purchasers in the Guggenheim Priority Collateral to the extent the Liens of Guggenheim in the Guggenheim Priority Collateral are valid, enforceable and perfected, and (b) the Liens upon the Working Capital Priority Collateral of Agent and Working Capital Lenders have and shall have priority over the Liens upon the Working Capital Priority Collateral of Guggenheim and Guggenheim Purchasers and such Liens of Guggenheim and Guggenheim Purchasers upon the Working Capital Priority Collateral are and shall be junior and subordinate to the Liens of Agent and Working Capital Lenders in the Working Capital Priority Collateral to the extent the Liens of Agent in the Working Capital Priority Collateral are valid, enforceable and perfected.

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2.3 The priorities of the Liens provided in Section 2.2 shall not be altered or otherwise affected by any amendment, modification, supplement, extension, renewal, restatement, replacement or refinancing of the Guggenheim Debt or the Working Capital Debt, nor by any action or inaction which any of the Lenders may take or fail to take in respect of the Collateral so long as the respective Liens of Guggenheim and Agent in the Collateral are valid, perfected and enforceable. Each of the Lenders agrees not to enter into any agreement with another creditor of any Borrower to subordinate the Lien of such Lender in any Collateral under the Agreements to the Lien of such other creditor in such Collateral, or to subordinate the right of such Lender to the payment of the Guggenheim Debt or the Working Capital Debt, as the case may be, to the payment of the indebtedness or claim of any other creditor of any Borrower or any Obligor, in each case without the prior written consent of the Agent or Guggenheim, as the case may be.

2.4 (a) All proceeds of the Working Capital Priority Collateral received by Guggenheim or any Guggenheim Purchaser (other than cash advanced by Agent and the Working Capital Lenders to the Borrowers under the Working Capital Loan Agreement and thereafter remitted by ClimaChem or any Obligor to Guggenheim and the Guggenheim Purchasers) shall be forthwith paid over, in the funds and currency received, to Agent for application to the Working Capital Debt (subject to Sections 2.2 and 2.5 hereof and unless otherwise required by law). All proceeds of any Collateral received by Guggenheim or any Guggenheim Purchasers after the Guggenheim Termination Date shall be forthwith paid over, in the funds and currency received, to Agent for application to the Working Capital Debt (subject to Section 2.5 hereof and unless otherwise required by law).

(b) All proceeds of the Guggenheim Priority Collateral received by Agent or any Working Capital Lender shall be forthwith paid over, in the funds and currency received, to Guggenheim for application to the Guggenheim Debt (subject to Sections 2.2 and 2.5 hereof and unless otherwise required by law), except that, if prior to the Working Capital Termination Date, (i) Agent or any Working Capital Lender receives funds of up to \$250,000 in the aggregate without actual knowledge that such funds constitute proceeds of the Guggenheim Priority Collateral and Agent or such Working Capital Lender has applied such proceeds to the Working Capital Debt or given credit for such proceeds to Borrowers for purposes of determining the amount of the Working Capital Debt available to Borrowers, Agent or such Working Capital Lender, as the case may be, shall have no obligation with respect to such proceeds or liability therefor to Guggenheim, except that under such circumstances if there is Excess Availability (as defined in the Working Capital Loan Agreement as in effect on the date hereof, the "**Working Capital Excess Availability**") at the time Agent or such Working Capital Lender receives notice from Guggenheim that such proceeds are proceeds of Guggenheim Priority Collateral then Agent or such Working Capital Lender shall pay over the proceeds of such Collateral to Guggenheim to the extent that after giving effect to such payment there is Working Capital Excess Availability (subject to Sections 2.2 and 2.5 hereof) and if the amount of such proceeds exceeds the amount of Working Capital Excess Availability at such time, then thereafter, Agent or such Working Capital Lender shall from time to time pay over the proceeds of such Collateral to Guggenheim to the extent that after giving effect to such payments there is Working Capital Excess Availability (subject to Sections 2.2 and 2.5 hereof) and (ii) Agent or any Working Capital Lender receives funds in excess of \$250,000 in the aggregate that constitute proceeds of the Guggenheim Priority Collateral, upon the receipt of notice from Agent that such proceeds are

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proceeds of Guggenheim Priority Collateral, Agent or such Working Capital Lender shall pay over such proceeds to Guggenheim to be applied to the Guggenheim Debt. All proceeds of any Collateral received by Agent or any Working Capital Lender after the Working Capital Termination Date shall be forthwith paid over, in the funds and currency received, to Guggenheim for application to the Guggenheim Debt (subject to Section 2.5 hereof and unless otherwise required by law).

(c) Each Lender shall only be required to pay over to the other Lender proceeds of Collateral to the extent that the Lender to receive such proceeds has a valid, enforceable and perfected security interest in the Collateral, the sale or other disposition of which gave rise to such proceeds, provided that, in the event that the Lender receiving the proceeds does not have a valid, enforceable or perfected security interest in such Collateral, Borrowers and Obligors hereby agree that no Lender shall have any liability to any Borrower or any Obligor and each Borrower and each Obligor hereby waive and release such Lenders from any claims, actions or proceedings as a result of the payment of such proceeds. Each Borrower acknowledges and agrees that any Lender may make such advances on behalf of and for the account of Borrower to any other Lender in the event that such Lender is required to make any payments to such other Lender pursuant to this Section 2.4 or as may otherwise be required herein (and such Lender may charge the applicable loan account of such Borrower or Obligor with such amounts), even if after giving effect thereto there are no further loans available to Borrowers under the applicable Agreement (and notwithstanding any dispute or claim between any Borrower or any Obligor and any other Lender) and Borrowers and Obligors hereby waive and release any claim against any Lender as a result of such payment. For purposes of this Section 2.4, payments made by any Borrower or any Obligor to (i) Agent or Working Capital Lenders in respect of the Working Capital Debt with proceeds of loans by Guggenheim to Borrowers or (ii) Guggenheim or Guggenheim Purchasers in respect of the Guggenheim Debt with proceeds of loans by Agent or Working Capital Lenders to Borrowers shall not be construed to constitute proceeds of any Collateral.

2.5 Each Lender shall be solely responsible for perfecting and maintaining the perfection of its Lien in and to each item constituting the Collateral in which such Lender has been granted a Lien. The foregoing provisions of this Intercreditor Agreement are intended solely to govern the respective Lien priorities as between the Lenders and shall not impose on any Lender any obligations in respect of the disposition of proceeds of any Collateral which would conflict with prior perfected claims therein in favor of any other person or any order or decree of any court or governmental authority or any applicable law. Each of the Lenders agrees that it will not contest the validity, perfection, priority or enforceability of any Liens upon any Collateral.

2.6 In the event that any Lender shall, in the exercise of its respective rights under its Agreements or otherwise, receive possession or control of any books and records of any Borrower or any Obligor which contain information identifying or pertaining to any Collateral in which any other Lender has been granted a Lien, the Lender receiving possession or control of such books and records shall notify Agent (if Guggenheim or any Guggenheim Purchaser is sending such notice) or Guggenheim (if Agent or any Working Capital Lender is sending such notice) that it has received such books and records and shall, as promptly as practicable

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thereafter, make available to the other Lenders such books and records for inspection and duplication.

2.7 Subject to the terms and conditions set forth in this Intercreditor Agreement (including, without limitation, Section 2.9 below and Section 2.10 below), (a) at all times prior to the Guggenheim Loan Termination Date, Guggenheim on behalf of the Guggenheim Purchasers shall have the exclusive right to manage, perform and enforce the terms of the Guggenheim Loan Documents with respect to the Guggenheim Priority Collateral, to exercise and enforce all privileges and rights thereunder according to its discretion and the exercise of its business judgment, including, without limitation, the exclusive right (i) to take or retake control or possession of such Collateral, (ii) to determine whether insurance proceeds and condemnation awards relative to the Guggenheim Priority Collateral are applied to the Guggenheim Debt or used to repair or replace the Collateral with similar Collateral and (iii) to hold, prepare for sale, process, sell, lease, dispose of, or liquidate such Collateral and (b) at all times prior to the Working Capital Termination Date, Agent on behalf of the Working Capital Lenders shall have the exclusive right to manage, perform and enforce the terms of the Working Capital Loan Documents with respect to the Working Capital Priority Collateral, to exercise and enforce all privileges and rights thereunder according to its discretion and the exercise of its business judgment, including, without limitation, the exclusive right (i) to take or retake control or possession of such Collateral, (ii) to determine whether insurance proceeds and condemnation awards relative to the Working Capital Priority Collateral are applied to the Working Capital Debt or used to repair or replace the Collateral with similar Collateral and (iii) to hold, prepare for sale, process, sell, lease, dispose of, or liquidate such Collateral.

2.8 Guggenheim shall give Agent and Agent shall give to Guggenheim concurrently with the giving thereof to the Borrower (i) a copy of any written notice by such person of an Event of Default under its Agreements with the Borrower, or written notice of demand of payment from Borrower or any Obligor, and (ii) a copy of any written notice sent by such Lender to Borrower or any Obligor at any time an Event of Default under such person's Agreements with Borrower exists stating such person's intention to exercise any of its enforcement rights or remedies, including written notice pertaining to any foreclosure on any of the Collateral or other judicial or non-judicial remedy in respect thereof to the extent permitted hereunder, and any legal process served or filed in connection therewith; provided, that, the failure of any party to give notice as required hereby shall not affect the relative priorities of Agent's, Guggenheim's or any Lender's respective Liens as provided herein or the validity or effectiveness of any such notice as against the Borrower or any Obligor. Each of Guggenheim and Agent will provide such information as it may have to the other as the other may from time to time reasonably request concerning the status of the exercise of any Lien Enforcement Action relating to any Collateral in which the other party has a Lien on and Guggenheim and Agent shall be available on a reasonable basis during normal business hours to review with each other alternatives available in exercising such rights, including, but not limited to, advising each other of any offers which may be made from time to time by prospective purchasers of such Collateral, provided, that, the failure of any party to do any of the foregoing shall not affect the relative priorities of Agent's or any Lender's respective

Liens as provided herein or the validity or effectiveness of any notices or demands as against Borrower or any Obligor. Borrower and each Obligor hereby consent and agree to each Lender providing any such information to the other

Lenders and to such actions by the Lenders and waive any rights or claims against any Lender arising as a result of such information or actions.

2.9 (a) Subject to Section 2.10(b) hereof, Agent and Working Capital Lenders shall, at any time prior to the Guggenheim Termination Date and during the continuance of a Release Event: (i) upon the request of Guggenheim with respect to any of the Guggenheim Priority Collateral (which request shall specify the proposed terms of the sale and the type and amount of consideration to be received in connection therewith), release or otherwise terminate its Liens on such Guggenheim Priority Collateral, to the extent such Collateral is to be sold or otherwise disposed of either by (A) Guggenheim, any Guggenheim Purchaser or their agents, or (B) Borrower or any Obligor with the consent of Guggenheim; (ii) promptly upon the request of Guggenheim authorize, execute and/or deliver such release documents and confirmations of the authorization to file UCC amendments and terminations provided for herein, in each case as Guggenheim may reasonably require in connection with such sale or other disposition by Guggenheim, any Guggenheim Purchaser, or any of their agents, Borrower or any Obligor, as the case may be, provided, that, (A) such release by the Agent and Working Capital Lenders shall not extend to or otherwise affect any of the rights of the Agent or Working Capital Lenders to the proceeds from any such sale or other disposition of Collateral, (B) Guggenheim shall promptly apply such proceeds to the Guggenheim Debt (it being understood and agreed that any commitment of Guggenheim to make any loans to the Borrower shall be automatically and immediately reduced by the amount of such application), (C) any proceeds from such sale or other disposition received by Guggenheim in excess of the Guggenheim Debt (and such amounts that may be held as cash collateral), shall be promptly delivered to Agent (subject to Section 2.5 hereof), and (D) no such release and/or authorization documents shall be delivered (1) to Borrower or any Obligor or (2) more than one Business Day prior to the date of the closing of the sale or disposition of such Collateral; provided further, that if the closing of the sale or disposition of such Collateral is not consummated, Guggenheim shall promptly return all release and/or authorization documents to Agent; and (iii) be deemed to have consented under the Agreements to which such Agent and Working Capital Lenders are a party to such sale or other disposition. The effectiveness of any such release or termination by Agent and Working Capital Lenders shall be subject to the sale or other disposition of such Collateral described in such request or on substantially similar terms and shall lapse in the event such sale or other disposition does not occur within five (5) business days of the anticipated closing date. In any sale or other disposition of any of the Guggenheim Priority Collateral by Guggenheim, Guggenheim shall conduct such sale or other disposition in a commercially reasonable manner. Notwithstanding the foregoing, prior to the Guggenheim Termination Date and the occurrence of a Release Event, Agent shall take such release actions and shall be deemed to consent to a sale or disposition of the Guggenheim Priority Collateral in accordance with clauses (i), (ii) and (iii) above with respect to sales or dispositions of Guggenheim Priority Collateral the proceeds of which do not exceed \$250,000 in the aggregate.

(b) Subject to Section 2.10(a) hereof, Guggenheim and Guggenheim Purchasers shall, at any time prior to the Working Capital Termination Date and during the continuance of a Release Event: (i) upon the request of Agent with respect to any of the Working Capital Priority Collateral (which request shall specify the proposed terms of the sale and the type and amount of consideration to be received in connection therewith), release or otherwise terminate its Liens, if any, on such Collateral, to the extent such Collateral is to be sold or

otherwise disposed of either by (A) Agent, any Working Capital Lender or their agents, or (B) Borrower with the consent of Agent; (ii) promptly upon the request of Agent authorize, execute and/or deliver such release documents and confirmations of the authorization to file UCC amendments and terminations provided for herein, in each case as Agent may reasonably require in connection with such sale or other disposition by Agent, any Working Capital Lender or any of their agents or Borrower, as the case may be, provided, that, (A) such release by the Agent, any Working Capital Lender or their agents shall not extend to or otherwise affect any of the rights of Guggenheim, if any, to the proceeds from any such sale or other disposition of such Collateral, (B) Agent shall promptly apply any proceeds from the Working Capital Priority Collateral to the Working Capital Debt, including cash collateral for the Working Capital Debt arising in connection with the letter of credit accommodations (but not to exceed 105% of the face amount of such letter of credit accommodations) (subject to Sections 2.2 and 2.5 hereof), (C) any proceeds from such sale or other disposition received by Agent in excess of the Working Capital Debt, shall be promptly delivered to Guggenheim (subject to Section 2.5 hereof) to the extent that Guggenheim has a Lien on the assets giving rise to such proceeds, and (D) no such release and/or authorization documents shall be delivered (1) to Borrower or any Obligor or (2) more than one Business Day prior to the date of the closing of the sale or disposition of such Collateral; provided further, that if the closing of the sale or disposition of such Collateral is not consummated, Agent shall promptly return all release and/or authorization documents to Guggenheim; and (iii) be deemed to have consented under the Agreements to which Guggenheim is a party to such sale or other disposition. The effectiveness of any such release or termination by Guggenheim and Guggenheim Purchasers shall be subject to the sale or other disposition of such Collateral described in such request or on substantially similar terms and shall lapse in the event such sale or other disposition does not occur within five (5) business days of the anticipated closing date. In any sale or other disposition of any of the Working Capital Priority Collateral by Agent in which Guggenheim has a Lien on such Collateral, Agent shall conduct such sale or other disposition in a commercially reasonable manner. Notwithstanding the foregoing, prior to the Working Capital Termination Date and the occurrence of a Release Event, Guggenheim shall take such release actions and shall be deemed to consent to a sale or disposition of the Working Capital Priority Collateral in which such Lender has a Lien in accordance with

clauses (i), (ii) and (iii) above with respect to sales or dispositions of such Collateral the proceeds of which do not exceed \$250,000 in the aggregate.

2.10 (a) Except as specifically provided in Section 2.11 below, notwithstanding any rights or remedies available to Agent or Working Capital Lenders under any of the Working Capital Loan Documents, applicable law or otherwise, prior to the Guggenheim Termination Date, neither Agent nor any Working Capital Lender shall, directly or indirectly, seek to foreclose, take possession of, sell or otherwise realize upon (judicially or non-judicially) its Lien on any Guggenheim Priority Collateral or assert any claims or interests therein (including, without limitation, by setoff or notification of account debtors) or commence any legal proceedings against or with respect to any Guggenheim Priority Collateral to facilitate the actions set forth above.

(b) Except as specifically provided in Section 2.11 below, notwithstanding any rights or remedies available to Guggenheim or Guggenheim Purchasers under any of the Guggenheim Loan Documents, applicable law or otherwise, prior to the Working Capital Termination Date, neither Guggenheim nor any Guggenheim Purchaser shall, directly or

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indirectly, seek to foreclose, take possession of, sell or otherwise realize upon (judicially or non-judicially) its Lien, if any, on any Working Capital Priority Collateral or assert any claims or interests therein (including, without limitation, by setoff or notification of account debtors) or commence any legal proceedings against or with respect to any such Collateral to facilitate the actions set forth above. Except as specifically provided in Section 2.11 below, notwithstanding any rights or remedies available to Guggenheim and Guggenheim Purchasers under any of the Guggenheim Loan Documents, applicable law or otherwise, prior to the Working Capital Termination Date, neither Guggenheim nor any Guggenheim Purchaser shall, directly or indirectly, seek to foreclose, take possession of, sell or otherwise realize upon (judicially or non-judicially) its Lien, if any, on any Guggenheim Priority Collateral or assert any claims or interests therein (including, without limitation, by setoff or notification of account debtors) or commence any legal proceedings against or with respect to any such Collateral to facilitate the actions set forth above in connection with any Event of Default under the Guggenheim Loan Agreement for a period of ninety days (90) days commencing with the date the Agent receives written notice from Guggenheim of the occurrence of such Event of Default, except that the foregoing shall not apply to any actions by Guggenheim or any Guggenheim Purchaser to prepare for or commence marketing activities for any Guggenheim Priority Collateral.

2.11 Section 2.10 shall not be construed to in any way limit or impair the right of: (a) any Lender to bid for or purchase any Collateral at any private or judicial foreclosure upon such Collateral initiated by any such person, (b) Agent or any Working Capital Lender to join (but not control) any foreclosure or other judicial lien enforcement proceeding with respect to the Guggenheim Priority Collateral initiated by Guggenheim or any Guggenheim Purchaser, so long as it does not delay or interfere in any material respect with the exercise by Guggenheim or such Guggenheim Purchaser of its rights as provided in this Intercreditor Agreement, or Guggenheim or any Guggenheim Purchaser to join (but not control) any foreclosure or other judicial lien enforcement proceeding with respect to the Working Capital Priority Collateral on which Guggenheim has a Lien initiated by Agent or any Working Capital Lender, so long as it does not delay or interfere in any material respect with the exercise by Agent or any Working Capital Lender of their rights as provided in this Intercreditor Agreement, (c) Agent to receive any remaining proceeds of Guggenheim Priority Collateral to the extent that Agent had a Lien on the assets giving rise to such proceeds after satisfaction and payment in full in cash of all Guggenheim Debt, (d) Guggenheim to receive any remaining proceeds of Working Capital Priority Collateral to the extent that Guggenheim had a Lien on the assets giving rise to such proceeds after satisfaction and payment in full in cash of all Working Capital Debt, (e) Agent or Working Capital Lenders to take any Lien Enforcement Action against the Working Capital Priority Collateral and (f) Guggenheim or Guggenheim Purchasers to take any Lien Enforcement Action against the Guggenheim Priority Collateral except as otherwise provided in Section 2.10(b).

2.12 In the event Guggenheim or any Guggenheim Purchaser shall acquire control or possession of any of the Guggenheim Priority Collateral or shall, through the exercise of remedies under the Guggenheim Loan Documents or otherwise, sell any such Collateral to any third party (a "**Third Party Purchaser**"), Guggenheim and Guggenheim Purchasers shall permit Agent or any of its agents or designees (or require as a condition of such sale to the Third Party Purchaser that the Third Party Purchaser agree to permit Agent), at its option: (a) to enter any of the premises of Borrower or any Obligor constituting such Guggenheim Priority

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Collateral under such control or possession (or sold to a Third Party Purchaser) in order to inspect, remove or take any action with respect to the Working Capital Priority Collateral (including manufacturing or processing raw materials or work-in-process into finished inventory) or to enforce Agent's rights with respect thereto, including, but not limited to, the examination and removal of Working Capital Priority Collateral and the examination and duplication of any Guggenheim Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of books and records of Borrower and Obligors related to the Working Capital Priority Collateral or to otherwise handle, deal with or dispose of any Working Capital Priority Collateral, such right to include, without limiting the generality of the foregoing, the right to conduct one or more public or private sales or auctions on any premises included as part of the Guggenheim Priority Collateral; and (b) to use any Guggenheim Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of computers or other data processing equipment related to the storage or processing of records, documents or files pertaining to the Working Capital Priority Collateral and use any Guggenheim Priority Collateral under such control or possession (or sold to a Third Party Purchaser) consisting of other equipment to handle, deal with or dispose of any Working Capital Priority Collateral pursuant to Agent's rights as set forth in the Working Capital Loan Documents, the Uniform Commercial Code of any applicable jurisdiction and other applicable law.

2.13 Guggenheim hereby acknowledges that, during the period any Working Capital Priority Collateral shall be under control or possession of Agent or Working Capital Lenders, Agent and Working Capital Lenders shall not, subject to Section 2.15, be obligated to take any action to protect or to procure insurance with respect to any Guggenheim Priority Collateral that may be located on or in the Working Capital Priority Collateral, it being understood that Agent and Working Capital Lenders shall have no responsibility for loss or damage to the Guggenheim Priority Collateral (other than as a result of the gross negligence or willful misconduct of the Agent and/or the Working Capital Lenders or their agents) and that all risk of loss or damage to the Guggenheim Priority Collateral shall remain with Guggenheim and Guggenheim Purchasers.

(b) Agent hereby acknowledges that, during the period any Guggenheim Priority Collateral shall be under control or possession of Guggenheim or Guggenheim Purchasers, Guggenheim and Guggenheim Purchasers shall not be obligated to take any action to protect or to procure insurance with respect to any Working Capital Priority Collateral that may be located on or in the Guggenheim Priority Collateral, it being understood that Guggenheim and Guggenheim Purchasers shall have no responsibility for loss or damage to the Working Capital Priority Collateral (other than as a result of the gross negligence or willful misconduct of Guggenheim and/or the Guggenheim Purchasers or their agents) and that all risk of loss or damage to the Working Capital Priority Collateral shall remain with Agent and the Working Capital Lenders.

2.14 The rights of Agent set forth in Section 2.12(a) and (b) above shall continue until the date ninety (90) days after the date Agent receives written notice from Guggenheim that Guggenheim or any Guggenheim Purchaser has control or possession of substantially all of the Guggenheim Priority Collateral consisting of equipment and real property (except, that such ninety (90) day period shall be reduced by the number of days, if any, that Agent has entered or used the Guggenheim Priority Collateral as described in Section 2.12(a)

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and (b) above, to the extent prior to the date that Guggenheim or any Guggenheim Purchaser has control or possession of such Guggenheim Priority Collateral, or has sold such Guggenheim Priority Collateral to a Third Party Purchaser); provided, that if Guggenheim or any Guggenheim Purchaser has entered into an agreement for the sale of all or substantially all of the Guggenheim Priority Collateral consisting of equipment and real property in a bona fide arm's length transaction with an unaffiliated person, the rights of Agent set forth in Sections 2.12(a) and (b) above shall only continue until the later of the date sixty (60) days after the date Agent receives written notice from Guggenheim of such agreement, together with a copy thereof, as duly authorized, executed and delivered by the parties thereto or the date that the proposed purchaser shall require as a condition of such sale that possession of the equipment and real property be given by Guggenheim or such Guggenheim Purchaser to such purchaser. In connection with any such sale, Guggenheim and Guggenheim Purchasers shall use reasonable efforts to cause such purchaser to not require as a condition of the sale that possession of the equipment and real property be given by Guggenheim or any Guggenheim Purchaser to such purchaser prior to the end of the ninety (90) day period provided for above or if such period is not acceptable to the purchaser, then the longest period equal to or greater than the sixty (60) day period provided for above which may be acceptable (provided that such efforts by Guggenheim and Guggenheim Purchasers shall not be required if in the good faith determination of Guggenheim such efforts will result in an adverse change in the terms of the proposed sale or have a reasonable likelihood of causing the sale not to occur). The time periods set forth herein shall be tolled during the pendency of any proceeding of any Borrower or any Obligor under the U.S. Bankruptcy Code or other proceedings pursuant to which Agent is effectively stayed from enforcing its rights against the Working Capital Priority Collateral. In no event shall (i) Guggenheim and Guggenheim Purchasers take any action to interfere, limit or restrict the rights of Agent or the exercise of such rights by Agent to have access to or to use, on a non-exclusive basis, any of such Guggenheim Priority Collateral under such possession or control pursuant to Section 2.12 prior to the expiration of such periods and (ii) Agent and Working Capital Lenders take any action to interfere, limit or restrict the rights of Guggenheim to have access to or to use, on a non-exclusive basis, any of such Guggenheim Priority Collateral under the Agent's possession or control pursuant to Section 2.12 prior to the expiration of such periods.

2.15 During the actual occupation and control by Agent, its agents or representatives, of any real property constituting Guggenheim Priority Collateral during the access and use period permitted by Section 2.12 above, Agent shall be (a) obligated to maintain general liability insurance for such real property, substantially similar to the insurance maintained by Borrower or any Obligor on such real property, naming Guggenheim for the benefit of Guggenheim Purchasers as mortgagee, loss payee and additional insured, if such insurance is not otherwise in effect and (b) obligated to repair at its expense any physical damage to such real property resulting from any act or omission of Agent or its agents or representatives pursuant to such access, occupancy, use or control of such equipment or real property, and to leave the premises in a condition substantially similar to the condition of such premises prior to the date of the commencement of the use thereof by Agent.

2.16 (a) If Guggenheim or any Guggenheim Purchaser should honor a request by Borrower or any Obligor for a loan, advance or other financial accommodation under the Guggenheim Loan Agreement, whether or not Guggenheim or such Guggenheim Purchaser has knowledge that the honoring of such request would result in an Event of Default, or act,

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condition or event which with notice or passage of time or both would constitute an Event of Default under the Working Capital Loan Agreement, in no event shall Guggenheim or such Guggenheim Purchaser have any liability to Agent or Working Capital Lenders as a result of such breach, and without limiting the generality of the foregoing, Agent and Working Capital Lenders agree that Guggenheim and Guggenheim Purchasers shall not have any liability for tortious interference with contractual relations or for inducement by Guggenheim or any Guggenheim Purchaser of Borrower or any Obligor to breach of contract or otherwise. Nothing contained in this Section 2.16(a) shall limit or waive any right that any Lender has to enforce any of the provisions of such Lender's Agreements against Borrower or any Obligor.

&# (b) If Agent or any Working Capital Lender should honor a request by any Borrower for a loan, advance or other financial accommodation under the Working Capital Loan Agreement, whether or not the Agent or such Working Capital Lender has knowledge that the honoring of such request would result in an Event of Default, or act, condition or event which with notice or passage of time or both would constitute an Event of Default under the Guggenheim Loan Agreement, in no event shall Agent or such Working Capital Lender have any liability to Guggenheim or any Guggenheim Purchaser as a result of such breach, and without limiting the generality of the foregoing, Guggenheim and Guggenheim Purchasers agree that Agent and Working Capital Lenders shall not have any liability for tortious interference with contractual relations or for inducement by Agent or any Working Capital Lender of any Borrower to breach of contract or otherwise. Nothing contained in this Section 2.16(b) shall limit or waive any right that any Lender has to enforce any of the provisions of such Lender's Agreements against Borrower or any Obligor.

3. [Intentionally Omitted.]

4. MISCELLANEOUS.

4.1 Representations.

a. Each of Agent and Working Capital Lenders represents and warrants severally for itself and not jointly to Guggenheim that:

i. the execution, delivery and performance of this Intercreditor Agreement by Agent and Working Capital Lenders (A) are within the powers of Agent and Working Capital Lenders, (B) have been duly authorized by Agent and Working Capital Lenders, and (C) do not contravene any law, any provision of any of the Working Capital Loan Documents or any agreement to which Agent or any Working Capital Lender is a party or by which it is bound; and

ii. this Intercreditor Agreement constitutes the legal, valid and binding obligations of Agent and each Working Capital Lender, enforceable against it in accordance with its terms and shall be binding on such person.

b. Guggenheim hereby represents and warrants to Agent and Working Capital Lenders that:

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(i) the execution, delivery and performance of this Intercreditor Agreement by Guggenheim (A) is within the powers of Guggenheim, (B) has been duly authorized by Guggenheim, and (C) does not contravene any law, any provision of the Guggenheim Loan Documents or any agreement to which Guggenheim is a party or by which it is bound; and

(ii) this Intercreditor Agreement constitutes the legal, valid and binding obligations of Guggenheim, enforceable against it in accordance with its terms and shall be binding on it.

4.2 Amendments. Any waiver, permit, consent or approval by any of the Lenders of or under any provision, condition or covenant to this Intercreditor Agreement must be in writing and shall be effective only to the extent it is set forth in writing and as to the specific facts or circumstances covered thereby. Any amendment of this Intercreditor Agreement must be in writing and signed by Guggenheim and the Agent.

4.3 Successors and Assigns.

(a) This Intercreditor Agreement shall be binding upon the Lenders and their respective successors and assigns and shall inure to the benefit of the Lenders and their respective successors, participants and assigns.

(b) To the extent provided in their respective Agreements, each of the Lenders reserves the right to grant participations in, or otherwise sell, assign, transfer or negotiate all or any part of, or any interest in, the Guggenheim Debt or the Working Capital Debt, as the case may be; provided, that, no Lender shall be obligated to give any notices to or otherwise in any manner deal directly with any participant in the Guggenheim Debt or the Working Capital Debt, as the case may be, and no participant shall be entitled to any rights or benefits under this Intercreditor Agreement except through the Lender with which it is a participant and any sale of a participation in the Guggenheim Debt or the Working Capital Debt, as applicable, shall be expressly made subject to the provisions of this Intercreditor Agreement.

(c) In connection with any participation or other transfer or assignment, a Lender (i) may, subject to its respective Agreement, disclose to such assignee, participant or other transferee or assignee all documents and information which such Lender now or hereafter may have relating to the Borrower or any Obligor or the Collateral and (ii) shall disclose to such participant or other transferee or assignee the existence and terms and conditions of this Intercreditor Agreement.

(d) In the case of an assignment or transfer, the assignee or transferee acquiring any interest in the Working Capital Debt or the Guggenheim Debt, as the case may be, shall execute and deliver to each of the Lenders a written acknowledgment of receipt of a copy of this Intercreditor Agreement and the written agreement by such person to be bound by the terms of this Intercreditor Agreement, provided, that, if any Lender assigns or transfers a portion of the Working Capital Debt or the Guggenheim Debt, as the case may be, to an affiliate controlled by or under common control with such Lender, such Lender shall cause such person to become bound by the terms of this Intercreditor Agreement, but no notice of such assignment or

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transfer needs to be given by such Lender to any other Lender and such affiliate shall not be required to execute any written acknowledgment or agreement. Unless and until Guggenheim receives notice of such assignment or transfer by Agent or such Working Capital Lender to an affiliate, Guggenheim shall only be obligated to give any notices hereunder to the assigning Agent or such Working Capital Lender and otherwise deal with such persons and any action by such persons shall be binding on such assignee or transferee. Unless and until Agent receives notice of such assignment or transfer by Guggenheim or such Guggenheim Purchaser to an affiliate, Agent shall only be obligated to give any notices hereunder to the assigning Guggenheim or such Guggenheim Purchaser and otherwise deal with such persons and any action by such persons shall be binding on such assignee or transferee. In addition, in the event of an assignment or transfer by Guggenheim of less than all of the Guggenheim Debt, or by Agent or any Working Capital Lender of less than all of the Working Capital Debt, the assigning Lender shall agree with the assignee to appoint one person as an agent to act on their behalf under this Intercreditor Agreement for purposes of receiving payments and notices hereunder and shall notify the other parties hereto of the person who shall act in such capacity, which in the case of a Working Capital Lender, shall be the Agent, and in the case of a Guggenheim Purchaser, shall be Guggenheim.

(e) In connection with any assignment or transfer of any or all of the indebtedness of Guggenheim and the Guggenheim Purchasers or any or all rights of Guggenheim in the property of the Borrower or any Obligor (other than pursuant to a participation), Agent and the Working Capital Lenders agree to execute and deliver an agreement identical to this Intercreditor Agreement (subject to changing names of parties, documents and addresses, as appropriate) in favor of any such assignee or transferee and, in addition, will execute and deliver an agreement identical to this Intercreditor Agreement (subject to changing names of parties, documents and addresses, as appropriate) in favor of any third person who succeeds to or refinances, replaces or substitutes for any or all of the Guggenheim Purchasers' financing of Borrower and of any of the Obligors, whether such successor or replacement financing occurs by transfer, assignment, "takeout" or any other means or vehicle. In connection with any assignment or transfer of any or all of the indebtedness of Agent and the Working Capital Lenders or any or all rights of Agent in the property of the Borrower or any Obligor (other than pursuant to a participation), Guggenheim and the Guggenheim Purchasers agree to execute and deliver an agreement identical to this Intercreditor Agreement (subject to changing names of parties, documents and addresses, as appropriate) in favor of any such assignee or transferee and, in addition, will execute and deliver an agreement identical to this Intercreditor Agreement (subject to changing names of parties, documents and addresses, as appropriate) in favor of any third person who succeeds to or refinances, replaces or substitutes for any or all of the Working Capital Lenders' financing of the Borrowers, whether such successor or replacement financing occurs by transfer, assignment, "takeout" or any other means or vehicle.

#### 4.4 Insolvency.

This Intercreditor Agreement shall be applicable both before and after the filing of any petition by or against any Borrower or any Obligor under the U.S. Bankruptcy Code and all converted or succeeding cases in respect thereof, and all references herein to any Borrower or any Obligor shall be deemed to apply to the trustee for any Borrower or any Obligor and any Borrower or any Obligor as debtor-in-possession. The relative rights of Guggenheim, Agent and

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Working Capital Lenders in or to any distributions from or in respect of any Collateral or proceeds of Collateral, shall continue after the filing thereof on the same basis as prior to the date of the petition, subject to any court order approving the financing of, or use of cash collateral by, any Borrower or any Obligor as debtor-in-possession.

#### 4.5 Bankruptcy Financing.

(a) If any Borrower or any Obligor shall become subject to a case under the U.S. Bankruptcy Code and if as debtor(s)-in-possession move for approval of financing to be provided in good faith by any Lender (the "DIP Lender") under Section 364 of the U.S. Bankruptcy Code or the use of cash collateral with the consent of the DIP Lender under Section 363 of the U.S. Bankruptcy Code, the other Lenders agree that no objection will be raised by such Persons to any such financing on the grounds of a failure to provide "adequate protection" for the Liens of such Persons so long as (i) the interest rate, fees, advance rates, lending sublimits and limits and other terms are commercially reasonable under the circumstances, (ii) such Persons retain a Lien on the Collateral (including proceeds thereof arising after the commencement of such proceeding) with the same priority as existed prior to the commencement of the case under the U.S. Bankruptcy Code (for example, if the Working Capital Lenders are the DIP Lender, such DIP Lender's Lien on the Guggenheim Priority Collateral shall not prime Guggenheim's Lien thereon without Guggenheim's consent), (iii) such Persons receive replacement Liens on post-petition assets to the same extent granted to the DIP Lender, with the same priority as existed prior to the commencement of the case under the U.S. Bankruptcy Code, and (iv) such financing or use of cash collateral is subject to the terms of this Intercreditor Agreement.

(b) Nothing contained herein shall be deemed to limit the rights of any Lender to object to post-petition financing or use of cash collateral on any grounds other than the failure to provide "adequate protection" for the Liens of such Lender.

(c) For purposes of this Section, notice of a proposed financing or use of cash collateral shall be deemed given when given, in the manner prescribed by Section 4.7 hereof.

4.6 Bailee for Perfection. Each Lender hereby appoints the other Lenders as agent for the purposes of perfecting their respective Liens in and on any of the Collateral in the possession or under the control of such person, and each Lender acknowledges and agrees to such appointment; provided, that, a Lender in the possession or having control of any Collateral shall not have any duty or liability to protect or preserve any rights pertaining to any of the Collateral and, except for gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction, the non-possessing



and/or non-controlling Lenders hereby waive and release the other Lender from, all claims and liabilities arising pursuant to the possessing Lender's role as bailee with respect to the Collateral, so long as the possessing and/or controlling Lender shall use the same degree of care with respect thereto as the possessing and/or controlling Lender uses for similar property pledged to the possessing and/or controlling Lender as collateral for indebtedness of others to the possessing and/or controlling Lender. After (a) the Guggenheim Termination Date, Guggenheim shall deliver the remainder of the Collateral, if any, in its possession to Agent and, if permitted under the applicable agreements, transfer control of the remainder of the Collateral, if any, under its

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control to Agent, in each case, except as may otherwise be required by applicable law or court order and (b) the Working Capital Termination Date, Agent shall deliver the remainder of the Collateral, if any, in its possession to Guggenheim and, if permitted under the applicable agreements, transfer control of the remainder of the Collateral, if any, under its control to Guggenheim, in each case, except as may otherwise be required by applicable law or court order

4.7 Notices. All notices, requests and demands to or upon the respective parties hereto shall be in writing and shall be deemed duly given, made or received: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if mailed by certified mail, return receipt requested, five (5) days after mailing to the parties at their addresses set forth below (or to such other addresses as the parties may designate in accordance with the provisions of this Section):

To Guggenheim:

[Guggenheim Partners]

\_\_\_\_\_  
\_\_\_\_\_  
Attention: \_\_\_\_\_  
Telecopier No.: \_\_\_\_\_  
Telephone No.: \_\_\_\_\_

To Agent or Working Capital Lenders:

Foothill Capital Corporation  
One Boston Place  
Suite 1800  
Boston, Massachusetts 02108  
Attention: Business Finance Division  
Manager  
Telecopier No.: 617-523-1697  
Telephone No.: 617-624-4000

Each of the above Lenders may change the address(es) to which all notices, requests and other communications are to be sent by giving written notice of such address change to the other Lenders in conformity with this Section 4.7, but such change shall not be effective until notice of such change has been received by the other Lenders.

4.8 Counterparts. This Intercreditor Agreement may be executed in any number of counterparts, each of which shall be an original with the same force and effect as if the signatures thereto and hereto were upon the same instrument.

4.9 Governing Law. The validity, construction and effect of this Intercreditor Agreement shall be governed by the internal laws of the State of New York, but excluding any principles of conflicts of law or other rule of law that would cause the application of the law of any jurisdiction other than the laws of the State of New York.

4.10 Consent to Jurisdiction; Waiver of Jury Trial. EACH PARTY HERETO HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF

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THE SUPREME COURT OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY (INCLUDING ITS APPELLATE DIVISION), AND OF ANY OTHER APPELLATE COURT IN THE STATE OF NEW YORK, FOR THE PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS INTERCREDITOR AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH PARTY HERETO HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS INTERCREDITOR AGREEMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO IN RESPECT OF THIS INTERCREDITOR AGREEMENT, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUIT Y OR OTHERWISE.

4.11 Complete Agreement. This written Intercreditor Agreement is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement with respect to the subject matter hereof.

4.12 No Third Parties Benefited. Except as expressly provided in Section 4.3 and consents which are deemed to have been given under Section 2.9 hereof, this Intercreditor Agreement is solely for the benefit of the Lenders and their respective successors, participants and assigns, and no other person shall have any right, benefit, priority or interest under, or because of the existence of, this Intercreditor Agreement.

4.13 Disclosures; Non-Reliance. Each Lender has the means to, and shall in the future remain, fully informed as to the financial condition and other affairs of Borrower and the Obligors and no Lender shall have any obligation or duty to disclose any such information to the other Lenders. Except as expressly set forth in this Intercreditor Agreement, the parties hereto have not otherwise made to each other nor do they hereby make to each other any warranties, express or implied, nor do they assume any liability to each other with respect to: (a) the enforceability, validity, value or collectability of any of the Working Capital Debt or the Guggenheim Debt or any guarantee or security which may have been granted to any of them in connection therewith, (b) any Borrower's or any Obligors' title to or right to transfer any of the Collateral, or (c) any other matter except as expressly set forth in this Intercreditor Agreement.

4.14 Terms. This Intercreditor Agreement is a continuing agreement and shall remain in full force and effect until the indefeasible satisfaction in full of all Guggenheim Debt and Working Capital Debt and the termination of the financing arrangements between Guggenheim, Agent, Working Capital Lenders, the Borrowers and the Obligors.

4.15 Lien Subordination. Nothing in this Intercreditor Agreement (including, without limitation, the definitions of Guggenheim Debt or Working Capital Debt) shall be deemed to subordinate the right of any Lender to receive payment to the right of any other Lender to receive payment (whether before or after the occurrence of any Insolvency

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Proceeding), it being the intent of the parties hereto that, to the extent provided in this Intercreditor Agreement, (a) the Lien of Agent and Working Capital Lenders with respect to Guggenheim Priority Collateral shall be junior to the Lien of Guggenheim in the Guggenheim Priority Collateral as a result of the Lien priorities provided for in this Intercreditor Agreement (so that all proceeds of Guggenheim Priority Collateral shall, to the extent provided in this Intercreditor Agreement, be paid to Guggenheim for application to Guggenheim Debt before Agent or Working Capital Lenders shall receive any proceeds of such Collateral for application to the Working Capital Debt), and (b) the Lien of Guggenheim with respect to Working Capital Priority Collateral shall be junior to the Lien of Agent and Working Capital Lenders in the Working Capital Priority Collateral as a result of the Lien priorities provided for in this Intercreditor Agreement (so that all proceeds of Working Capital Priority Collateral shall, to the extent provided in this Intercreditor Agreement, be paid to Agent and Working Capital Lenders for application to Working Capital Debt before Guggenheim shall receive any proceeds of such Collateral for application to the Guggenheim Debt).

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

Guggenheim Investment Management, LLC,  
as Collateral Agent for the Guggenheim Purchasers

By: /s/ Todd Boehly

Name:

Title:

FOOTHILL CAPITAL CORPORATION,  
as Agent for the Working Capital Lenders

By: /s/ Tony Aloï

Name:

Title:

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Each of the undersigned hereby acknowledges and agrees to the foregoing terms and provisions. By its signature below, each of the undersigned agrees that it will, together with its successors and assigns, be bound by the provisions hereof to the extent such provisions may be applicable to it.

Each of the undersigned agrees that any Lender holding Collateral does so as bailee (under the UCC) for the other Lenders which have a Lien on such Collateral and is hereby authorized to and may turn over to such other Lenders upon request therefor any such Collateral, after all obligations and indebtedness of the undersigned to the bailee Lender have been fully paid and performed.

Each of the undersigned acknowledges and agrees that: (i) although it may sign this Intercreditor Agreement it is not a party hereto and does not and will not receive any right, benefit, priority or interest under or because of the existence of the foregoing Intercreditor Agreement (except for a consent which is deemed to have been given by the applicable Lender under Section 2.9), and (ii) it will execute and deliver such additional documents and take such additional action as may be necessary or desirable in the reasonable opinion of any of the Lenders to effectuate the provisions and purposes of the foregoing Intercreditor Agreement.

**LSB INDUSTRIES, INC.,**  
an Delaware corporation

By: /s/ Tony M. Shelby  
Title:

**CLIMACHEM, INC.,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**CLIMATE MASTER, INC.,**  
a Delaware corporation

By: /s/ Tony M. Shelby Title:

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**CLIMATECRAFT, INC.,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**CLIMACOOOL, CORP.,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**INTERNATIONAL ENVIRONMENTAL  
CORPORATION,** an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**ACP INTERNATIONAL, LIMITED,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**KOAX CORP.,** an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**LSB CHEMICAL CORP.,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**THE ENVIRONMENTAL GROUP, INC.,** an  
Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**EL DORADO CHEMICAL COMPANY,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**SLURRY EXPLOSIVE CORPORATION,** an  
Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**TRISON CONSTRUCTION, INC.,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title:

**UNIVERSAL TECH CORPORATION,**  
an Oklahoma corporation

By: /s/ Tony M. Shelby  
Title: