

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**Form 10-Q**

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

For the quarterly period ended           **June 30, 2010**          

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number           1-7677          

**LSB Industries, Inc.**

Exact name of Registrant as specified in its charter

          **Delaware**          

State or other jurisdiction of  
incorporation or organization

          **73-**            
**1015226**  
I.R.S. Employer  
Identification No.

          **16 South Pennsylvania Avenue, Oklahoma City, Oklahoma**          

Address of principal executive offices

          **73107**          

(Zip Code)

          **(405) 235-4546**          

Registrant's telephone number, including area code

          **None**          

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The number of shares outstanding of the Registrant's voting common stock, as of July 30, 2010 was 21,093,683 shares, excluding 4,320,462 shares held as treasury stock.

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Information at June 30, 2010 is unaudited)**

	June 30, 2010	December 31, 2009
	(In Thousands)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 65,285	\$ 61,739
Restricted cash	276	30
Short-term investments	-	10,051
Accounts receivable, net	73,759	57,762
Inventories:		
Finished goods	23,084	25,753
Work in process	2,778	2,466
Raw materials	21,347	22,794
Total inventories	47,209	51,013
Supplies, prepaid items and other:		
Prepaid income taxes	-	1,642
Prepaid insurance	2,086	4,136
Precious metals	11,422	13,083
Supplies	5,976	4,886
Other	2,299	1,626
Total supplies, prepaid items and other	21,783	25,373
Deferred income taxes	5,680	5,527
Total current assets	213,992	211,495
Property, plant and equipment, net	121,317	117,962
Other assets:		
Debt issuance costs, net	1,342	1,652
Investment in affiliate	4,126	3,838
Goodwill	1,724	1,724
Other, net	2,274	1,962
Total other assets	9,466	9,176
	<u>\$ 344,775</u>	<u>\$ 338,633</u>

(Continued on following page)

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (continued)**  
**(Information at June 30, 2010 is unaudited)**

	June 30, 2010	December 31, 2009
	(In Thousands)	
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 38,297	\$ 37,553
Short-term financing	955	3,017
Accrued and other liabilities	23,390	23,054
Current portion of long-term debt	3,456	3,205
Total current liabilities	<u>66,098</u>	<u>66,829</u>
Long-term debt	98,459	98,596
Noncurrent accrued and other liabilities	11,252	10,626
Deferred income taxes	12,467	11,975
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued	1,000	1,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 25,413,145 shares issued (25,369,095 at December 31, 2009)	2,541	2,537
Capital in excess of par value	130,828	129,941
Retained earnings	48,504	41,082
	<u>184,873</u>	<u>176,560</u>
Less treasury stock at cost:		
Common stock, 4,320,462 shares (4,143,362 at December 31, 2009)	28,374	25,953
Total stockholders' equity	<u>156,499</u>	<u>150,607</u>
	<u>\$ 344,775</u>	<u>\$ 338,633</u>

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
**Six and Three Months Ended June 30, 2010 and 2009**

	Six Months		Three Months	
	2010	2009	2010	2009
	(In Thousands, Except Per Share Amounts)			
Net sales	\$ 298,802	\$ 288,760	\$ 168,392	\$ 138,563
Cost of sales	235,388	210,205	133,244	100,736
Gross profit	63,414	78,555	35,148	37,827
Selling, general and administrative expense	46,827	44,421	22,238	23,046
Provision for (recoveries of) losses on accounts receivable	(35)	28	(44)	(24)
Other expense	302	334	244	291
Other income	(906)	(190)	(100)	(28)
Operating income	17,226	33,962	12,810	14,542
Interest expense	4,079	2,939	1,999	1,028
Losses (gains) on extinguishment of debt	52	(1,743)	52	(421)
Non-operating other income, net	(38)	(34)	-	(11)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	13,133	32,800	10,759	13,946
Provisions for income taxes	5,891	12,800	4,979	5,451
Equity in earnings of affiliate	(528)	(488)	(267)	(248)
Income from continuing operations	7,770	20,488	6,047	8,743
Net loss from discontinued operations	43	15	38	13
Net income	7,727	20,473	6,009	8,730
Dividends on preferred stocks	305	306	-	-
Net income applicable to common stock	\$ 7,422	\$ 20,167	\$ 6,009	\$ 8,730
Weighted-average common shares:				
Basic	21,227	21,174	21,229	21,238
Diluted	21,692	23,587	22,377	23,674
Income per common share:				
Basic	\$ .35	\$ .95	\$ .28	\$ .41
Diluted	\$ .35	\$ .89	\$ .27	\$ .38

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
**Six Months Ended June 30, 2010**

	Common Stock Shares	Non- Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock- Common	Total
Balance at December 31, 2009	25,369	\$ 3,000	\$ 2,537	\$129,941	\$ 41,082	\$ (25,953)	\$ 150,607
Net income					7,727		7,727
Dividends paid on preferred stocks					(305)		(305)
Stock-based compensation				500			500
Exercise of stock options	43		4	292			296
Excess income tax benefit associated with stock-based compensation				94			94
Acquisition of 177,100 shares of common stock						(2,421)	(2,421)
Conversion of 14 shares of redeemable preferred stock to common stock	1			1			1
Balance at June 30, 2010	25,413	\$ 3,000	\$ 2,541	\$130,828	\$ 48,504	\$ (28,374)	\$ 156,499

Note: For the six and three months ended June 30, 2010, total comprehensive income was \$7,727,000 and \$6,009,000, respectively. For the six and three months ended June 30, 2009, total comprehensive income was \$20,593,000 and \$8,778,000, respectively.

See accompanying notes.

LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
Six Months Ended June 30, 2010 and 2009

	2010	2009
	(In Thousands)	
<b>Cash flows from continuing operating activities:</b>		
Net income	\$ 7,727	\$ 20,473
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Net loss from discontinued operations	43	15
Deferred income taxes	244	5,538
Loss (gain) on extinguishment of debt	52	(1,743)
Losses on sales and disposals of property and equipment	259	220
Gain on property insurance recoveries associated with property, plant and equipment	(495)	-
Depreciation of property, plant and equipment	8,626	7,684
Amortization	311	451
Stock-based compensation	500	514
Provision for (recovery of) losses on accounts receivable	(35)	28
Realization of losses on inventory	(324)	(3,024)
Provision for (realization of) losses on firm sales commitments	(371)	514
Equity in earnings of affiliate	(528)	(488)
Distributions received from affiliate	240	350
Changes in fair value of commodities contracts	246	969
Changes in fair value of interest rate contracts	348	(649)
Other	(10)	-
Cash provided (used) by changes in assets and liabilities:		
Accounts receivable	(16,585)	15,790
Inventories	4,128	12,153
Prepaid and accrued income taxes	2,392	146
Other supplies and prepaid items	1,798	1,315
Accounts payable	2,700	(11,703)
Customer deposits	(77)	(2,121)
Accrued payroll and benefits	(1,054)	(1,983)
Commodities contracts	150	(4,112)
Deferred rent expense	-	(1,424)
Other current and noncurrent liabilities	2,243	(3,781)
Net cash provided by continuing operating activities	12,528	35,132
Capital expenditures	(10,861)	(12,406)
Proceeds from property insurance recoveries associated with property, plant and equipment	1,670	-
Proceeds from sales of property and equipment	11	3
Proceeds from short-term investments	20,053	-
Purchase of short-term investments	(10,002)	-
Proceeds from (deposits of) restricted cash	(246)	518
Other assets	(326)	(209)
Net cash provided (used) by continuing investing activities	299	(12,094)

(Continued on following page)



LSB INDUSTRIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
(Unaudited)  
Six Months Ended June 30, 2010 and 2009

	2010	2009
	(In Thousands)	
<b>Cash flows from continuing financing activities:</b>		
Proceeds from revolving debt facilities	\$ 263,064	\$ 281,103
Payments on revolving debt facilities	(263,064)	(281,103)
Acquisition of 5.5% convertible debentures	(2,494)	(7,134)
Proceeds from other long-term debt, net of fees	47	2,565
Payments on other long-term debt	(2,386)	(687)
Payments on short-term financing	(2,062)	(1,776)
Proceeds from exercise of stock options	296	500
Purchase of treasury stock	(2,421)	-
Excess income tax benefit associated with stock-based compensation	189	657
Dividends paid on preferred stocks	(305)	(306)
Net cash used by continuing financing activities	(9,136)	(6,181)
Cash flows of discontinued operations:		
Operating cash flows	(145)	(53)
Net increase in cash and cash equivalents	3,546	16,804
Cash and cash equivalents at beginning of period	61,739	46,204
Cash and cash equivalents at end of period	<u>\$ 65,285</u>	<u>\$ 63,008</u>
<b>Supplemental cash flow information:</b>		
Cash payments for income taxes, net of refunds	\$ 3,093	\$ 6,459
Noncash investing and financing activities:		
Receivable associated with a property insurance claim	\$ 560	\$ 1,135
Current other assets, accounts payable and long-term debt associated with property, plant and equipment	\$ 5,548	\$ 4,164
Debt issuance costs associated with the acquisition of the 5.5% convertible debentures	\$ 58	\$ 323

See accompanying notes.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1: Basis of Presentation** The accompanying condensed consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company", "We", "Us", or "Our") and its subsidiaries. Through our subsidiaries, we are a manufacturing, marketing and engineering company. Our subsidiaries are primarily engaged in the manufacture and sale of geothermal and water source heat pumps and air handling products (the "Climate Control Business") and the manufacture and sale of chemical products (the "Chemical Business"). The Company is a holding company with no significant operations or assets other than cash, cash equivalents, and our investments in our subsidiaries. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of June 30, 2010 and for the six and three-month periods ended June 30, 2010 and 2009 include all adjustments and accruals, consisting of normal, recurring accrual adjustments except for an additional income tax provision as discussed in Note 14 – Income Taxes, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2009 ("2009 Form 10-K").

Certain reclassifications have been made in our condensed consolidated statement of cash flows for the six months ended June 30, 2009 to conform to our condensed consolidated statement of cash flows presentation for the six months ended June 30, 2010, which reclassifications expanded our continuing operating activity line items. These reclassifications did not impact the total amount of net cash provided by continuing operating activities for the six months ended June 30, 2009.

**Note 2: Recently Issued Accounting Pronouncements** In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update requiring additional disclosures about an entity's derivative and hedging activities for the purpose of improving the transparency of financial reporting. A portion of the new disclosure requirements became effective for the Company on January 1, 2010 and were applied prospectively. The remaining new disclosure requirements will become effective for the Company on January 1, 2011. See Note 12 - Derivatives, Hedges and Financial Instruments.

**Note 3: Short-Term Investments** Investments, which consisted of certificates of deposit with an original maturity of 13 weeks, are considered short-term investments. These investments are carried at cost, which approximates fair value. All of these investments were held by financial institutions within the United States and none of these investments were in excess of the federally insured limits.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 4: Accounts Receivable, net** Our accounts receivable, net, consists of the following:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Trade receivables	\$ 72,467	\$ 55,318
Insurance claims	880	1,517
Other	948	1,603
	74,295	58,438
Allowance for doubtful accounts	(536)	(676)
	<u>\$ 73,759</u>	<u>\$ 57,762</u>

**Note 5: Inventories** Inventories are priced at the lower of cost or market, with cost being determined using the first-in, first-out ("FIFO") basis. Finished goods and work-in-process inventories include material, labor, and manufacturing overhead costs. At June 30, 2010 and December 31, 2009, inventory reserves for certain slow-moving inventory items (Climate Control products) were \$1,195,000 and \$1,198,000, respectively. In addition, inventory reserves for certain nitrogen-based inventories provided by our Chemical Business were \$107,000 and \$478,000, at June 30, 2010 and December 31, 2009, respectively, because cost exceeded the net realizable value.

Changes in our inventory reserves are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance at beginning of period	\$ 1,676	\$ 4,141	\$ 1,744	\$ 1,109
Provision for (realization of) losses	(324)	(3,024)	(442)	8
Write-offs/disposals	(50)	(53)	-	(53)
Balance at end of period	<u>\$ 1,302</u>	<u>\$ 1,064</u>	<u>\$ 1,302</u>	<u>\$ 1,064</u>

The provision for (realization of) losses is included in cost of sales in the accompanying condensed consolidated statements of income.

**Note 6: Precious Metals** Precious metals are used as a catalyst in the Chemical Business manufacturing process. Precious metals are carried at cost, with cost being determined using the FIFO basis. Because some of the catalyst consumed in the production process cannot be readily recovered and the amount and timing of recoveries are not predictable, we follow the practice of expensing precious metals as they are consumed.

Occasionally, during major maintenance and/or capital projects, we may be able to perform procedures to recover precious metals (previously expensed) which have accumulated over time within our manufacturing equipment. When we accumulate precious metals in excess of our production requirements, we may sell a portion of the excess metals.

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 6: Precious Metals (continued)**

Precious metals expense, net, consists of the following:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
			(In Thousands)	
Precious metals expense	\$ 3,461	\$ 3,279	\$ 2,082	\$ 1,552
Recoveries of precious metals	-	(2,222)	-	(9)
Gains on sales of precious metals	(112)	-	-	-
Precious metals expense, net	<u>\$ 3,349</u>	<u>\$ 1,057</u>	<u>\$ 2,082</u>	<u>\$ 1,543</u>

Precious metals expense, net, is included in cost of sales in the accompanying condensed consolidated statements of income.

**Note 7: Investment in Affiliate** Cepolk Holdings, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership"), which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). As of June 30, 2010, the Partnership and general partner to the Partnership are indebted to a term lender ("Term Lender") of the Project for approximately \$1,280,000 with a term extending to December 2010. CHI has pledged its limited partnership interest in the Partnership to the Term Lender as part of the Term Lender's collateral securing all obligations under the loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. In accordance with GAAP, no liability is required to be established for this pledge since it was entered into prior to January 1, 2003. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Term Lender be required to perform under this pledge.

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 8: Current and Noncurrent Accrued and Other Liabilities** Our current and noncurrent accrued and other liabilities consist of the following:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Deferred revenue on extended warranty contracts	\$ 5,284	\$ 4,884
Accrued payroll and benefits	4,846	5,900
Accrued insurance	4,146	3,667
Accrued death benefits	3,703	3,356
Accrued warranty costs	3,129	3,138
Fair value of derivatives	2,523	1,929
Accrued contractual manufacturing obligations	1,687	732
Accrued income taxes	1,358	608
Accrued executive benefits	1,213	1,102
Accrued interest	809	1,593
Accrued commissions	723	1,035
Other	5,221	5,736
	<u>34,642</u>	<u>33,680</u>
Less noncurrent portion	11,252	10,626
Current portion of accrued and other liabilities	<u>\$ 23,390</u>	<u>\$ 23,054</u>

**Note 9: Accrued Warranty Costs** Our Climate Control Business sells equipment that has an expected life, under normal circumstances and use, that extends over several years. As such, we provide warranties after equipment shipment/start up covering defects in materials and workmanship.

Generally, the base warranty coverage for most of the manufactured equipment in the Climate Control Business is limited to eighteen months from the date of shipment or twelve months from the date of start up, whichever is shorter, and to ninety days for spare parts. The warranty provides that most equipment is required to be returned to the factory or an authorized representative and the warranty is limited to the repair and replacement of the defective product, with a maximum warranty of the refund of the purchase price. Furthermore, companies within the Climate Control Business generally disclaim and exclude warranties related to merchantability or fitness for any particular purpose and disclaim and exclude any liability for consequential or incidental damages. In some cases, the customer may purchase or a specific product may be sold with an extended warranty. The above discussion is generally applicable to such extended warranties, but variations do occur depending upon specific contractual obligations, certain system components, and local laws.

Our accounting policy and methodology for warranty arrangements is to measure and recognize the expense and liability for such warranty obligations using a percentage of net sales, based upon our historical warranty costs. We also recognize the additional warranty expense and liability to cover atypical costs associated with a specific product, or component thereof, or project installation, when such costs are probable and reasonably estimable. It is possible that future warranty costs could exceed our estimates.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 9: Accrued Warranty Costs (continued)**

Changes in our product warranty obligation (accrued warranty costs) are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Balance at beginning of period	\$ 3,138	\$ 2,820	\$ 2,991	\$ 2,864
Charged to costs and expenses	1,643	3,146	645	1,288
Costs and expenses incurred	(1,652)	(2,928)	(507)	(1,114)
Balance at end of period	<u>\$ 3,129</u>	<u>\$ 3,038</u>	<u>\$ 3,129</u>	<u>\$ 3,038</u>

**Note 10: Long-Term Debt** Our long-term debt consists of the following:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Working Capital Revolver Loan due 2012 (A)	\$ -	\$ -
5.5% Convertible Senior Subordinated Notes due 2012 (B)	26,900	29,400
Secured Term Loan due 2012 (C)	49,151	50,000
Other, with a current weighted-average interest rate of 6.42%, most of which is secured by machinery, equipment and real estate	25,864	22,401
	<u>101,915</u>	<u>101,801</u>
Less current portion of long-term debt	3,456	3,205
Long-term debt due after one year	<u>\$ 98,459</u>	<u>\$ 98,596</u>

(A) Our wholly-owned subsidiary, ThermaClime, LLC, formerly ThermaClime, Inc., (“ThermaClime”) and its subsidiaries (collectively, the “Borrowers”) are parties to a \$50 million revolving credit facility (the “Working Capital Revolver Loan”) that provides for advances based on specified percentages of eligible accounts receivable and inventories for ThermaClime, and its subsidiaries. The Working Capital Revolver Loan, as amended, accrues interest at a base rate (generally equivalent to the prime rate) plus .50% or LIBOR plus 1.75% and matures on April 13, 2012. The interest rate at June 30, 2010 was 3.75%. Interest is paid monthly, if applicable.

The facility provides for up to \$8.5 million of letters of credit. All letters of credit outstanding reduce availability under the facility. As of June 30, 2010, amounts available for borrowing under the Working Capital Revolver Loan were approximately \$49.2 million. Under the Working Capital Revolver Loan, as amended, the lender also requires the Borrowers to pay a letter of credit fee equal to 1% per annum of the undrawn amount of all outstanding letters of credit, an unused line fee equal to .375% per annum for the excess amount available under the facility not drawn and various other audit, appraisal and valuation charges.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 10: Long-Term Debt (continued)**

The lender may, upon an event of default, as defined, terminate the Working Capital Revolver Loan and make the balance outstanding, if any, due and payable in full. The Working Capital Revolver Loan is secured by the assets of all the ThermaClime entities other than El Dorado Nitric Company and its subsidiaries ("EDN") but excluding the assets securing the Secured Term Loan discussed in (C) below, certain production equipment and facilities utilized by the Climate Control Business, and certain distribution-related assets of El Dorado Chemical Company ("EDC"). In addition, EDN is neither a borrower under, nor guarantor of, the Working Capital Revolver Loan. The carrying value of the pledged assets is approximately \$194 million at June 30, 2010.

The Working Capital Revolver Loan, as amended, requires ThermaClime to meet certain financial covenants, including an EBITDA requirement of greater than \$25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended June 30, 2010. The Working Capital Revolver Loan also contains covenants that, among other things, limit the Borrowers' (which does not include the Company) ability, without consent of the lender and with certain exceptions, to:

- incur additional indebtedness,
- incur liens,
- make restricted payments or loans to affiliates who are not Borrowers,
- engage in mergers, consolidations or other forms of recapitalization, or
- dispose assets.

The Working Capital Revolver Loan also requires all collections on accounts receivable be made through a bank account in the name of the lender or their agent.

**(B)** In June 2007, we entered into a purchase agreement with each of twenty two qualified institutional buyers ("QIBs"), pursuant to which we sold \$60 million aggregate principal amount of debentures (the "2007 Debentures") in a private placement to the QIBs pursuant to the exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Act"), afforded by Section 4(2) of the Act and Regulation D promulgated under the Act. We received net proceeds of approximately \$57 million, after discounts and commissions. In connection with the closing, we entered into an indenture (the "Indenture") with UMB Bank, as trustee, governing the 2007 Debentures. UMB Bank receives customary compensation from us for such services.

The 2007 Debentures bear interest at the rate of 5.5% per year and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year.

The 2007 Debentures are unsecured obligations and are subordinated in right of payment to all of our existing and future senior indebtedness, including indebtedness under our revolving debt facilities. The 2007 Debentures are effectively subordinated to all present and future liabilities, including trade payables, of our subsidiaries.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 10: Long-Term Debt (continued)**

During the six and three months ended June 30, 2010, we acquired \$2,500,000 aggregate principal amount of the 2007 Debentures for \$2,494,000, with each purchase being negotiated. As a result, we recognized a loss on extinguishment of debt of approximately \$52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

During the six and three months ended June 30, 2009, we acquired \$9,200,000 and \$3,500,000, respectively, aggregate principal amount of the 2007 Debentures for approximately \$7,134,000 and \$2,960,000, respectively, with each purchase being negotiated. As a result, we recognized a gain on extinguishment of debt of \$1,743,000 and \$421,000, respectively, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

As the result of acquisitions, only \$26.9 million of the 2007 Debentures remain outstanding at June 30, 2010. In addition, see discussion concerning \$5.0 million of the 2007 Debentures being held by Jack E. Golsen, our Chairman of the Board and Chief Executive Officer ("CEO"), members of his immediate family (spouse and children), entities owned by them and trusts for which they possess voting or dispositive power as trustee (collectively, the "Golsen Group") in Note 18 - Related Party Transactions.

The 2007 Debentures are convertible by the holders in whole or in part into shares of our common stock prior to their maturity. The conversion rate of the 2007 Debentures for the holders electing to convert all or any portion of a debenture is 36.4 shares of our common stock per \$1,000 principal amount of debentures (representing a conversion price of \$27.47 per share of common stock), subject to adjustment under certain conditions as set forth in the Indenture.

Beginning July 2, 2010, we may redeem some or all of the 2007 Debentures at a price equal to 100% of the principal amount of the 2007 Debentures, plus accrued and unpaid interest, all as set forth in the Indenture. The redemption price will be payable at our option in cash or, subject to certain conditions, shares of our common stock (valued at 95% of the weighted average of the closing sale prices of the common stock for the 20 consecutive trading days ending on the fifth trading day prior to the redemption date), subject to certain conditions being met on the date we mail the notice of redemption.

If a designated event (as defined in the Indenture) occurs prior to maturity, holders of the 2007 Debentures may require us to repurchase all or a portion of their 2007 Debentures for cash at a repurchase price equal to 101% of the principal amount of the 2007 Debentures plus any accrued and unpaid interest, as set forth in the Indenture.

At maturity, we may elect, subject to certain conditions as set forth in the Indenture, to pay up to 50% of the principal amount of the outstanding 2007 Debentures, plus all accrued and unpaid interest thereon to, but excluding, the maturity date, in shares of our common stock (valued at 95% of the weighted average of the closing sale prices of the common stock for the 20 consecutive trading days ending on the fifth trading day prior to the maturity date), if the common stock is then listed on an eligible market, the shares used to pay the 2007 Debentures and any interest thereon are freely tradable, and certain required opinions of counsel are received.



**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 10: Long-Term Debt (continued)**

(C) ThermaClime and certain of its subsidiaries entered into a \$50 million loan agreement (the "Secured Term Loan") with a certain lender. The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at June 30, 2010 was approximately 3.34%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. During the first six months of 2010, we received proceeds from our insurance carrier as a partial payment on an insurance claim, of which we used approximately \$0.8 million to pay down the Secured Term Loan. As a result, approximately \$49.2 million remains outstanding at June 30, 2010.

The Secured Term Loan is secured by the real property and equipment located at our El Dorado, Arkansas chemical production facility (the "El Dorado Facility") and at our Cherokee, Alabama chemical production facility (the "Cherokee Facility"). The carrying value of the pledged assets is approximately \$61million at June 30, 2010.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At June 30, 2010, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately \$67 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the twelve-month period ended June 30, 2010.

The maturity date of the Secured Term Loan can be accelerated by the lender upon the occurrence of a continuing event of default, as defined.

The Working Capital Revolver Loan agreement (discussed in (A) above) and the Secured Term Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of either of these agreements, the lenders may declare an event of default.

**Note 11: Commitments and Contingencies**

**Purchase and Sales Commitments** - We entered into the following significant purchase and sales commitments during the six months ended June 30, 2010:

During February 2010, EDC signed an extension of EDC's anhydrous ammonia purchase agreement with Koch Nitrogen International Sarl ("Koch"). Under the extension, Koch agrees to supply certain of EDC's requirements of anhydrous ammonia through December 31, 2012.

During February 2010, EDC entered into a cost-plus supply agreement with Orica International Pte Ltd. ("Orica International") to supply Orica International with 250,000 tons per year of industrial grade ammonium nitrate through December 2014. This new agreement, which became

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 11: Commitments and Contingencies (continued)**

effective January 1, 2010, replaced EDC's previous agreement to supply 210,000 tons per year of industrial grade ammonium nitrate ("AN") to Orica USA, Inc.

**Contingencies** - We accrue for contingent losses when such losses are probable and reasonably estimable. In addition, we recognize contingent gains when such gains are realizable or realizable and earned.

**Legal Matters** - Following is a summary of certain legal matters involving the Company.

**A. Environmental Matters**

Our operations are subject to numerous environmental laws ("Environmental Laws") and to other federal, state and local laws regarding health and safety matters ("Health Laws"). In particular, the manufacture and distribution of chemical products are activities which entail environmental risks and impose obligations under the Environmental Laws and the Health Laws, many of which provide for certain performance obligations, substantial fines and criminal sanctions for violations. There can be no assurance that material costs or liabilities will not be incurred by us in complying with such laws or in paying fines or penalties for violation of such laws. The Environmental Laws and Health Laws and enforcement policies thereunder relating to our Chemical Business have in the past resulted, and could in the future result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of effluents at or from our facilities or the use or disposal of certain of its chemical products. Historically, significant expenditures have been incurred by subsidiaries within our Chemical Business in order to comply with the Environmental Laws and Health Laws and are reasonably expected to be incurred in the future.

We will recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. We are obligated to monitor certain discharge water outlets at our Chemical Business facilities should we discontinue the operations of a facility. We also have certain facilities in our Chemical Business that contain asbestos insulation around certain piping and heated surfaces, which we plan to maintain or replace, as needed, with non-asbestos insulation through our standard repair and maintenance activities to prevent deterioration. Since we currently have no plans to discontinue the use of these facilities and the remaining life of the facilities is indeterminable, an asset retirement liability has not been recognized. Currently, there is insufficient information to estimate the fair value of the asset retirement obligations. However, we will continue to review these obligations and record a liability when a reasonable estimate of the fair value can be made.

**1. Discharge Water Matters**

The El Dorado Facility owned by EDC generates process wastewater, which includes cooling tower and boiler blowdowns, contact storm water and miscellaneous spills and leaks from process equipment. The process water discharge, storm-water runoff and miscellaneous spills and leaks are governed by a state National Pollutant Discharge Elimination System ("NPDES") water discharge permit issued by the Arkansas Department of Environmental Quality ("ADEQ"),

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 11: Commitments and Contingencies (continued)**

which permit is to be renewed every five years. The ADEQ issued to EDC a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility's June 2007 limits, the El Dorado Facility has significantly reduced the contaminant levels of its wastewater.

The El Dorado Facility has generally demonstrated its ability to comply with the more restrictive permit limits, and believes that if it is required to meet the more restrictive dissolved minerals permit levels, it should be able to do so. The El Dorado Facility has been having discussions with the ADEQ to modify and reduce the permit levels as to dissolved minerals, but, although the rule is a state rule, any revisions must also be approved by the United States Environmental Protection Agency ("EPA") before it can become effective. Additional information has been provided to the EPA regarding the dissolved mineral issue. Once the rule change is complete, the permit limits can be modified to incorporate reasonably achievable dissolved minerals permit levels. The ADEQ has agreed to reopen the rule making to modify the permit limit as to dissolved minerals, which is subject to public notice and public hearings. The ADEQ and the El Dorado Facility also entered into a Consent Administrative Order ("CAO") which authorized the El Dorado Facility to continue operating through December 31, 2009, without incurring permit violations pending the modification of the permit to implement the revised rule. The ADEQ did not extend the CAO due to the above mentioned dissolved minerals issue; however, in the interim, the El Dorado Facility is currently in compliance with the more restrictive permit limits under the 2004 NPDES permit.

In March 2009, the EPA notified the ADEQ that it disapproved the dissolved mineral rulemaking due to insufficient documentation. Representatives of EDC, ADEQ and the EPA have met to determine what additional information was required by the EPA. During January 2010, EDC received an Administrative Order from the EPA noting certain violations of the permit and requesting EDC to demonstrate compliance with the permit or provide a plan and schedule for returning to compliance. EDC has provided the EPA a response which states that the El Dorado Facility is now in compliance with the permit, that the El Dorado Facility expects to maintain compliance and that all but fifteen of the alleged violations were resolved through the CAO with the ADEQ. During the meeting with the EPA prior to the issuance of the Administrative Order, the EPA advised EDC that its primary objective was to bring the El Dorado Facility into compliance with the permit requirements, but reserved the right to assess penalties for past and continuing violations of the permit. As a result, it is unknown whether the EPA might elect to pursue civil penalties against EDC. Therefore, no liability has been established at June 30, 2010 as a result of the Administrative Order.

In addition, EDC has entered into a CAO that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. EDC is addressing the shallow groundwater contamination. The CAO requires the El Dorado Facility to continue semi-annual groundwater monitoring, to continue operation of a groundwater recovery system and to submit a human health and ecological risk assessment to the ADEQ. The required risk assessment was submitted in August 2007. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 11: Commitments and Contingencies (continued)**

assessment. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at June 30, 2010, in connection with this matter.

**2. Air Matters**

The EPA has sent information requests to most, if not all, of the nitric acid plants in the United States, including to us relating to our El Dorado and Cherokee Facilities and the Baytown, Texas facility (the "Baytown Facility"), requesting information under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. In connection with a review by our Chemical Business of these facilities in obtaining information for the EPA pursuant to the EPA's request, our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment in order to comply with the requirements of the Clean Air Act. If changes to the production equipment at these facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial.

Further, if it is determined that the equipment at any of our chemical facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed \$27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the "best available control technology." We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties as a result of the above described matter; however, we are currently unable to determine the amount of any penalties that may be assessed by the EPA. Therefore no liability has been established at June 30, 2010, in connection with this matter.

**3. Other Environmental Matters**

In December 2002, two of our subsidiaries within our Chemical Business, sold substantially all of their operating assets relating to a Kansas chemical facility ("Hallowell Facility") but retained ownership of the real property. At December 31, 2002, even though we continued to own the real property, we did not assess our continuing involvement with our former Hallowell Facility to be significant and therefore accounted for the sale as discontinued operations. In connection with this sale, our subsidiary leased the real property to the buyer under a triple net long-term lease agreement. However, our subsidiary retained the obligation to be responsible for, and perform the activities under, a previously executed consent order to investigate the surface and subsurface contamination at the real property and a corrective action strategy based on the investigation. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor ("Chevron") of a prior owner of the Hallowell Facility

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 11: Commitments and Contingencies (continued)**

has agreed, within certain limitations, to pay and has been paying one-half of the costs of the interim measures relating to this matter as approved by the Kansas Department of Environmental Quality, subject to reallocation.

Our subsidiary and Chevron are pursuing a course with the state of Kansas of long-term surface and groundwater monitoring to track the natural decline in contamination. Our subsidiary and Chevron submitted their final report on the groundwater monitoring and an addendum to the Mitigation Work Plan to the state of Kansas. The data from the monitoring program is being evaluated by the state of Kansas. On June 29, 2010, representatives of our subsidiary and Chevron met with the Kansas Department of Health and Environment ("KDHE"). As a result of this meeting, our subsidiary and Chevron have agreed to perform additional surface and groundwater testing. In addition, the KDHE notified our subsidiary and Chevron that this site has been referred to the KDHE's Natural Resources Trustee, who is to consider and recommend restoration, replacement and/or whether to seek compensation. KDHE will consider the recommendations in their evaluation. Currently, it is unknown what damages, if any, the KDHE will claim. We have accrued for our allocable portion of costs for the additional testing, monitoring and risk assessments that could be reasonably estimated; however, the nature and extent of a portion of the requirements are not currently defined and the associated costs are not reasonably estimable. The ultimate required remediation, if any, is unknown.

At June 30, 2010, our estimated allocable portion of the total estimated liability (which is included in current and noncurrent accrued and other liabilities) related to this matter is \$195,000. This amount is not discounted to its present value. It is reasonably possible that a change in the estimate of our liability will occur in the near term.

**B. Other Pending, Threatened or Settled Litigation**

The Jayhawk Group

In November 2006, we entered into an agreement with Jayhawk Capital Management, LLC, Jayhawk Investments, L.P., Jayhawk Institutional Partners, L.P. and Kent McCarthy, the manager and sole member of Jayhawk Capital, (collectively, the "Jayhawk Group"), in which the Jayhawk Group agreed, among other things, that if we undertook, in our sole discretion, within one year from the date of agreement a tender offer for our Series 2 \$3.25 convertible exchangeable Class C preferred stock ("Series 2 Preferred") or to issue our common stock for a portion of our Series 2 Preferred pursuant to a private exchange, that they would tender or exchange an aggregate of no more than 180,450 shares of the 340,900 shares of the Series 2 Preferred beneficially owned by the Jayhawk Group, subject to, among other things, the entities owned and controlled by Jack E. Golsen, our Chairman and Chief Executive Officer ("Golsen"), and his immediate family, that beneficially own Series 2 Preferred only being able to exchange or tender approximately the same percentage of shares of Series 2 Preferred beneficially owned by them as the Jayhawk Group was able to tender or exchange under the terms of the agreement. In addition, under the agreement, the Jayhawk Group agreed to vote its shares of our common stock and Series 2 Preferred "for" an amendment to the Certificate of Designation covering the Series 2 Preferred to allow us:

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 11: Commitments and Contingencies (continued)**

- for a period of five years from the completion of an exchange or tender to repurchase, redeem or otherwise acquire shares of our common stock, without approval of the outstanding Series 2 Preferred irrespective that dividends are accrued and unpaid with respect to the Series 2 Preferred; or
- to provide that holders of Series 2 Preferred may not elect two directors to our board of directors when dividends are unpaid on the Series 2 Preferred if less than 140,000 shares of Series 2 Preferred remain outstanding.

During 2007, we made a tender offer for our outstanding Series 2 Preferred at the rate of 7.4 shares of our common stock for each share of Series 2 Preferred so tendered. In July 2007, we redeemed the balance of our outstanding shares of Series 2 Preferred. Pursuant to its terms, the Series 2 Preferred was convertible into 4.329 shares of our common stock for each share of Series 2 Preferred. As a result of the redemption, the Jayhawk Group converted the balance of its Series 2 Preferred pursuant to the terms of the Series 2 Preferred in lieu of having its shares redeemed.

During November 2008, the Jayhawk Group filed suit against us and Golsen in a lawsuit styled *Jayhawk Capital Management, LLC, et al. v. LSB Industries, Inc., et al.*, in the United States District Court for the District of Kansas at Kansas City. During March 2009, the Jayhawk Group amended its complaint alleging that the Jayhawk Group should have been able to tender all of its Series 2 Preferred pursuant to the tender offer, notwithstanding the above-described agreement, based on the following claims against us and Golsen:

- fraudulent inducement and fraud,
- violation of 10(b) of the Exchange Act and Rule 10b-5,
- violation of 17-12A501 of the Kansas Uniform Securities Act, and
- breach of contract.

The Jayhawk Group seeks damages in an unspecified amount based on the additional number of common shares it allegedly would have received on conversion of all of its Series 2 Preferred through the February 2007 tender offer, plus punitive damages. In addition, the amended complaint seeks damages of approximately \$4,000,000 for accrued and unpaid dividends it purports are owed as a result of Jayhawk's July 2007 conversion of its remaining shares of Series 2 Preferred. In May 2008, the General Counsel for the Jayhawk Group offered to settle its claims against us and Golsen in return for a payment of \$100,000, representing the approximate legal fees it had incurred investigating the claims at that time. Through counsel, we verbally agreed to the settlement offer and confirmed the agreement by e-mail. Afterward, the Jayhawk Group's General Counsel purported to withdraw the settlement offer, and asserted that Jayhawk is not bound by any settlement agreement. We contend that the settlement agreement is binding on the Jayhawk Group. Both Golsen and we have filed motions to dismiss the plaintiff's complaint in the federal court, and such motions to dismiss are pending. We intend to contest the lawsuit vigorously, and will assert that Jayhawk is bound by an agreement to settle the claims for \$100,000. Our insurer, Chartis, a subsidiary of AIG, has agreed to defend this lawsuit on our behalf and on behalf of Golsen and to indemnify under a reservation of rights to deny liability under certain conditions. We have incurred expenses associated with this matter up to our

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 11: Commitments and Contingencies (continued)**

insurance deductible of \$250,000, and our insurer is paying defense cost in excess of our deductible in this matter. Although our insurer is defending this matter under a reservation of rights, we are not currently aware of any material issue in this case that would result in our insurer denying coverage. Therefore, no liability has been established at June 30, 2010 as a result of this matter.

**Other Claims and Legal Actions**

We are also involved in various other claims and legal actions including claims for damages resulting from water leaks related to our Climate Control products and other product liability occurrences. Most of the product liability claims are covered by our general liability insurance, which generally includes a deductible of \$250,000 per claim. For any claims or legal actions that we have assessed the likelihood of our liability as probable, we have recognized our estimated liability up to the applicable deductible.

In the opinion of management, after consultation with legal counsel, if those claims for which we have not recognized a liability were determined adversely to us, it would not have a material effect on our business, financial condition or results of operations.

**Note 12: Derivatives, Hedges and Financial Instruments** Derivatives are recognized in the balance sheet and are measured at fair value. Changes in fair value of derivatives are recorded in results of operations unless the normal purchase or sale exceptions apply or hedge accounting is elected.

We have three classes of contracts that are accounted for on a fair value basis, which are commodities futures/forward contracts ("commodities contracts"), foreign exchange contracts and interest rate contracts as discussed below. All of these contracts are used as economic hedges for risk management purposes but are not designated as hedging instruments. The valuation of these contracts was determined based on quoted market prices or, in instances where market quotes are not available, other valuation techniques or models used to estimate fair values.

The valuations of contracts classified as Level 1 are based on quoted prices in active markets for identical contracts. The valuations of contracts classified as Level 2 are based on quoted prices for similar contracts and valuation inputs other than quoted prices that are observable for these contracts. At June 30, 2010, the valuations of contracts classified as Level 2 related to the interest rate swap contracts discussed below. For the interest rate swap contracts, we utilize valuation software and market data from a third-party provider. These interest rate contracts are valued using a discounted cash flow model that calculates the present value of future cash flows pursuant to the terms of the contracts and using market information for forward interest-rate yield curves. The valuation inputs included the total contractual weighted-average pay rate of 3.42% and the total estimated market weighted-average receive rate of 0.94%. No valuation input adjustments were considered necessary relating to nonperformance risk for the contracts discussed above. There were no valuations of contracts classified as Level 3 at June 30, 2010. At December 31, 2008, the valuations of contracts classified as Level 3 were based on the average ask/bid prices obtained from a broker relating to a low volume market.

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 12: Derivatives, Hedges and Financial Instruments (continued)**

Commodities Contracts

Raw materials for use in our manufacturing processes include copper used by our Climate Control Business and anhydrous ammonia and natural gas used by our Chemical Business. As part of our raw material price risk management, we periodically enter into futures/forward contracts for these materials, which contracts are generally accounted for on a mark-to-market basis. At December 31, 2009, our futures/forward copper contracts were for 750,000 pounds of copper through May 2010 at a weighted-average cost of \$3.19 per pound. At June 30, 2010, our futures/forward copper contracts were for 750,000 pounds of copper through December 2010 at a weighted-average cost of \$3.24 per pound. At December 31, 2009, we also had contractual rights under natural gas call contracts for approximately 150,000 MMBtu of natural gas through February 2010 at a weighted-average price of \$6.00 per MMBtu. At June 30, 2010, our futures/forward natural gas contracts were for 140,000 MMBtu of natural gas through September 2010 at a weighted-average cost of \$4.95 per MMBtu. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Foreign Exchange Contracts

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts, which set the U.S. Dollar/Euro exchange rates. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At December 31, 2009, our foreign exchange contracts were for the receipt of approximately 336,000 Euros through April 2010 at a weighted-average contract exchange rate of 1.44 (U.S. Dollar/Euro). At June 30, 2010, we had no outstanding foreign exchange contracts. The cash flows relating to these contracts are included in cash flows from continuing operating activities.

Interest Rate Contracts

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. In March 2005, we purchased two interest rate cap contracts for a cost of \$590,000, which matured in March 2009. In April 2008, we entered into an interest rate swap at no cost, which sets a fixed three-month LIBOR rate of 3.24% on \$25 million and matures in April 2012. In September 2008, we acquired an interest rate swap at a cost basis of \$354,000, which sets a fixed three-month LIBOR rate of 3.595% on \$25 million and matures in April 2012.

These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. Although no purchases occurred during the six months ended June 30, 2010 and 2009, the cash flows relating to the purchase of interest rate contracts are included in cash flows from continuing investing activities. In addition, the cash flows associated with the interest rate swap payments are included in cash flows from continuing operating activities.



**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Unaudited)

**Note 12: Derivatives, Hedges and Financial Instruments (continued)**

The following details our assets and liabilities that are measured at fair value on a recurring basis at June 30, 2010 and December 31, 2009:

Description	Fair Value Measurements at June 30, 2010 Using				Total Fair Value at December 31, 2009
	Total Fair Value at June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In Thousands)					
<b>Assets - Supplies, prepaid items and other:</b>					
Commodities contracts	\$ -	\$ -	\$ -	\$ -	\$ 150
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 150</b>
<b>Liabilities - Current and noncurrent accrued and other liabilities:</b>					
Commodities contracts	\$ 246	\$ 246	\$ -	\$ -	\$ -
Interest rate contracts	2,277	-	2,277	-	1,929
<b>Total</b>	<b>\$ 2,523</b>	<b>\$ 246</b>	<b>\$ 2,277</b>	<b>\$ -</b>	<b>\$ 1,929</b>

During the six months ended June 30, 2010, none of our assets or liabilities measured at fair value on a recurring basis transferred between Level 1 and Level 2 classifications. In addition, the following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2009 (not applicable for the six months ended June 30, 2010 and the three months ended June 30, 2010 and 2009):

	Commodities Contracts (In Thousands)
Beginning balance	\$ (1,388)
Total realized and unrealized gain included in earnings	493
Purchases, issuances, and settlements	895
Transfers in and/or out of Level 3	-
<b>Ending balance</b>	<b>\$ -</b>

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
(Unaudited)

**Note 12: Derivatives, Hedges and Financial Instruments (continued)**

Realized and unrealized net gains (losses) included in earnings and the income statement classifications are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Total net gains (losses) included in earnings:</b>				
Cost of sales – Commodities contracts	\$ (904)	\$ (1,148)	\$ (216)	\$ 8
Cost of sales – Foreign exchange contracts	(24)	(31)	-	(1)
Interest expense – Interest rate contracts	(1,137)	158	(523)	427
	<u>\$ (2,065)</u>	<u>\$ (1,021)</u>	<u>\$ (739)</u>	<u>\$ 434</u>
	(In Thousands)			
<b>Change in unrealized gains and losses relating to contracts still held at period end:</b>				
Cost of sales – Commodities contracts	\$ (246)	\$ (969)	\$ (313)	\$ 30
Interest expense – Interest rate contracts	(348)	649	(128)	719
	<u>\$ (594)</u>	<u>\$ (320)</u>	<u>\$ (441)</u>	<u>\$ 749</u>

The following discussion of fair values is not indicative of the overall fair value of our assets and liabilities since it does not include all assets, including intangibles.

Our long-term debt agreements are the only financial instruments with fair values significantly different from their carrying amounts. At June 30, 2010 and December 31, 2009, the fair value for variable debt, excluding the Secured Term Loan, was believed to approximate their carrying value. At June 30, 2010 and December 31, 2009, the estimated fair value of the Secured Term Loan is based on defined LIBOR rates plus 7% utilizing information obtained from the lender. The fair values of fixed rate borrowings, other than the 2007 Debentures, are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding while also taking into consideration our current credit worthiness. At June 30, 2010 and December 31, 2009, the estimated fair value of the 2007 Debentures is based on quoted prices obtained from a broker for these debentures. The estimated fair value and carrying value of our long-term debt are as follows:

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 12: Derivatives, Hedges and Financial Instruments (continued)**

	June 30, 2010		December 31, 2009	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
	(In Thousands)			
Variable Rate:				
Secured Term Loan	\$ 24,518	\$ 49,151	\$ 27,640	\$ 50,000
Working Capital Revolver Loan	-	-	-	-
Other debt	2,495	2,495	2,553	2,553
Fixed Rate:				
5.5% Convertible Senior Subordinated Notes	26,833	26,900	29,106	29,400
Other bank debt and equipment financing	24,015	23,369	20,231	19,848
	<u>\$ 77,861</u>	<u>\$ 101,915</u>	<u>\$ 79,530</u>	<u>\$ 101,801</u>

**Note 13: Income Per Common Share** Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends. Basic income per common share is based upon net income applicable to common stock and the weighted-average number of common shares outstanding during each period.

Diluted income per share is based on net income applicable to common stock plus preferred stock dividends on preferred stock assumed to be converted, if dilutive, and interest expense including amortization of debt issuance cost, net of income taxes, on convertible debt assumed to be converted, if dilutive, and the weighted-average number of common shares and dilutive common equivalent shares outstanding, and the assumed conversion of dilutive convertible securities outstanding.

The following is a summary of certain transactions which affected basic income per share or diluted income per share, if dilutive:

During the six months ended June 30, 2010,

- we purchased 177,100 shares of treasury stock;
- we issued 43,510 shares of our common stock as the result of the exercise of stock options;
- we acquired \$2,500,000 aggregate principle amount of the 2007 Debentures; and
- we paid cash dividends on our Series B 12% cumulative, convertible preferred stock ("Series B Preferred"), Series D 6% cumulative, convertible Class C preferred stock ("Series D Preferred") and noncumulative redeemable preferred stock ("Noncumulative Preferred") totaling approximately \$240,000, \$60,000 and \$5,000, respectively.

During the six months ended June 30, 2009,

- we issued 389,000 shares of our common stock as the result of the exercise of stock options;
- we acquired \$9,200,000 aggregate principle amount of the 2007 Debentures; and
- we paid cash dividends on our Series B Preferred, Series D Preferred and Noncumulative Preferred totaling approximately \$240,000, \$60,000 and \$6,000, respectively.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 13: Income Per Common Share (continued)**

At June 30, 2010, there were no dividends in arrears.

The following table sets forth the computation of basic and diluted net income per common share:

(Dollars In Thousands, Except Per Share Amounts)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Net income	\$ 7,727	\$ 20,473	\$ 6,009	\$ 8,730
Dividends on Series B Preferred	(240)	(240)	-	-
Dividends on Series D Preferred	(60)	(60)	-	-
Dividends on Noncumulative Preferred	(5)	(6)	-	-
Total dividends on preferred stock	<u>(305)</u>	<u>(306)</u>	<u>-</u>	<u>-</u>
Numerator for basic net income per common share - net income applicable to common stock	7,422	20,167	6,009	8,730
Dividends on preferred stock assumed to be converted, if dilutive	65	306	-	-
Interest expense including amortization of debt issuance costs, net of income taxes, on convertible debt assumed to be converted, if dilutive	-	627	-	314
Numerator for diluted net income per common share	<u>\$ 7,487</u>	<u>\$ 21,100</u>	<u>\$ 6,009</u>	<u>\$ 9,044</u>
<b>Denominator:</b>				
Denominator for basic net income per common share - weighted-average shares	21,227,411	21,174,210	21,228,918	21,237,904
Effect of dilutive securities:				
Convertible preferred stock	270,425	938,006	936,566	937,825
Stock options	190,332	331,607	207,849	354,899
Convertible notes payable	4,000	1,143,320	4,000	1,143,320
Dilutive potential common shares	<u>464,757</u>	<u>2,412,933</u>	<u>1,148,415</u>	<u>2,436,044</u>
Denominator for diluted net income per common share - adjusted weighted-average shares and assumed conversions	<u>21,692,168</u>	<u>23,587,143</u>	<u>22,377,333</u>	<u>23,673,948</u>
Basic net income per common share	<u>\$ .35</u>	<u>\$ .95</u>	<u>\$ .28</u>	<u>\$ .41</u>
Diluted net income per common share	<u>\$ .35</u>	<u>\$ .89</u>	<u>\$ .27</u>	<u>\$ .38</u>

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 13: Income Per Common Share (continued)**

The following weighted-average shares of securities were not included in the computation of diluted net income per common share as their effect would have been antidilutive:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
Convertible notes payable	979,160	-	979,160	-
Convertible preferred stock	666,666	-	-	-
Stock options	373,619	766,646	372,253	412,363
	<u>2,019,445</u>	<u>766,646</u>	<u>1,351,413</u>	<u>412,363</u>

**Note 14: Income Taxes** Provisions for income taxes are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Current:</b>				
Federal	\$ 4,473	\$ 6,490	\$ 3,957	\$ 1,682
State	1,174	772	967	182
Total current provisions	<u>\$ 5,647</u>	<u>\$ 7,262</u>	<u>\$ 4,924</u>	<u>\$ 1,864</u>
<b>Deferred:</b>				
Federal	\$ 226	\$ 4,970	\$ 49	\$ 3,219
State	18	568	6	368
Total deferred provisions	244	5,538	55	3,587
Provisions for income taxes	<u>\$ 5,891</u>	<u>\$ 12,800</u>	<u>\$ 4,979</u>	<u>\$ 5,451</u>

For the six and three months ended June 30, 2010 and 2009, the current provision for federal income taxes shown above includes regular federal income tax after the consideration of permanent and temporary differences between income for GAAP and tax purposes. For the six and three months ended June 30, 2010 and 2009, the current provision for state income taxes shown above includes regular state income tax and provisions for uncertain state income tax positions. At December 31, 2009, we had state net operating loss ("NOL") carryforwards totaling approximately \$12,900,000, which begin expiring in 2010.

Our annual estimated effective tax rate for 2010 is reduced by permanent tax differences, including the domestic manufacturer's deduction and other permanent items.

The tax provision for the six months ended June 30, 2010 was \$5,891,000 or 43.3% of pre-tax income and included the impact of the increased domestic manufacturer's deduction available in 2010, the advanced energy credits and the additional income tax provision related to nondeductible expenses in prior years.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 14: Income Taxes (continued)**

During June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately \$800,000 for the six and three months ended June 30, 2010. For the six and three months ended June 30, 2010, the effect of this adjustment decreased basic net income per share by \$.04 and decreased diluted net income per share by \$.03.

Management of the Company evaluated the impact of this accounting error and concluded the effect of this adjustment was immaterial to the Company's 2007-2009 consolidated financial statements as well as the projected consolidated financial statements for the year ending December 31, 2010.

For the six months ended June 30, 2009, the tax provision was \$12,800,000 or 38.5% of pre-tax income and included the impact of the domestic manufacturer's deduction and other permanent items.

Our accounting for income taxes includes utilizing the accounting principle that the realization of an uncertain income tax position must be "more likely than not" (i.e., greater than 50% likelihood) that the position will be sustained upon examination by taxing authorities before it can be recognized in the financial statements.

We believe that we do not have any material uncertain tax positions other than the failure to file state income tax returns in some jurisdictions where we or some of our subsidiaries may have a filing responsibility (i.e., nexus). We had approximately \$665,000 and \$608,000 accrued for uncertain tax liabilities at June 30, 2010 and December 31, 2009, respectively, which are included in current and noncurrent accrued and other liabilities.

We and certain of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The federal tax returns for 1997 through 2005 remain subject to examination for the purpose of determining the amount of remaining tax NOL and other carryforwards. With few exceptions, the 2006-2008 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

LSB INDUSTRIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

**Note 15: Other Expense, Other Income and Non-Operating Other Income, net**

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
(In Thousands)				
<b>Other expense:</b>				
Losses on sales and disposals of property and equipment	\$ 259	\$ 220	\$ 256	\$ 207
Other miscellaneous expense (1)	43	114	(12)	84
Total other expense (1)	<u>\$ 302</u>	<u>\$ 334</u>	<u>\$ 244</u>	<u>\$ 291</u>
<b>Other income:</b>				
Property insurance recoveries in excess of losses incurred	\$ 739	\$ -	\$ -	\$ -
Miscellaneous income (1)	167	190	100	28
Total other income	<u>\$ 906</u>	<u>\$ 190</u>	<u>\$ 100</u>	<u>\$ 28</u>
<b>Non-operating other income, net:</b>				
Interest income	\$ 77	\$ 78	\$ 21	\$ 33
Miscellaneous expense (1)	(39)	(44)	(21)	(22)
Total non-operating other income, net	<u>\$ 38</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 11</u>

(1) Amounts represent numerous unrelated transactions, none of which are individually significant requiring separate disclosure.

**Note 16: Business Interruption and Property Insurance Claims** If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned.

Cherokee Facility - In February 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. The fire was immediately extinguished and there were no injuries. The extent of the damage to the nitric acid plant has been determined. We have no immediate plans to rebuild the damaged plant. The nitric acid plant that suffered the fire, with a current 182 ton per day capacity, is the smaller of the two nitric acid plants at the Cherokee Facility. The Cherokee Facility continues production with the larger of the nitric acid plants. Our property insurance policy provides for replacement cost coverage relating to property damage with a \$1,000,000 property loss deductible. Because our replacement cost claim for property damages exceeds our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but we recorded a property insurance claim receivable relating to this event. During the first six months of 2010, our insurance claim receivable decreased by a net \$849,000. The activity during the six months of 2010 included the receipt of approximately \$1,021,000 from our insurance carrier as a partial payment on our insurance claim, all of which relates to property, plant and equipment ("PP&E"). In addition, the activity included payments of \$172,000 relating to payables (approved by our insurance carrier) to unrelated third parties. As a result, the balance of the insurance claim receivable relating to this event was \$326,000 at June 30, 2010.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 16: Business Interruption and Property Insurance Claims (continued)**

Bryan Distribution Center - In July 2009, one of our fifteen agricultural distribution centers operated by our Chemical Business was destroyed by fire, resulting in the cessation of operations at this center, which is located in Bryan, Texas ("Bryan Center"). The Bryan Center stored and sold agricultural chemical products, including fertilizer grade ammonium nitrate, potash and certain other fertilizer products. During the first six months of 2010, the project to rebuild the Bryan Center was substantially completed. Our general liability insurance policy provides for coverage against third party damages with a \$250,000 loss deductible. Our property insurance policy provides for replacement cost coverage relating to property damage and for business interruption coverage for certain lost profits and extra expense with a total \$100,000 loss deductible for both coverages. As of June 30, 2010, the third party general liability claims have exceeded our \$250,000 deductible. We have recognized the \$250,000 general liability deductible and the insurance company has been paying directly most of the third party general liability claims. Because our replacement cost claim for property damages exceeds our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. A recovery, if any, from our business interruption coverage has not been recognized. During the fourth quarter of 2009, we received \$545,000 from our insurance carrier as a partial payment on our insurance claim, which amount was applied against our insurance claim receivable. During the first six months of 2010, our insurance claim receivable decreased by a net \$31,000. The activity during the six months of 2010 included the receipt of additional partial payments totaling \$1,039,000 (\$649,000 relates to PP&E) from our insurance carrier, of which \$300,000 was applied against our insurance claim receivable and the remaining balance of \$739,000 (\$495,000 relates to PP&E) was classified as other income. In addition, the activity included payments of \$148,000 relating to payables (approved by our insurance carrier) to unrelated third parties and payments of \$121,000 to our insurance carrier associated with the general liability deductible. As a result, the balance of the insurance claim receivable relating to this event was \$4,000 at June 30, 2010.

Pryor Facility - In June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility is unable to produce anhydrous ammonia or UAN. Based on our current assessment, the estimated costs to rebuild the ammonia reformer are approximately \$8.0 million and should be completed toward the end of September 2010. Our property insurance policy provides for replacement cost coverage relating to property damage with a total \$1,000,000 loss deductible and for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period and a minimum \$250,000 deductible. As of June 30, 2010, because our replacement cost claim for property damages is estimated to exceed our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. A recovery, if any, from our business interruption coverage has not been recognized. At June 30, 2010, the balance of the insurance claim receivable relating to this event was \$447,000.



**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 17: Segment Information**

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
<b>Net sales:</b>				
Climate Control	\$ 113,499	\$ 139,030	\$ 59,828	\$ 66,982
Chemical	181,250	144,371	106,378	69,893
Other	4,053	5,359	2,186	1,688
	<u>\$ 298,802</u>	<u>\$ 288,760</u>	<u>\$ 168,392</u>	<u>\$ 138,563</u>
<b>Gross profit: (1)</b>				
Climate Control (2)	\$ 37,231	\$ 47,426	\$ 18,832	\$ 24,998
Chemical (3)	24,760	29,429	15,602	12,281
Other	1,423	1,700	714	548
	<u>\$ 63,414</u>	<u>\$ 78,555</u>	<u>\$ 35,148</u>	<u>\$ 37,827</u>
<b>Operating income: (4)</b>				
Climate Control (2)	\$ 12,520	\$ 21,204	\$ 6,993	\$ 12,226
Chemical (3) (5)	11,063	18,835	9,178	6,197
General corporate expenses and other business operations, net (6)	(6,357)	(6,077)	(3,361)	(3,881)
	17,226	33,962	12,810	14,542
Interest expense	(4,079)	(2,939)	(1,999)	(1,028)
Gains (losses) on extinguishment of debt	(52)	1,743	(52)	421
<b>Non-operating other income, net:</b>				
Climate Control	1	-	-	-
Chemical	5	6	3	3
Corporate and other business operations	32	28	(3)	8
Provisions for income taxes	(5,891)	(12,800)	(4,979)	(5,451)
Equity in earnings of affiliate-Climate Control	528	488	267	248
Income from continuing operations	<u>\$ 7,770</u>	<u>\$ 20,488</u>	<u>\$ 6,047</u>	<u>\$ 8,743</u>

- (1) Gross profit by industry segment represents net sales less cost of sales. Gross profit classified as "Other" relates to the sales of industrial machinery and related components.
- (2) During the six and three months ended June 30, 2010, we recognized losses totaling \$315,000 and \$465,000, respectively, on our futures contracts for copper compared to gains totaling \$789,000 and \$326,000 during the six and three months ended June 30, 2009, respectively. The impact of these losses decreased (gains increased) gross profit and operating income for each respective period.
- (3) As the result of entering into sales commitments with higher firm sales prices during 2008, we recognized sales with a gross profit of \$761,000 higher than our comparable product sales made at lower market prices available during the six months ended June 30, 2010, (not applicable for the second quarter of 2010) compared to sales with a gross profit of \$3,558,000 and \$1,058,000 higher than our comparable product sales made at lower market prices available during the six and three months ended June 30, 2009, respectively. In addition, during the six months ended June 30, 2010, we recognized gains on sales and

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 17: Segment Information (continued)**

recoveries of precious metals totaling \$112,000 (not applicable for the second quarter of 2010) compared to gains totaling \$2,222,000 and \$9,000 during the six and three months ended June 30, 2009, respectively. The impact of these transactions increased gross profit and operating income for each respective period. During the six and three months ended June 30, 2010, we incurred expenses of \$2,696,000 and \$1,264,000, respectively, relating to planned major maintenance activities compared to expenses totaling \$604,000 and \$484,000 during the six and three months ended June 30, 2009, respectively. During the six and three months ended June 30, 2010, we recognized losses totaling \$589,000 and gains totaling \$249,000, respectively, on our futures/forward contracts for natural gas and ammonia compared to losses totaling \$1,937,000 and \$318,000 during the six and three months ended June 30, 2009, respectively. The impact of these expenses and losses decreased (gains increased) gross profit and operating income for each respective period.

- (4) Our chief operating decision makers use operating income by industry segment for purposes of making decisions, which include resource allocations and performance evaluations. Operating income by industry segment represents gross profit by industry segment less selling, general and administration expense ("SG&A") incurred by each industry segment plus other income and other expense earned/incurred by each industry segment before general corporate expenses and other business operations, net. General corporate expenses and other business operations, net, consist of unallocated portions of gross profit, SG&A, other income and other expense.
- (5) During the first six months of 2010, we began limited production and sales of anhydrous ammonia and urea ammonium nitrate ("UAN") at our previously idled chemical facility located in Pryor, Oklahoma (the "Pryor Facility"). However the production was at rates lower than our targeted production rates. As a result, we incurred operating losses of \$8,030,000 and \$1,993,000 for the six and three months ended June 30, 2010, respectively. During the six and three months ended June 30, 2009, we incurred start up expenses of \$5,213,000 and \$3,217,000, respectively, relating to the Pryor Facility. Excluding the impact of gross profit recognized during the first half of 2010, these expenses are primarily included in SG&A for each respective period. Also see Note 16 – Business Interruption and Property Insurance Claims concerning a fire within the Pryor Facility.
- (6) The amounts included are not allocated to our Climate Control and Chemical Businesses since these items are not included in the operating results reviewed by our chief operating decision makers for purposes of making decisions as discussed above. A detail of these amounts are as follows:

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 17: Segment Information (continued)**

	Six Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Gross profit-Other	\$ 1,423	\$ 1,700	\$ 714	\$ 548
Selling, general and administrative:				
Personnel costs	(4,267)	(4,326)	(2,520)	(2,601)
Professional fees	(1,925)	(1,818)	(755)	(834)
Office overhead	(323)	(345)	(160)	(157)
Maintenance and repairs	(38)	(174)	(26)	(152)
Property, franchise and other taxes	(170)	(160)	(84)	(77)
Advertising	(121)	(132)	(55)	(62)
All other	(999)	(733)	(508)	(370)
Total selling, general and administrative	(7,843)	(7,688)	(4,108)	(4,253)
Other income	70	133	30	23
Other expense	(7)	(222)	3	(199)
Total general corporate expenses and other business operations, net	\$ (6,357)	\$ (6,077)	\$ (3,361)	\$ (3,881)

Information about our total assets by industry segment is as follows:

	June 30, 2010	December 31, 2009
	(In Thousands)	
Climate Control	\$ 109,606	\$ 102,029
Chemical	151,624	143,800
Corporate assets and other	83,330	92,804
Total assets	\$ 344,560	\$ 338,633

**Note 18: Related Party Transactions**

**Golsen Group**

During November 2008, the Golsen Group acquired from an unrelated third party \$5,000,000 of the 2007 Debentures. As a result in January 2009, we paid interest of \$137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2008. In March 2009, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. During the six months ended June 30, 2009, we incurred interest expense of \$137,500 relating to the debentures held by the Golsen Group, which amount was paid in June 2009.

**LSB INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**(Unaudited)**

**Note 18: Related Party Transactions (continued)**

In January 2010, we paid interest of \$137,500 relating to the 2007 Debentures held by the Golsen Group that was accrued at December 31, 2009. In March 2010, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group. During the six months ended June 30, 2010, we incurred interest expense of \$137,500 relating to the debentures held by the Golsen Group, which amount was paid in June 2010.

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### [Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our June 30, 2010 condensed consolidated financial statements. Certain statements contained in this MD&A may be deemed forward-looking statements. See "Special Note Regarding Forward-Looking Statements".

#### **Overview**

##### **General**

We are a manufacturing, marketing and engineering company operating through our subsidiaries. Our wholly-owned subsidiaries own the following core businesses:

- Climate Control Business manufactures and sells a broad range of air conditioning and heating products in the niche markets we serve consisting of geothermal and water source heat pumps, hydronic fan coils, large custom air handlers and other related products used to control the environment in commercial and residential new building construction, renovation of existing buildings and replacement of existing systems. For the first six months of 2010, approximately 38% of our consolidated net sales relates to the Climate Control Business.
- Chemical Business manufactures and sells nitrogen based chemical products produced from three plants located in Arkansas, Alabama and Texas for the industrial, mining and agricultural markets. In addition, we are continuing with the development of our previously idled Pryor Facility located in Pryor, Oklahoma. Our products include industrial and fertilizer grade AN, UAN, anhydrous ammonia, sulfuric acids, nitric acids in various concentrations, nitrogen solutions and various other products. For the first six months of 2010, approximately 61% of our consolidated net sales relates to the Chemical Business.

The Pryor Facility began limited production of anhydrous ammonia and UAN in the first quarter of 2010 until a pipe failure and fire in June damaged the ammonia plant's primary reformer within the Pryor Facility. As a result, all production at the Pryor Facility has ceased until repairs can be completed, which is expected toward the end of September 2010.

##### **Economic Conditions**

Our two main business segments serve several diverse markets. We consider market fundamentals for each market individually as we evaluate economic conditions.

Climate Control Business - The downturn in commercial and residential construction continued to have a significant adverse effect on our Climate Control Business' product order level and sales in the first half of 2010. Based upon published reports of leading indicators, including the Construction Market Forecasting Service published by McGraw-Hill, and the national architecture billings index published by American Institute of Architects ("AIA"), the overall commercial construction sector is not expected to recover during 2010. On the other hand, McGraw-Hill has projected an increase in both single-family residential and multi-family

construction during 2010. Another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives, although we cannot predict the impact these programs will have on our business.

The Chemical Business – Our Chemical Business' primary markets are industrial, mining and agricultural. We believe that the sales in all three sectors for the remainder of 2010 will continue to be affected by the overall economic conditions. During the first half of 2010, approximately 58% of our Chemical Business' sales were into industrial and mining markets. Approximately 72% of these sales are to customers that have contractual obligations to purchase a minimum quantity or allow us to recover our cost plus a profit, irrespective of the volume of product sold. It is unclear to us how these markets will respond for the remainder of 2010, but we anticipate modest increased demand from certain of our large industrial customers and from our mining customers.

The remaining 42% of our Chemical Business' sales in the first half of 2010 were made into the agricultural fertilizer markets to customers that do not purchase pursuant to contractual arrangements. Our agricultural sales volumes and margins depend upon the supply of and the demand for fertilizer, which in turn depends on the market fundamentals for crops including corn, wheat and forage. During the first half of 2010, anhydrous ammonia increased in cost while natural gas costs declined, resulting in a competitive cost disadvantage for agricultural grade AN produced from purchased ammonia at our El Dorado Facility compared to competitors that produce from natural gas. Our Cherokee Facility produces approximately 170,000 tons of anhydrous ammonia annually from natural gas. The current outlook according to most market indicators, including reports in Green Markets, Fertilizer Week and other industry publications, point to positive supply and demand fundamentals for the types of nitrogen fertilizer products we produce and sell. However, it is possible that the fertilizer outlook could be adversely affected by lower grain production, unanticipated changes in commodity prices, or unfavorable weather conditions.

#### **Results for Second Quarter 2010**

Our consolidated net sales for the second quarter of 2010 were \$168.4 million compared to \$138.6 million for the same period in 2009. The sales increase of \$29.8 million includes an increase of \$36.5 million in our Chemical Business partially offset by a decrease of \$7.2 million in our Climate Control Business. The increase in our Chemical Business' sales was primarily a result of improved customer demand for agricultural and industrial products and an increase of selling prices partially driven by higher raw material input costs. The decrease in our Climate Control Business' sales is due primarily to a lower beginning backlog of customer product orders due to the economic downturn.

Our consolidated operating income was \$12.8 million for the second quarter of 2010 compared to \$14.5 million for the same period in 2009. The decrease in operating income of \$1.7 million included a \$5.2 million decrease in our Climate Control Business operating income partially offset by an increase of \$3.0 million in our Chemical Business. Our general corporate expense and other business operations net expenses decreased \$0.5 million.

As discussed below under “Results of Operations”, the disproportionately higher decline in our Climate Control’s operating income of 43% compared to the 11% decline in sales was primarily attributable to increases in raw material costs as a percentage of sales, lower overhead absorption at our manufacturing facilities, and changes in our commercial product mix.

Our resulting effective income tax rate for the second quarter of 2010 was approximately 45.3% compared to 38.4% for the second quarter of 2009. During June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately \$800,000 in the second quarter of 2010.

#### **Climate Control Business**

Our Climate Control sales for the second quarter of 2010 were \$59.8 million or 11% below the second quarter of 2009. The decrease in net sales resulted from a 29% decline in sales of our fan coil products, a 6% decline in our geothermal and water source heat pump products and a 9% decline in other HVAC products.

We continue to closely follow economic indicators and have attempted to assess the impact on the commercial and residential construction sectors that we serve, including, but not limited to, new construction and/or renovation of facilities in the following sectors:

- Multi-Family Residential (apartments and condominiums)
- Single-Family Residential
- Lodging
- Education
- Healthcare
- Offices
- Manufacturing

During the second quarter of 2010, approximately 75% of our Climate Control Business’ sales were to the commercial and multi-family construction markets, and the remaining 25% were sales of geothermal heat pumps (“GHPs”) to the single-family residential market.

For the second quarter of 2010, the product order intake level was \$71.7 million as compared to \$54.7 million for the same period in 2009 and compared to \$54.2 million for the first quarter of 2010 and \$48.5 million for the fourth quarter of 2009. Product orders for residential and commercial products increased 48% and 26%, respectively, as compared to the same period in 2009. Our product order level consists of confirmed purchase orders from customers that have been accepted and received credit approval.

Our order backlog was \$48.2 million at June 30, 2010 as compared to \$36.0 million at March 31, 2010, \$32.2 million at December 31, 2009 and \$49.5 at June 30, 2009. The backlog consists of confirmed customer orders for product to be shipped at a future date. Historically, we have not experienced significant cancellations relating to our backlog of confirmed customer product orders, and we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms beyond

twelve months. During the second quarter of 2010, one order for \$3.2 million was cancelled by a customer due to their inability to refinance their project and the reported order backlog as of June 30, 2010 was reduced accordingly. For July 2010, our new orders received were approximately \$19.5 million and our backlog was approximately \$48.2 million at July 31, 2010.

Our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional all-electric and gas HVAC systems. The American Recovery and Reinvestment Act of 2009 ("Act") provides a 30% tax credit for homeowners who install GHPs. For businesses that install GHPs, the Act includes a 10% tax credit and five year accelerated depreciation for the balance of the system cost.

Although we expect to see continued slowness in our Climate Control Business' results in the short-term, we have significantly increased our sales and marketing efforts for all of our Climate Control products, primarily to expand the market for our products, including GHPs. Over time, we believe that the recently enacted federal tax credits for GHPs should have a positive impact on sales of those highly energy efficient and green products.

#### **Chemical Business**

Our Chemical Business operates the El Dorado Facility, the Cherokee Facility, the Baytown Facility and the Pryor Facility. The El Dorado and Baytown Facilities produce nitrogen products from anhydrous ammonia that is delivered by pipeline. The El Dorado Facility also produces sulfuric acid from recovered elemental sulfur delivered by truck and rail. The Cherokee and Pryor Facilities produce anhydrous ammonia and nitrogen products from natural gas that is delivered by pipeline but can also receive supplemental anhydrous ammonia by truck, rail or barge.

During the second quarter of 2010, the Pryor Facility intermittently produced anhydrous ammonia and UAN on a limited basis at production rates lower than our targeted rates. The UAN produced was sold to a customer and the anhydrous ammonia produced was either sold to customers or utilized by our other Chemical facilities.

Operating expenses at the Pryor Facility for the second quarter were \$6.2 million. The operating expenses during this period of \$3.0 million identifiable with production were included in cost of sales or capitalized to inventory and the remaining \$3.2 million of expenses were included in SG&A, which is below the gross profit line.

Due to a pipe failure and fire in June 2010 that damaged the ammonia plant's primary reformer within the facility, the Pryor Facility is unable to produce anhydrous ammonia or UAN. Based upon our current assessment, we anticipate, due to lead times for replacement parts, the repairs will be completed toward the end of September 2010. As discussed below under "Liquidity and Capital Resources-Recognition of Insurance Recoveries," we have notified our insurer of this event.

As indicated above, all production at the Pryor Facility has ceased for an estimated 90 days while repairs are being completed. During this rebuild and repair phase in the third quarter of 2010, all operating expenses and losses will primarily be classified as SG&A. We continue to fund the Pryor Facility from our available cash on hand and working capital.



Our primary raw material feedstocks (anhydrous ammonia, natural gas and sulfur) are commodities subject to significant price fluctuations, and are generally purchased at prices in effect at the time of purchase. During second quarter of 2010, the average prices for those commodities compared to same period in 2009 were as follows:

	2010	2009
Natural gas average price per MMBtu based upon Tennessee 500 pipeline pricing point	\$ 4.46	\$ 3.91
Ammonia average price based upon low Tampa metric price per ton	\$ 390	\$ 261
Sulfur price based upon Tampa average quarterly price per long ton	\$ 145	See (1)

(1) The average quarterly price was negligible for the second quarter of 2009.

Most of our Chemical Business sales in the industrial and mining markets were pursuant to sales contracts and/or pricing arrangements on terms that include the cost of raw material feedstock as a pass through component in the sales price. Our Chemical Business sales in the agricultural markets primarily were sold at the market price in effect at the time of sale or at a negotiated future price.

The percentage change in sales (volume and dollars) for the second quarter of 2010 compared to the second quarter of 2009 is as follows:

	Percentage Change of	
	Tons	Dollars
	<i>Increase</i>	
<b>Chemical products:</b>		
Agricultural	45%	48%
Industrial acids and other	44 %	53 %
Mining	33%	61 %
<b>Total weighted-average change</b>	<b>45 %</b>	<b>52 %</b>

The increase in agricultural sales both in tons and dollars represent higher unit prices and a shift in volume from the first quarter 2010 to the second quarter 2010 due to a late start of the spring fertilizer season in 2010.

The disproportionately higher increase in industrial and mining sales dollars compared to the increase in tons shipped is primarily due to higher ammonia feedstock cost in 2010 that was passed through in the selling price pursuant to pricing arrangements with certain customers.

## Liquidity and Capital Resources

The following is our cash and cash equivalents, short-term investments, total interest bearing debt and stockholders' equity:

	June 30, 2010	December 31, 2009
	(In Millions)	
Cash and cash equivalents	\$ 65.3	\$ 61.7
Short-term investments	-	10.1
	<u>\$ 65.3</u>	<u>\$ 71.8</u>
Long-term debt:		
2007 Debentures due 2012	\$ 26.9	\$ 29.4
Secured Term Loan due 2012	49.2	50.0
Other	25.8	22.4
Total long-term debt, including current portion	<u>\$ 101.9</u>	<u>\$ 101.8</u>
Total stockholders' equity	<u>\$ 156.5</u>	<u>\$ 150.6</u>

At June 30, 2010, our cash and cash equivalents totaled \$65.3 million and our \$50 million Working Capital Revolver Loan was undrawn and available to fund operations, if needed, subject to the amount of our eligible collateral and outstanding letters of credit. At June 30, 2010 and December 31, 2009, the ratio between long-term debt, before the use of cash on hand to pay down debt, and stockholders' equity was approximately 0.7 to 1.

For the remainder of 2010, we expect our primary cash needs will be for working capital and capital expenditures. We and our subsidiaries plan to rely upon internally generated cash flows, cash, secured property and equipment financing, and the borrowing availability under the Working Capital Revolver Loan to fund operations and pay obligations. Also see discussion below concerning our universal shelf registration statement. Our internally generated cash flows and our liquidity could be affected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions.

Our 2007 Debentures bear interest at the annual rate of 5.5% and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year.

The Secured Term Loan matures on November 2, 2012 and accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at June 30, 2010 was approximately 3.34%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities.

Since the 2007 Debentures and the Secured Term Loan both mature in 2012, we are currently reviewing various alternatives for the retirement of these obligations, as they become due.

Certain of our subsidiaries are subject to numerous covenants under the Secured Term Loan including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions.

The Working Capital Revolver Loan, which certain of our subsidiaries are parties to, is available to fund these subsidiaries working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, these subsidiaries (the "Borrowers") may borrow on a revolving basis up to \$50.0 million based on specific percentages of eligible accounts receivable and inventories. At June 30, 2010, we had approximately \$49.2 million of borrowing availability under the Working Capital Revolver Loan based on eligible collateral and outstanding letters of credit.

The Working Capital Revolver Loan and the Secured Term Loan have financial covenants that are discussed below under "Subordinated Debentures and Loan Agreements - Terms and Conditions". The Borrowers' ability to maintain borrowing availability under the Working Capital Revolver Loan depends on their ability to comply with the terms and conditions of the loan agreements and their ability to generate cash flow from operations. The Borrowers are restricted under their credit agreements as to the funds they may transfer to the Company and our subsidiaries that are not parties to the loan agreement. This limitation does not prohibit payment to the Company of amounts due under a Services Agreement, Management Agreement and a Tax Sharing Agreement with ThermaClime. Based upon our current projections, we believe that cash and borrowing availability under our Working Capital Revolver Loan is adequate to fund operations during the remainder of 2010.

Although we do not have any current plans to offer or sell any securities, in September 2009, we filed a universal shelf registration statement on Form S-3, with the SEC, which was declared effective by the SEC in November 2009. The shelf registration statement provides that we could offer and sell up to \$200 million of our securities consisting of equity (common and preferred), debt (senior and subordinated), warrants and units, or a combination thereof. This disclosure shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

#### **Income Taxes**

We are recognizing and paying federal income taxes at regular corporate tax rates. The federal tax returns for 1997 through 2005 remain subject to examination for the purpose of determining the amount of tax NOL and other carryforwards. With few exceptions, the 2006-2008 years remain open for all purposes of examination by the IRS and other major tax jurisdictions.

#### **Capital Expenditures**

##### Capital Expenditures-First Six Months of 2010

Cash used for capital expenditures during the first six months of 2010 was \$10.9 million, including \$1.1 million primarily for production equipment and other upgrades for additional capacity in our Climate Control Business and \$9.7 million for our Chemical Business, primarily

for process and reliability improvements of our operating facilities, including \$3.0 million associated with the Pryor Facility and approximately \$0.2 million to maintain compliance with environmental laws, regulations and guidelines. These capital expenditures were primarily funded from working capital. In addition, one of our subsidiaries exercised its option, pursuant to the terms of the underlying operating lease, to purchase its production facility for approximately \$4.9 million, which was financed by a third party.

#### Committed and Planned Capital Expenditures-Remainder of 2010

At June 30, 2010, we had committed capital expenditures of approximately \$8.4 million for the remainder of 2010, excluding costs to rebuild the ammonia reformer at our Pryor Facility as discussed below. The committed expenditures included \$7.8 million for process and reliability improvements in our Chemical Business, including \$1.5 million relating to the Pryor Facility and approximately \$0.2 million to maintain compliance with environmental laws, regulations and guidelines. In addition, our commitments included \$0.6 million primarily for upgrades and production equipment in our Climate Control Business. We plan to fund these expenditures from working capital, which may include utilizing our Working Capital Revolver Loan, and financing arrangements.

In addition to committed capital expenditures at June 30, 2010, we had additional planned capital expenditures for the remainder of 2010 in our Chemical Business of approximately \$16.2 million (including \$12.8 million relating to the Pryor Facility discussed below) and in our Climate Control Business of approximately \$4.9 million.

Due to the damages incurred as the result of the pipe failure and fire in June within the ammonia reformer of the Pryor Facility as discussed above under "Overview", we have planned capital expenditures of \$8.0 million to replace the damaged equipment. These expenditures will primarily be funded from proceeds received from our insurance carrier. Additionally at the Pryor Facility, we have \$4.8 million of planned capital expenditures for process and reliability improvements.

The planned capital expenditures are subject to economic conditions and approval by senior management. If these capital expenditures are approved, most of the Chemical Business' expenditures other than the rebuild of the Pryor ammonia reformer will likely be funded from internal cash flows and the Climate Control's expenditures will likely be financed. Also see discussion below under "Information Request from EPA" that may require additional capital improvement to certain emission equipment not currently included in our committed and planned capital expenditures for the remainder of 2010.

#### Advanced Manufacturing Energy Credits

On January 8, 2010, two of our subsidiaries within the Climate Control Business were awarded Internal Revenue Code § 48C tax credits (also referred to as "Advanced Manufacturing Energy Credits") of approximately \$9.6 million. The award is based on anticipated capital expenditures made from February 2009 through February 2013 for machinery that will be used to produce geothermal heat pumps and green modular chillers. As these subsidiaries invest in the qualifying machinery, we will be entitled to an income tax credit equal to 30% of the machinery cost, up to the total credit amount awarded.

#### Information Request from EPA

The EPA has sent information requests to most, if not all, of the nitric acid plants in the United States, including to us relating to our El Dorado, Cherokee and Baytown Facilities, requesting information under Section 114 of the Clean Air Act as to construction and modification activities at each of these facilities over a period of years to enable the EPA to determine whether these facilities are in compliance with certain provisions of the Clean Air Act. In connection with a review by our Chemical Business of these facilities in obtaining information for the EPA pursuant to the EPA's request, our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment in order to comply with the requirements of the Clean Air Act. If changes to the production equipment at these facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial.

Further, if it is determined that the equipment at any of our chemical facilities have not met the requirements of the Clean Air Act, our Chemical Business could be subject to penalties in an amount not to exceed \$27,500 per day as to each facility not in compliance and require such facility to be retrofitted with the "best available control technology." We believe this technology is already employed at the Baytown Facility. Currently, we believe that certain facilities within our Chemical Business may be required to pay certain penalties as a result of the above described matter; however, we are currently unable to determine the amount of any penalties that may be assessed by the EPA. Therefore no liability has been established at June 30, 2010, in connection with this matter.

#### **Tentative Collective Bargaining Agreement**

EDC and the negotiating committee completed negotiations and reached a tentative agreement on all terms of a three-year collective bargaining agreement at the El Dorado Facility to commence August 1, 2010 and run through July 31, 2013. The negotiated agreement was ratified by the bargaining unit members on July 22, 2010 and executed by the local union and the Company thereafter. The United Steelworkers of America International Union ("International") is a party to the agreement and International must approve the negotiated terms and execute the final agreement. According to International's chief spokesperson, approval from International is anticipated. In the meantime, all negotiated terms were implemented on August 1, 2010.

#### **Recognition of Insurance Recoveries**

Cherokee Facility - As previously reported, in February 2009, a small nitric acid plant located at the Cherokee Facility suffered damage due to a fire. Our property insurance policy provides for replacement cost coverage relating to property damage with a \$1,000,000 property loss deductible. Because our replacement cost claim for property damages exceeds our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but we recorded a property insurance claim receivable relating to this event. During the first six months of 2010, our insurance claim receivable decreased by a net \$849,000. The activity during the six months of 2010 included the receipt of approximately \$1,021,000, from our insurance carrier as a partial payment on our insurance claim, all of which relates to property, plant and equipment ("PP&E"). In addition, the activity included payments

of \$172,000 relating to payables (approved by our insurance carrier) to unrelated third parties. As a result, the balance of the insurance claim receivable relating to this event was \$326,000 at June 30, 2010. We used approximately \$849,000 of the insurance proceeds to pay down the Secured Term Loan.

Bryan Distribution Center - As previously reported, in July 2009, one of our fifteen agricultural distribution centers operated by our Chemical Business was destroyed by fire, which is located in Bryan, Texas ("Bryan Center"). Our general liability insurance policy provides for coverage with a \$250,000 loss deductible. Our property insurance policy provides for replacement cost coverage relating to property damage and for business interruption coverage for certain lost profits and extra expense with a total \$100,000 loss deductible for both coverages. As of June 30, 2010, the third party general liability claims have exceeded our \$250,000 deductible. We have recognized the \$250,000 general liability deductible and the insurance company has been paying directly most of the third party general liability claims. Because our replacement cost claim for property damages exceeds our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. A recovery, if any, from our business interruption coverage has not been recognized. During the fourth quarter of 2009, we received \$545,000 from our insurance carrier as a partial payment on our insurance claim, which amount was applied against our insurance claim receivable. During the first six months of 2010, our insurance claim receivable decreased by a net \$31,000. The activity during the six months of 2010 included the receipt of additional partial payments totaling \$1,039,000 (\$649,000 relates to PP&E) from our insurance carrier, of which \$300,000 was applied against our insurance claim receivable and the remaining balance of \$739,000 (\$495,000 relates to PP&E) was classified as other income. In addition, the activity included payments of \$148,000 relating to payables (approved by our insurance carrier) to unrelated third parties and payments of \$121,000 to our insurance carrier associated with the general liability deductible. As a result, the balance of the insurance claim receivable relating to this event was \$4,000 at June 30, 2010.

Pryor Facility - In June 2010, a pipe failure in the primary reformer of the ammonia plant at the Pryor Facility resulted in a fire that damaged the ammonia plant. The fire was immediately extinguished and there were no injuries. As a result of this damage, the Pryor Facility is unable to produce anhydrous ammonia or UAN. Based on our current assessment, the estimated costs to rebuild the ammonia reformer are approximately \$8.0 million and should be completed toward the end of September 2010. As of June 30, 2010, because our replacement cost claim for property damages is estimated to exceed our property loss deductible and the net book value of the damaged property, we did not recognize a loss relating to property damage from this fire but rather we recorded an insurance claim receivable relating to this event. Our property insurance policy provides for replacement cost coverage relating to property damage with a total \$1,000,000 loss deductible and for business interruption coverage for certain lost profits and extra expense with a 30-day waiting period and a minimum \$250,000 deductible. At June 30, 2010, the balance of the insurance claim receivable relating to this event was \$447,000.

#### **Estimated Plant Turnaround Costs- Remainder of 2010**

Our Chemical Business expenses the costs of planned major maintenance activities ("Turnarounds") as they are incurred. Based on our current plan for Turnarounds to be performed during the remainder of 2010, we currently estimate that we will incur approximately \$2.5 million to \$3.5 million of Turnaround costs, which we plan to fund from our available

working capital. However, it is possible that the actual costs could be significantly different than our estimates.

#### **Expenses Associated with Environmental Regulatory Compliance**

Our Chemical Business is subject to specific federal and state environmental compliance laws, regulations and guidelines. As a result, our Chemical Business incurred expenses of \$1.4 million in the first six months of 2010 in connection with environmental regulatory issues. For the remainder of 2010, we expect to incur expenses ranging from \$1.5 million to \$2.5 million in connection with environmental regulatory issues. However, it is possible that the actual costs could be significantly different than our estimates.

#### **Proposed Legislation and Regulations Concerning Greenhouse Gas Emissions**

Certain of the manufacturing facilities within our Chemical Business use significant amounts of electricity, natural gas and other raw materials necessary for the production of their chemical products that result, or could result, in certain greenhouse gas emissions into the environment. Federal and state courts and administrative agencies are considering the scope and scale of greenhouse gas emission regulation. There are bills pending in Congress that would regulate greenhouse gas emissions through a cap-and-trade system under which emitters would be required to either install abatement systems where feasible or buy allowances for offsets of emissions of greenhouse gas. In addition, the EPA has announced its determination that greenhouse gases threaten the public's health and welfare and thus could make them subject to regulation under the Clean Air Act. However this determination is being contested. The EPA has instituted a mandatory greenhouse gas reporting requirement beginning in 2010, which will impact all of our chemical manufacturing sites. Greenhouse gas regulation could increase the price of the electricity purchased by these chemical facilities and increase costs for our use of natural gas, other raw materials (such as anhydrous ammonia), and other energy sources, potentially restrict access to or the use of natural gas and certain other raw materials necessary to produce certain of our chemical products and require us to incur substantial expenditures to retrofit these chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted. Federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind power and solar energy, which may increase the cost of energy use in certain of our chemical and other manufacturing operations. While future emission regulations or new laws appear likely, it is too early to predict how these regulations, if and when adopted, will affect our businesses, operations, liquidity or financial results.

#### **Potential Increase of Imported UAN**

A large percentage of the domestic UAN market is supplied by imports. Significant additional UAN production began in the Caribbean during 2010, and we believe that some of this additional UAN production could be marketed in the United States. Generally, foreign production of UAN is produced at a lower cost of production than UAN produced in the United States. During 2009 and the first six months of 2010, revenues from the sale of UAN by our Chemical Business were approximately \$28 million and \$20 million, respectively. Additionally, UAN is the primary product to be produced and sold by the Pryor Facility. This potential additional import of UAN beginning in 2010 could have an adverse impact on our revenues and profits from the sale of UAN and fertilizer products.

### **Authorization to Repurchase 2007 Debentures and Stock**

Our board of directors has granted management the authority to repurchase our 2007 Debentures on terms that management deems favorable to us if an opportunity is presented. Under this authority, we acquired in unsolicited transactions \$2,500,000 aggregate principal face during the first half of 2010, using \$2,494,000 of our working capital to purchase this portion of the 2007 Debentures. As a result, \$26,900,000 remains outstanding at June 30, 2010.

In addition, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period of time. The stock repurchase authorization will remain in effect until such time as our board of directors decides to end it. During the first six months of 2010, we repurchased 177,100 shares of our common stock at a weighted-average price of \$13.67 per share using funds from our working capital.

If we should repurchase an additional portion of our 2007 Debentures or stock, we currently intend to fund any repurchases from our available working capital; however, our plan could change.

### **Dividends**

We are a holding company and, accordingly, our ability to pay cash dividends on our preferred stock and our common stock depends in large part on our ability to obtain funds from our subsidiaries. The ability of ThermaClime (which owns substantially all of the companies comprising the Climate Control Business and Chemical Business) and its wholly-owned subsidiaries to pay dividends and to make distributions to us is restricted by certain covenants contained in the \$50 million Working Capital Revolver Loan and the \$50 million Secured Term Loan. Under the terms of these agreements, ThermaClime cannot transfer funds to us in the form of cash dividends or other distributions or advances, except for:

- the amount of income taxes that ThermaClime would be required to pay if they were not consolidated with us;
- an amount not to exceed fifty percent (50%) of ThermaClime's consolidated net income during each fiscal year determined in accordance with generally accepted accounting principles plus amounts paid to us within the first bullet above, provided that certain other conditions are met;
- the amount of direct and indirect costs and expenses incurred by us on behalf of ThermaClime pursuant to a certain services agreement;
- the amount under a certain management agreement between us and ThermaClime, provided certain conditions are met, and
- outstanding loans entered into subsequent to November 2, 2007 not to exceed \$2.0 million at any time.

We have not paid cash dividends on our outstanding common stock in many years and we do not currently anticipate paying cash dividends on our outstanding common stock in the near future. However, our board of directors has not made a decision whether or not to pay such dividends on our common stock during the remainder of 2010.



During first quarter of 2010, dividends totaling \$305,000 were declared and paid on our outstanding preferred stock using funds from our working capital. Each share of preferred stock is entitled to receive an annual dividend, only when declared by our board of directors, payable as follows:

- Series D Preferred at the rate of \$.06 a share, which dividend is cumulative;
- Series B Preferred at the rate of \$12.00 a share, which dividend is cumulative; and
- Noncumulative Preferred at the rate of \$10.00 a share, which is noncumulative.

All shares of the Series D Preferred and Series B Preferred are owned by the Golsen Group. See "Related Party Transactions" of this MD&A for a discussion as to the amount of dividends paid to the Golsen Group in March 2010.

#### **Compliance with Long - Term Debt Covenants**

As discussed below under "Subordinated Debentures and Loan Agreements - Terms and Conditions", the Secured Term Loan and Working Capital Revolver Loan, as amended, of ThermaClime and its subsidiaries require, among other things, that ThermaClime meet certain financial covenants. Currently, ThermaClime's forecast is that ThermaClime will be able to meet all financial covenant requirements for 2010.

#### **Subordinated Debentures and Loan Agreements - Terms and Conditions**

**5.5% Convertible Senior Subordinated Debentures** - On June 28, 2007, we completed a private placement to twenty-two qualified institutional buyers, pursuant to which we sold \$60.0 million aggregate principal amount of the 2007 Debentures. Only \$26.9 million remains outstanding at June 30, 2010, including \$5.0 million owned by the Golsen Group.

The 2007 Debentures bear interest at the rate of 5.5% per year and mature on July 1, 2012. Interest is payable in arrears on January 1 and July 1 of each year, which began on January 1, 2008. In addition, the 2007 Debentures are unsecured obligations and are subordinated in right of payment to all of our existing and future senior indebtedness, including indebtedness under our revolving debt facilities. The 2007 Debentures are effectively subordinated to all present and future liabilities, including trade payables, of our subsidiaries.

The 2007 Debentures are convertible by the holders in whole or in part into shares of our common stock prior to their maturity. The conversion rate of the 2007 Debentures for the holders electing to convert all or any portion of a debenture is 36.4 shares of our common stock per \$1,000 principal amount of debentures (representing a conversion price of \$27.47 per share of common stock), subject to adjustment under certain conditions as set forth in the Indenture.

**Working Capital Revolver Loan** - - ThermaClime's Working Capital Revolver Loan is available to fund its working capital requirements, if necessary, through April 13, 2012. Under the Working Capital Revolver Loan, ThermaClime and its subsidiaries may borrow on a revolving basis up to \$50.0 million based on specific percentages of eligible accounts receivable and inventories. At June 30, 2010, there were no outstanding borrowings. In addition, the net credit available for borrowings under our Working Capital Revolver Loan was approximately \$49.2 million at June 30, 2010, based on our eligible collateral and outstanding letters of credit

as of that date. The Working Capital Revolver Loan requires that ThermaClime meet certain financial covenants, including an EBITDA requirement of greater than \$25 million, a minimum fixed charge coverage ratio of not less than 1.10 to 1, and a maximum senior leverage coverage ratio of not greater than 4.50 to 1. These requirements are measured quarterly on a trailing twelve-month basis and as defined in the agreement. ThermaClime was in compliance with those covenants for the twelve-month period ended June 30, 2010.

**Secured Term Loan** - In November 2007, ThermaClime and certain of its subsidiaries entered into the \$50.0 million Secured Term Loan with a certain lender. Proceeds from the Secured Term Loan were used to repay the previous senior secured loan. The Secured Term Loan matures on November 2, 2012. The Secured Term Loan accrues interest at a defined LIBOR rate plus 3%, which LIBOR rate is adjusted on a quarterly basis. The interest rate at June 30, 2010 was approximately 3.34%. The Secured Term Loan requires only quarterly interest payments with the final payment of interest and principal at maturity. During the first six months of 2010, we received proceeds from our insurance carrier as a partial payment on an insurance claim, of which we used approximately \$0.8 million to pay down the Secured Term Loan. As a result, approximately \$49.2 million remain outstanding at June 30, 2010. The Secured Term Loan is secured by the real property and equipment located at the El Dorado and Cherokee Facilities. The carrying value of the pledged assets is approximately \$61 million at June 30, 2010.

The Secured Term Loan borrowers are subject to numerous covenants under the agreement including, but not limited to, limitation on the incurrence of certain additional indebtedness and liens, limitations on mergers, acquisitions, dissolution and sale of assets, and limitations on declaration of dividends and distributions to us, all with certain exceptions. At June 30, 2010, the carrying value of the restricted net assets of ThermaClime and its subsidiaries was approximately \$67 million. As defined in the agreement, the Secured Term Loan borrowers are also subject to a minimum fixed charge coverage ratio of not less than 1.10 to 1 and a maximum leverage ratio of not greater than 4.50 to 1. Both of these requirements are measured quarterly on a trailing twelve-month basis. The Secured Term Loan borrowers were in compliance with these financial covenants for the twelve-month period ended June 30, 2010. The maturity date of the Secured Term Loan can be accelerated by the lender upon the occurrence of a continuing event of default, as defined.

**Cross-Default Provisions** - The Working Capital Revolver Loan agreement and the Secured Term Loan contain cross-default provisions. If ThermaClime fails to meet the financial covenants of either of these agreements, the lenders may declare an event of default.

#### **Seasonality**

We believe that our only significant seasonal products are fertilizer and related chemical products sold by our Chemical Business to the agricultural industry. The selling seasons for those products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November in the geographical markets in which the majority of our agricultural products are distributed. As a result, our Chemical Business increases its inventory of agricultural products prior to the beginning of each planting season. In addition, the amount and timing of sales to the agricultural markets depend upon weather conditions and other circumstances beyond our control.

## **Related Party Transactions**

### **Golsen Group**

The Golsen Group holds \$5,000,000 of the 2007 Debentures. As a result in January 2010, we paid interest of \$137,500 relating to the debentures held by the Golsen Group that was accrued at December 31, 2009.

In March 2010, we paid dividends totaling \$300,000 on our Series B Preferred and our Series D Preferred, all of the outstanding shares of which are owned by the Golsen Group.

During the six months ended June 30, 2010, we incurred interest expense of \$137,500 relating to the debentures held by the Golsen Group, which amount was paid in June 2010.

### **Critical Accounting Policies and Estimates**

See our discussion on critical accounting policies in Item 7 of our Form 10-K for the year ended December 31, 2009. In addition, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosures of contingencies.

## Results of Operations

Six months ended June 30, 2010 compared to Six months ended June 30, 2009

### Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for the six months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	\$ 78,961	\$ 95,069	\$ (16,108)	(16.9) %
Hydronic fan coils	16,205	26,157	(9,952)	(38.0) %
Other HVAC products	18,333	17,804	529	3.0 %
Total Climate Control	<u>\$ 113,499</u>	<u>\$ 139,030</u>	<u>\$ (25,531)</u>	(18.4) %
Gross profit – Climate Control	<u>\$ 37,231</u>	<u>\$ 47,426</u>	<u>\$ (10,195)</u>	(21.5) %
Gross profit percentage – Climate Control (1)	<u>32.8 %</u>	<u>34.1 %</u>	<u>(1.3) %</u>	
Operating income – Climate Control	<u>\$ 12,520</u>	<u>\$ 21,204</u>	<u>\$ (8,684)</u>	(41.0) %

(1) As a percentage of net sales

#### Net Sales – Climate Control

- Net sales of our geothermal and water source heat pump products decreased primarily as a result of a 22% decline in sales of our commercial products due to the slowdown in the construction and renovation activities in the markets we serve and a 5% decline in sales of our residential products. Shipments of residential products during the first half of 2009 were particularly strong due to a larger backlog of customer orders carried forward from 2008. During the first half of 2010, we continued to maintain a market share leadership position of approximately 38%, based on market data supplied by the Air-Conditioning, Heating and Refrigeration Institute (“AHRI”);
- Net sales of our hydronic fan coils decreased primarily due to a 25% decline in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and a 20% decrease in the average unit sales price due to change in product mix. During the first half of 2010, we continue to have a market share leadership position of approximately 28% based on market data supplied by the AHRI;
- Net sales of our other HVAC products increased primarily as the result of an increase in the sales of our large custom air handlers and modular chillers partially offset by a decrease in engineering and construction services.

#### Gross Profit – Climate Control

The decline in gross profit in our Climate Control Business was the result of lower sales volume as discussed above and to a lesser extent higher raw material costs. The gross profit as a percentage of sales decreased primarily as a result of higher material costs, lower absorption of fixed costs and changes in our commercial product mix.

## Operating Income – Climate Control

Operating income decreased primarily as a result of the decrease in gross profit as discussed above partially offset by a decrease in operating expenses. Significant changes in operating expenses include a decrease in warranty, freight and commission expenses due primarily to the decrease in sales volume (\$1.5 million, \$1.1 million and \$1.0 million, respectively) partially offset by an increase in advertising expenses (\$1.5 million) as a result of a marketing program launched by one of our subsidiaries, product liability and damage claims (\$0.4 million) primarily relating to two geothermal and water source heat pump projects and one fan coil project.

## Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for the six months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
<b>Net sales:</b>				
Agricultural products	\$ 75,496	\$ 67,171	\$ 8,325	12.4 %
Industrial acids and other chemical products	63,834	46,697	17,137	36.7 %
Mining products	41,920	30,503	11,417	37.4 %
<b>Total Chemical</b>	<u>\$ 181,250</u>	<u>\$ 144,371</u>	<u>\$ 36,879</u>	25.5 %
<b>Gross profit – Chemical</b>	<u>\$ 24,760</u>	<u>\$ 29,429</u>	<u>\$ (4,669)</u>	(15.9) %
<b>Gross profit percentage – Chemical (1)</b>	<u>13.7 %</u>	<u>20.4 %</u>	<u>(6.7) %</u>	
<b>Operating income – Chemical</b>	<u>\$ 11,063</u>	<u>\$ 18,835</u>	<u>\$ (7,772)</u>	(41.3) %

(1) As a percentage of net sales

### Net Sales - Chemical

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. Although not fully operational, the Pryor Facility produces agricultural and industrial products. For the first half of 2010, overall sales prices for the Chemical Business increased 2% and the volume of tons sold increased 27%, compared with the same period in 2009, generally as a result of the following:

- Sales prices for products produced at the El Dorado Facility increased 10 % related, in part, to the higher cost of anhydrous ammonia, part of which is passed through to certain of our customers pursuant to contracts and/or pricing arrangements that include raw material feedstock as a pass-through component in the sales price. Pricing for agricultural grade AN was 9% higher than the prior year period. However, fertilizer grade AN volume of tons shipped at the El Dorado Facility decreased 15,000 tons primarily due to unfavorable weather conditions in the first quarter of 2010. Industrial acid volumes increased 17,000 tons due to improved economic conditions and spot sales opportunities. Our industrial grade AN is sold to one customer pursuant to a multi-year take or pay supply contract in which the customer

has agreed to purchase, and our El Dorado Facility has agreed to reserve certain minimum volumes of industrial grade AN during the year. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and profit associated with the reserved capacity despite not taking the minimum volume requirement. Overall volume of all products sold from the El Dorado Facility increased 7,000 tons, or 2%.

- Sales prices at the Cherokee Facility increased 5% compared to the prior year period. Volumes also increased 18% primarily related to higher UAN fertilizer demand. In the first half of 2009, UAN fertilizer sales were affected by high inventory levels in the distribution chain left over from 2008, as well as poor weather conditions. While weather conditions were not optimal in 2010, volumes were not impacted by the supply chain as noted above for the prior year.
- Sales prices decreased approximately 9% for products produced at the Baytown Facility due to decreased fixed expenses under the new agreement compared to the prior agreement. These expenses are a pass-through component to Bayer. Overall volumes increased 70% as the result of improved demand from the Baytown site's customers. The decreased sales prices and increased volumes had only a minimum impact to gross profit and operating income due to certain provisions of the Bayer Agreement.
- During the first half of 2010, our Pryor Facility recognized net sales of \$6.0 million for sales of 14,000 tons of anhydrous ammonia and 16,000 tons of UAN. In addition, the Pryor Facility provided 14,000 tons of anhydrous ammonia to our El Dorado and Cherokee Facilities.

#### **Gross Profit - Chemical**

The decrease in gross profit of \$4.7 million on higher sales resulted in a decrease in the gross profit as a percent of sales for the six months 2010 as compared to the first half of 2009. Gross profit on UAN fertilizer sales were \$2.5 million higher primarily due to increased volume. Gross profit on industrial acids and other products were \$3.0 million higher due in part to our industrial grade AN sold per the terms noted above and due to reduced unit costs related to plant efficiencies. Gross profit on fertilizer grade AN were \$4.7 million lower due to higher raw material input costs and lower volume as discussed above. Gross profit on our chemical products sold in excess of then current market prices due to firm sales commitments made in 2008 when market prices were higher were \$0.8 million in the first half of 2010 compared to \$3.6 million in the same period a year ago. We also recognized a \$2.2 million gain on recoveries of precious metals in the first half of 2009. We incurred expenses for plant Turnarounds of \$2.7 million for the first half of 2010 compared to \$0.6 million in the first half of 2009 due to the timing of our Turnarounds. Losses on natural gas and ammonia hedging contracts (both realized and unrealized) were \$0.6 million and \$1.9 million for the first six months of 2010 and 2009, respectively. Primarily as a result of these items, our overall gross profit as a percentage of sales decreased 7% for the first six months of 2010 compared to the same period of 2009.

#### **Operating Income - Chemical**

In addition to the decrease in gross profit of \$4.7 million discussed above, our Chemical Business' operating income includes operating losses associated with the Pryor Facility of approximately \$8.0 million for the first half of 2010 compared to \$5.2 million for the first half of 2009. This decrease was partially offset by a gain of \$0.7 million from insurance recoveries received as discussed above under "Liquidity and Capital Resources – Recognition of Insurance Recoveries".

**Other**

The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for the six months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales – Other	\$ 4,053	\$ 5,359	\$ (1,306)	(24.4)%
Gross profit – Other	\$ 1,423	\$ 1,700	\$ (277)	(16.3)%
Gross profit percentage – Other (1)	35.1 %	31.7 %	3.4 %	
General corporate expense and other business operations, net	\$ (6,357)	\$ (6,077)	\$ (280)	4.6%

(1) As a percentage of net sales

**Net Sales - Other**

The decrease in net sales classified as "Other" relates primarily to the sale of two large industrial machines during the first six months of 2009 partially offset by an improvement in demand for industrial machinery during the second quarter of 2010.

**Gross Profit - Other**

The decrease in gross profit classified as "Other" is due primarily to the decrease in sales as discussed above.

**General Corporate Expense and Other Business Operations, Net**

Our general corporate expense and other business operations, net, increased by \$0.3 million primarily as the result of the decrease in gross profit classified as "Other" as discussed above.

**Interest Expense**

Interest expense was \$4.1 million for the first six months of 2010 compared to \$2.9 million for the same period in 2009, an increase of approximately \$1.2 million. This increase primarily relates to losses (realized and unrealized) of \$1.1 million recognized in the first half of 2010 associated with our interest rate contracts compared to net gains (realized and unrealized) of \$0.2 million for the same period in 2009.

### Loss and Gain on Extinguishment of Debt

During the first six months of 2010, we acquired \$2,500,000 aggregate principal amount of the 2007 Debentures for \$2,494,000 and recognized a loss on extinguishment of debt of approximately \$52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired. During the first six months of 2009, we acquired \$9,200,000 aggregate principal amount of the 2007 Debentures for approximately \$7,134,000 and recognized a gain on extinguishment of debt of \$1,743,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

### Provision For Income Taxes

The provision for income taxes for the first half of 2010 was \$5.9 million compared to \$12.8 million for the first half of 2009. The resulting effective tax rate for the first six months of 2010 was 43.3% compared to 38.5% for the same period in 2009. As discussed above under "Overview – Results for Second Quarter 2010", during June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately \$800,000 for the six months ended June 30, 2010.

### **Three months ended June 30, 2010 compared to Three months ended June 30, 2009**

### Climate Control Business

The following table contains certain information about our net sales, gross profit and operating income in our Climate Control segment for the three months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
	(Dollars In Thousands)			
Net sales:				
Geothermal and water source heat pumps	\$ 42,003	\$ 44,587	\$ (2,584)	(5.8) %
Hydronic fan coils	8,931	12,591	(3,660)	(29.1) %
Other HVAC products	8,894	9,804	(910)	(9.3) %
Total Climate Control	<u>\$ 59,828</u>	<u>\$ 66,982</u>	<u>\$ (7,154)</u>	<u>(10.7) %</u>
Gross profit – Climate Control	<u>\$ 18,832</u>	<u>\$ 24,998</u>	<u>\$ (6,166)</u>	<u>(24.7) %</u>
Gross profit percentage – Climate Control (1)	<u>31.5 %</u>	<u>37.3 %</u>	<u>(5.8) %</u>	
Operating income – Climate Control	<u>\$ 6,993</u>	<u>\$ 12,226</u>	<u>\$ (5,233)</u>	<u>(42.8) %</u>

(1) As a percentage of net sales

### **Net Sales – Climate Control**

Net sales of our geothermal and water source heat pump products decreased primarily as a result of a 15% decline in sales of our commercial products due to the slowdown in the construction and renovation activities in the markets we serve partially offset by a 7% increase in sales of our residential products;



- Net sales of our hydronic fan coils decreased primarily due to a 21% decline in the number of units sold due to the slowdown in the construction and renovation activities in the markets we serve and an 11% decrease in the average unit sales price primarily due to change in product mix;
- Net sales of our other HVAC products decreased primarily as the result of a decrease in engineering and construction services.

#### Gross Profit – Climate Control

The decline in gross profit in our Climate Control Business was the result of lower sales volume as discussed above and higher raw material costs. The disproportionately higher decline in gross profit of 25% compared to the 11% decline in sales is due primarily to increased raw material costs, lower overhead absorption at our manufacturing facilities and changes in commercial product mix resulting in a reduction in our gross profit as a percentage of sales.

#### Operating Income – Climate Control

Operating income decreased primarily as a result of the decrease in gross profit as discussed above partially offset by a decrease in operating expenses. Significant changes in operating expenses include a decrease in warranty, freight and commission expenses due primarily to the decrease in sales volume (\$0.6 million, \$0.3 million and \$0.3 million, respectively) and personnel costs (\$0.5 million) due, in part, to lower employee health insurance claims partially offset by an increase in advertising expenses (\$0.8 million) as a result of a marketing program launched by one of our subsidiaries.

#### Chemical Business

The following table contains certain information about our net sales, gross profit and operating income in our Chemical segment for the three months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
	(Dollars In Thousands)			
Net sales:				
Agricultural products	\$ 50,960	\$ 34,333	\$ 16,627	48.4 %
Industrial acids and other chemical products	32,773	21,466	11,307	52.7 %
Mining products	22,645	14,094	8,551	60.7 %
Total Chemical	<u>\$ 106,378</u>	<u>\$ 69,893</u>	<u>\$ 36,485</u>	52.2 %
Gross profit – Chemical	<u>\$ 15,602</u>	<u>\$ 12,281</u>	<u>\$ 3,321</u>	27.0 %
Gross profit percentage – Chemical (1)	<u>14.7 %</u>	<u>17.6 %</u>	<u>(2.9) %</u>	
Operating income – Chemical	<u>\$ 9,178</u>	<u>\$ 6,197</u>	<u>\$ 2,981</u>	48.1 %

(1) As a percentage of net sales

### Net Sales - Chemical

The El Dorado and Cherokee Facilities produce all the chemical products described in the table above and the Baytown Facility produces only industrial acids products. Although not fully operational, the Pryor Facility produces agricultural and industrial products. For the second quarter of 2010, overall sales prices for the Chemical Business increased 10% and the volume of tons sold increased 45%, compared with the same period in 2009, generally as a result of the following:

- Sales prices for products produced at the El Dorado Facility increased 12% related, in part, to the higher cost of anhydrous ammonia, part of which is passed through to certain of our customers pursuant to contracts and/or pricing arrangements that include raw material feedstock as a pass-through component in the sales price. Pricing for agricultural grade AN was also higher than the prior year quarter. Fertilizer grade AN volume of tons shipped at the El Dorado Facility increased 16,000 tons primarily due to favorable weather conditions. Industrial grade AN volumes were also up 18,000 tons primarily due to increased demand for coal and other mining services. Our industrial grade AN is sold to one customer pursuant to a multi-year take or pay supply contract in which the customer has agreed to purchase, and our El Dorado Facility has agreed to reserve, certain minimum volumes of industrial grade AN during the year. Pursuant to the terms of the contract, the customer has been invoiced for the fixed costs and profit associated with the reserved capacity despite not taking the minimum volume requirement. Industrial acid volumes increased 10,000 tons due to improved economic conditions and spot sales opportunities. Overall volume of all products sold from the El Dorado Facility increased 43,000 tons, or 25% over the prior year second quarter.
- Sales prices at the Cherokee Facility increased 14% over the prior year quarter. Volumes for all Cherokee Facility products increased 24% primarily related to higher UAN fertilizer demand. In the second quarter 2009, UAN fertilizer sales were affected by high inventory levels in the distribution chain left over from 2008, as well as poor weather conditions. Volumes in the second quarter 2010 were also somewhat impacted by less than favorable weather conditions.
- Sales prices for products produced at the Baytown Facility were approximately the same as the prior year quarter. Overall volumes increased 64% as the result of improved demand from the Baytown site's customers. The increased volumes had only a minimum impact to gross profit and operating income due to certain provisions of the Bayer Agreement.
- During the second quarter of 2010, our Pryor Facility recognized net sales of \$5.7 million for sales of 12,000 tons of anhydrous ammonia and 14,000 tons of UAN. In addition, the Pryor Facility provided 11,000 tons of anhydrous ammonia to our El Dorado and Cherokee Facilities.

### Gross Profit - Chemical

Gross profit of \$15.6 million for the second quarter of 2010 was \$3.3 million higher than in the same quarter of 2009 due to higher sales volumes in all product lines. The gross profit as a percent of sales was 14.7% compared to 17.6% in 2009 second quarter. The 2.9% reduction in the gross profit percent was primarily due to decreased margins on fertilizer grade AN due to higher anhydrous ammonia feedstock costs and the effect of higher margins in the second quarter of 2009 on firm sales commitments made in 2008. Partially offsetting the lower margins on our

fertilizer grade AN were higher margins on our UAN fertilizer sales and improved plant efficiencies resulting from higher sales volumes in all product lines. Gross profit on UAN fertilizers sales were \$1.9 million higher in the second quarter of 2010 than in the same period last year due primarily to increased volumes. Gross profit on industrial acids and other products were \$2.1 million higher in the second quarter of 2010 than in the same period a year ago due, in part, to our industrial grade AN sold per the terms noted above, and due to reduced unit costs related to plant efficiencies. Offsetting the above increases were \$2.7 million in decreased gross profit on fertilizer grade AN due to higher raw material input costs, and the lower volumes as discussed above. Gross profit on our chemical products sold at prices in excess of then current market prices due to firm sales commitments made in 2008 when market prices were higher were \$1.1 million in the second quarter of 2009.

#### Operating Income - Chemical

Operating income for the second quarter of 2010 increased by \$3.0 million primarily from the increase in gross profit as discussed above. The Pryor Facility expenses and losses were approximately \$3.2 million in each of the three months ended June 30, 2010 and 2009.

#### Other

The business operation classified as "Other" primarily sells industrial machinery and related components to machine tool dealers and end users. General corporate expenses and other business operations, net consist of unallocated portions of gross profit, SG&A, other income and other expense. The following table contains certain information about our net sales and gross profit classified as "Other" and general corporate expenses and other business operations, net, for the three months ended June 30,

	<u>2010</u>	<u>2009</u>	<u>Change</u>	<u>Percentage Change</u>
		(Dollars In Thousands)		
Net sales – Other	\$ 2,186	\$ 1,688	\$ 498	29.5%
Gross profit – Other	\$ 714	\$ 548	\$ 166	30.3%
Gross profit percentage – Other (1)	32.7 %	32.5 %	0.2 %	
General corporate expense and other business operations, net	\$ (3,361)	\$ (3,881)	\$ 520	(13.4)%

(1) As a percentage of net sales

#### Net Sales - Other

The increase in net sales classified as "Other" relates primarily to an overall improvement in demand for industrial machinery.

### **Gross Profit - Other**

The increase in gross profit classified as "Other" is due primarily to the increase in sales as discussed above.

### **General Corporate Expense and Other Business Operations, Net**

Our general corporate expense and other business operations, net, decreased by \$0.5 million including the impact from the increase in gross profit classified as "Other" as discussed above.

### **Interest Expense**

Interest expense was \$2.0 million for the second quarter of 2010 compared to \$1.0 million for the same period in 2009, an increase of \$1.0 million. This increase primarily relates to losses (realized and unrealized) of \$0.5 million recognized in the second quarter of 2010 associated with our interest rate contracts compared to net gains (realized and unrealized) of \$0.4 million for the same period in 2009.

### **Loss and Gain on Extinguishment of Debt**

During the second quarter of 2010, we acquired \$2,500,000 aggregate principal amount of the 2007 Debentures for \$2,494,000 and recognized a loss on extinguishment of debt of approximately \$52,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired. During the second quarter of 2009, we acquired \$3,500,000 aggregate principal amount of the 2007 Debentures for approximately \$2,960,000 and recognized a gain on extinguishment of debt of \$421,000, after writing off the unamortized debt issuance costs associated with the 2007 Debentures acquired.

### **Provision For Income Taxes**

The provision for income taxes for the second quarter of 2010 was \$5.0 million compared to \$5.5 million for the second quarter of 2009. The resulting effective tax rate for the second quarter of 2010 was 45.3% compared to 38.4% for the same period in 2009. As discussed above under "Overview – Results for Second Quarter 2010", during June 2010, we determined that certain nondeductible expenses had not been properly identified relating to the 2007-2009 provisions for income taxes. As a result, we recorded an additional income tax provision of approximately \$800,000 for the three months ended June 30, 2010.

### **Cash Flow From Continuing Operating Activities**

Historically, our primary cash needs have been for operating expenses, working capital and capital expenditures. We have financed our cash requirements primarily through internally generated cash flow, borrowings under our revolving credit facilities, secured asset financing and the sale of assets. See additional discussions concerning cash flow relating to our Climate Control and Chemical Businesses under "Overview" and "Liquidity and Capital Resources" of this MD&A.

For the first six months of 2010, net cash provided by continuing operating activities was \$12.5 million, including net income plus depreciation and amortization and other adjustments and net cash used by the following significant changes in assets and liabilities.

Accounts receivable increased \$16.6 million including:

- an increase of \$12.9 million relating to the Chemical Business as the result of the spring fertilizer seasonality and increased demand at our Baytown Facility and
- an increase of \$3.8 million relating to the Climate Control Business due primarily to higher in sales in June 2010 compared to December 2009.

Inventories decreased \$4.1 million primarily relating to a net decrease of \$3.8 million relating to the Chemical Business primarily relating to increased sales volumes at the El Dorado Facility partially offset by the increased production of inventory at our Pryor Facility.

The change in prepaid and accrued income taxes of \$2.4 million primarily relates to the recognition of income taxes for the first half of 2010 (including \$0.8 million as discussed above under "Overview – Results for Second Quarter 2010") partially offset by payments made to the taxing authorities.

Other supplies and prepaid items decreased \$1.8 million including:

- a decrease of \$2.1 million of prepaid insurance as the result of recognizing the related insurance expense for the first half of 2010 and
- a decrease of \$1.7 million relating to lower costs and volume on hand of precious metals used in the manufacturing process of our Chemical Business, partially offset by
- an increase of \$1.1 million of supplies relating to the Chemical Business due primarily to an increase in the volume on hand as the result of increased production at our Pryor Facility.

Accounts payable increased \$2.7 million including:

- an increase of \$3.8 million in the Chemical Business primarily as the result of increased production at our El Dorado and Baytown Facilities which resulted in increased raw material purchases at increased costs, partially offset by
- a decrease of \$1.0 million in the Climate Control Business due primarily to a reduction in raw material purchases.

Accrued payroll and benefits decreased \$1.1 million including a decrease of \$1.0 million in the Climate Control Business primarily due to the payment of bonuses accrued at December 31, 2009.

#### **Cash Flow from Continuing Investing Activities**

Net cash provided by continuing investing activities for the first six months of 2010 was \$0.3 million that consisted primarily of net cash provided by short-term investments (net of purchases) of \$10.1 million and proceeds from property insurances recoveries associated with

property, plant and equipment of \$1.7 million partially offset by \$10.9 million for capital expenditures of which \$1.1 million and \$9.7 million are for the benefit of our Climate Control and Chemical Businesses, respectively. The cash used for capital expenditures by our Chemical Business includes \$3.0 million relating to the Pryor Facility.

#### **Cash Flow from Continuing Financing Activities**

Net cash used by continuing financing activities was \$9.1 million that primarily consisted of payments on long-term debt and short-term financing totaling \$4.4 million, the acquisition of a portion of the 2007 Debentures for \$2.5 million and purchases of treasury stock of \$2.4 million.

#### **Performance and Payment Bonds**

We are contingently liable to sureties in respect of certain insurance bonds issued by the sureties in connection with certain contracts entered into by our subsidiaries in the normal course of business. These insurance bonds primarily represent guarantees of future performance of our subsidiaries. As of June 30, 2010, we have agreed to indemnify the sureties for payments, up to \$10.8 million, made by them in respect of such bonds. Approximately \$7.7 million of these insurances bonds expire in 2010 while the remaining \$3.1 million expire in 2011.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934, as amended, except for the following:

Cepolk Holdings, Inc. ("CHI"), a subsidiary of the Company, is a limited partner and has a 50% equity interest in Cepolk Limited Partnership ("Partnership") which is accounted for on the equity method. The Partnership owns an energy savings project located at the Ft. Polk Army base in Louisiana ("Project"). At June 30, 2010, our investment was \$4,126,000. For the first six months of 2010, distributions received from this Partnership were \$240,000 and our equity in earnings was approximately \$528,000. As of June 30, 2010, the Partnership and general partner to the Partnership is indebted to a term lender ("Lender") of the Project for approximately \$1,280,000 with a term extending to December 2010 ("Loan"). CHI has pledged its limited partnership interest in the Partnership to the Lender as part of the Lender's collateral securing all obligations under the Loan. This guarantee and pledge is limited to CHI's limited partnership interest and does not expose CHI or the Company to liability in excess of CHI's limited partnership interest. In accordance with GAAP, no liability is required to be established for this pledge since it was entered into prior to January 1, 2003. CHI has no recourse provisions or available collateral that would enable CHI to recover its partnership interest should the Lender be required to perform under this pledge.

#### **Aggregate Contractual Obligations**

In the operation of our businesses, we enter into contracts, leases and borrowing arrangements. As discussed in our Form 10-K for the year ended December 31, 2009 and in our Form 10-Q for the quarterly period ended March 31, 2010, we had certain contractual obligations, with various maturity dates, related to the following:

- long-term debt,
- interest payments on long-term debt,
- interest rate contracts,
- capital expenditures,
- operating leases,
- futures/forward contracts,
- contractual manufacturing obligations,
- purchase obligations and
- other contractual obligations.

In addition, under “Liquidity and Capital Resources” of Item 2 and “Commodity Price Risk and Foreign Currency Risk” of Item 3 of this Part I, we discussed the following which occurred during the three months ended June 30, 2010:

- our contractual obligations relating to futures/forward contracts were \$3.1 million as of June 30, 2010 and
- our committed capital expenditures were approximately \$8.4 million for the remainder of 2010.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **General**

Our results of operations and operating cash flows are impacted by changes in market prices of copper, steel, anhydrous ammonia and natural gas, changes in market currency exchange rates, and changes in market interest rates.

#### **Forward Sales Commitments Risk**

Periodically, our Climate Control and Chemical Businesses enter into forward firm sales commitments for products to be delivered in future periods. As a result, we could be exposed to embedded losses should our product costs exceed the firm sales prices. At June 30, 2010, we had no embedded losses associated with sales commitments with firm sales prices.

#### **Commodity Price Risk**

Our Climate Control Business purchases substantial quantities of copper and steel for use in manufacturing processes and our Chemical Business purchases substantial quantities of anhydrous ammonia and natural gas as feedstocks generally at market prices. Periodically, as part of our raw material price risk management, our Climate Control Business enters into futures contracts for copper and our Chemical Business enters into futures/forward contracts for anhydrous ammonia and natural gas, which contracts are generally accounted for on a mark-to-market basis. At June 30, 2010, our futures/forward copper contracts were for 750,000 pounds of copper through December 2010 at a weighted-average cost of \$3.24 per pound (\$2.4 million) and a weighted-average market value of \$2.97 per pound (\$2.2 million). Also our futures/forward natural gas contracts were for 140,000 MMBtu of natural gas through September 2010 at a weighted-average cost of \$4.95 per MMBtu (\$0.7 million) and a weighted-average market value of \$4.63 per MMBtu (\$0.6 million).

#### Foreign Currency Risk

One of our business operations purchases industrial machinery and related components from vendors outside of the United States. As part of our foreign currency risk management, we periodically enter into foreign exchange contracts. At June 30, 2010, we had no commitments under such contracts.

#### Interest Rate Risk

Our interest rate risk exposure results from our debt portfolio which is impacted by short-term rates, primarily variable-rate borrowings from commercial banks, and long-term rates, primarily fixed-rate notes, some of which prohibit prepayment or require a substantial premium payment with the prepayment.

As part of our interest rate risk management, we periodically purchase and/or enter into various interest rate contracts. At June 30, 2010, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.24% on \$25 million and matures in April 2012. Also, we have an interest rate swap, which sets a fixed three-month LIBOR rate of 3.595% on \$25 million and matures in April 2012. These contracts are free-standing derivatives and are accounted for on a mark-to-market basis. At June 30, 2010, the fair value of these contracts (unrealized loss) was \$2.3 million.

As of June 30, 2010 and December 31, 2009, the carrying value of our variable rate and fixed rate debt exceeded the debt's estimated fair value by approximately \$24.1 million and \$22.3 million, respectively.

#### Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, with the participation of our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes to our internal control over financial reporting during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**SPECIAL NOTE REGARDING  
FORWARD-LOOKING STATEMENTS**

Certain statements contained within this report may be deemed "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report other than statements of historical fact are Forward-Looking Statements that are subject to known and unknown risks, uncertainties and other factors which could cause actual results and performance of the Company to differ materially from such statements. The words "believe", "expect", "anticipate", "intend", and similar expressions identify Forward-Looking Statements. Forward-Looking Statements contained herein relate to, among other things:

- all production at the Pryor Facility has ceased until repairs can be completed, which is expected toward the end of September 2010;
- another factor that may affect product order rates going forward is the potential for growth in our highly energy-efficient geothermal water-source heat pumps, which could benefit significantly from government stimulus programs, including various tax incentives;
- we anticipate modest increased demand from certain of our large industrial customers and from our mining customers for the remainder of 2010;
- it is possible that the fertilizer outlook could be adversely affected by lower grain production, unanticipated changes in commodity prices, or unfavorable weather conditions;
- we expect to ship substantially all of these orders within the next twelve months; however, due to the current economic conditions in the markets we serve, it is possible that some of our customers could cancel a portion of our backlog or extend the shipment terms beyond twelve months;
- our GHPs use a form of renewable energy and, under certain conditions, can reduce energy costs up to 80% compared to conventional all-electric and gas HVAC systems;
- we expect to see continued slowness in our Climate Control Business' results in the short-term; we believe that the recently enacted federal tax credits for GHPs should have a positive impact on sales of those highly energy efficient and green products;
- based upon current assessment, we anticipate, due to lead times for replacement parts, the repairs will be completed toward the end of September 2010;
- for the remainder of 2010, we expect our primary cash needs will be for working capital and capital expenditures;
- we and our subsidiaries plan to rely upon internally generated cash flows, cash, secured property and equipment financing, and the borrowing availability under the Working Capital Revolver Loan to fund operations and pay obligations;
- based upon our current projections, we believe that cash and borrowing availability under our Working Capital Revolver Loan is adequate to fund operations during the remainder of 2010;
- based on our current assessment, the repairs should be completed toward the end of September 2010;
- we plan to fund the committed expenditures from working capital, which may include utilizing our Working Capital Revolver Loan, and financing arrangements;
- our Chemical Business management believes, subject to further review, investigation and discussion with the EPA, that certain facilities within our Chemical Business may be required to make certain capital improvements to certain emission equipment in order to comply with the requirements of the Clean Air Act;

- if changes to the production equipment at our chemical facilities are required in order to bring this equipment into compliance with the Clean Air Act, the amount of capital expenditures necessary in order to bring the equipment into compliance is unknown at this time but could be substantial;
- we believe that certain facilities within our Chemical Business may be required to pay certain penalties;
- the amount we will incur for capital expenditures, turnarounds and expenses associated with environmental regulatory compliance for the remainder of 2010;
- greenhouse gas regulation could increase the price of the electricity purchased by these chemical facilities and increase costs for our use of natural gas, other raw materials (such as anhydrous ammonia), and other energy sources, potentially restrict access to or the use of natural gas and certain other raw materials necessary to produce certain of our chemical products and require us to incur substantial expenditures to retrofit these chemical facilities to comply with the proposed new laws and regulations regulating greenhouse gas emissions, if adopted;
- we believe that some of this additional UAN production from the Caribbean could be marketed in the United States;
- we do not currently anticipate paying cash dividends on our outstanding common stock in the near future;
- meeting all required covenant tests for all the remaining quarters of 2010 and the year ending in 2010;
- environmental and health laws and enforcement policies thereunder could result, in compliance expenses, cleanup costs, penalties or other liabilities relating to the handling, manufacture, use, emission, discharge or disposal of pollutants or other substances at or from our facilities or the use or disposal of certain of its chemical products;
- material costs for liabilities could be incurred by us in complying with Environmental Laws and the Healthcare Laws or in paying fines or penalties for violations of such laws;
- we currently have no plans to discontinue the use of our Chemical Business facilities;
- we plan to maintain or replace, as needed, certain facilities in our Chemical Business that contain asbestos insulation around piping or heating surfaces, with non-asbestos insulation through our standard repair and maintenance activities;
- the El Dorado facility believes that if it were required to meet more restrictive dissolved minerals permit levels, it should be able to do so;
- our internally-generated cash flows and our liquidity could be effected by possible declines in sales volumes resulting from the uncertainty relative to the current economic conditions; and
- most of the Chemical Business's expenditures for the remainder of 2010 will likely be funded from internal cash flows and the Climate Control's expenditures will likely be financed and most of the Pryor Facility's expenditures will primarily be funded from proceeds received from our insurance carrier.

While we believe the expectations reflected in such Forward-Looking Statements are reasonable, we can give no assurance such expectations will prove to have been correct. There are a variety of factors which could cause future outcomes to differ materially from those described in this report, including, but not limited to,

- changes in general economic conditions, both domestic and foreign,
- material reduction in revenues,
- material changes in interest rates,
- ability to collect in a timely manner a material amount of receivables,
- increased competitive pressures,
- changes in federal, state and local laws and regulations, especially environmental regulations, or in interpretation of such,
- additional releases (particularly air emissions) into the environment,
- material increases in equipment, maintenance, operating or labor costs not presently anticipated by us,
- the requirement to use internally generated funds for purposes not presently anticipated,
- the inability to pay or secure additional financing for planned capital expenditures,
- material changes in the cost of certain precious metals, anhydrous ammonia, natural gas, copper and steel,
- changes in competition,
- the loss of any significant customer,
- changes in operating strategy or development plans,
- inability to fund the working capital and expansion of our businesses,
- changes in the production efficiency of our facilities,
- adverse results in any of our pending litigation,
- activating operations at full production rates at the Pryor Facility,
- inability to obtain necessary raw materials,
- other factors described in the MD&A contained in this report, and
- other factors described in "Risk Factors" of our 2009 Form 10-K and "Special Note Regarding Forward-Looking Statements" contained in our 2009 Form 10-K.

Given these uncertainties, all parties are cautioned not to place undue reliance on such Forward-Looking Statements. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the Forward-Looking Statements contained herein to reflect future events or developments.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

There are no material legal proceedings or material developments in any such legal proceedings pending against us and/or our subsidiaries not reported in Item 3 of our 10-K for year ended December 31, 2009.

**Item 1A. Risk Factors**

Reference is made to Item 1A of our Form 10-K for the year ended December 31, 2009 for our discussion concerning risk factors. There are no material changes from the risk factors disclosed in our Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Sale of Unregistered Securities**

During the three months ended June 30, 2010, we issued the following unregistered equity securities:

In April 2010, we issued 20 shares of common stock upon the holder's conversion of 0.5 shares of our Noncumulative Preferred. Pursuant to the terms of the Noncumulative Preferred, the conversion rate was 40 shares of common stock for each share of Noncumulative Preferred. The common stock was issued pursuant to the exemption from the registration of securities afforded by Section 3(a)(9) of the Securities Act. No commissions or other remuneration was paid for this issuance. We did not receive any proceeds upon the conversion of the Noncumulative Preferred.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

During the three months ended June 30, 2010, the Company and affiliated purchasers, as defined, purchased its equity securities as shown in the following table:

Period	(a) Total number of shares of common stock acquired (1)	(b) Average price paid per share of common stock (1)	(c) Total number of shares of common stock purchased as part of publicly announced plans or programs (2)	(d) Maximum number (or approximate dollar value) of shares of common stock that may yet be purchased under the plans or programs
April 1, 2010 - April 30, 2010	-	\$ -		
May 1, 2010 - May 31, 2010	-	\$ -		
June 1, 2010 - June 30, 2010	177,100	\$ 13.67	177,100	
Total	177,100	\$ 13.67	177,100	See (2)

(1) During the second quarter of 2010, we purchased these shares of common stock at market prices from unrelated parties. These shares are being held as treasury stock.

(2) As previously reported, our board of directors enacted a stock repurchase authorization for an unstipulated number of shares for an indefinite period of time commencing March 12, 2008. The stock repurchase authorization will remain in effect until such time as of our board of directors decides to end it.

During the three months ended June 30, 2010, the Company and affiliated purchasers, as defined, purchased its 2007 Debentures as shown in the following table:

Period	(a) Total number of units acquired (A)	(b) Average price paid per unit (A)	(c) Total number of units purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of units that may yet be purchased under the plans or programs
April 1, 2010 - April 30, 2010	-	\$ -		
May 1, 2010 - May 31, 2010	2,000	\$ 999.50	2,000	
June 1, 2010 - June 30, 2010	500	\$ 990.00	500	
Total	2,500	\$ 997.60	2,500	26,900

(A) One unit represents a \$1,000 principal amount of the debenture.

**Item 3. Defaults upon Senior Securities**

Not applicable

**Item 4. (Reserved)**

**Item 5. Other Information**

Corporate Governance Guidelines - The governance portion of our website includes our corporate governance guidelines as approved by our board of directors. Our website is located at [www.lsb-okc.com](http://www.lsb-okc.com), and the link to our corporate governance guidelines is [www.lsb-okc.com/PDFs/LSB\\_Corporate\\_Governance\\_Guidelines.pdf](http://www.lsb-okc.com/PDFs/LSB_Corporate_Governance_Guidelines.pdf). We will provide these guidelines without charge upon written request to David M. Shear, Senior Vice President and General Counsel, LSB Industries, Inc., 16 South Pennsylvania, Oklahoma City, Oklahoma 73107.

Tentative Collective Bargaining Agreement - EDC and the negotiating committee completed negotiations and reached a tentative agreement on all terms of a three-year collective bargaining agreement at the El Dorado Facility to commence August 1, 2010 and run through July 31, 2013. The negotiated agreement was ratified by the bargaining unit members on July 22, 2010 and executed by the local union and the Company thereafter. The United Steelworkers International Union ("International") is a party to the agreement and International must approve the negotiated terms and execute the final agreement. According to International's chief spokesperson, approval from International is anticipated. In the meantime, all negotiated terms were implemented on August 1, 2010.

Letter of Intent - During April 2010, we entered into a letter of intent in connection with the possible acquisition by us of an air conditioning and heating manufacturer ("Business to be Acquired") located in China. This transaction was subject to, among other things, completion of our due diligence, execution of definitive agreements, finalization of certain agreements between the Business to be Acquired and another company for the purchase of certain products on terms satisfactory to us and completion of an employment agreement with the current owner. We further reserved the right to modify the terms of the letter of intent based upon the results of our due diligence. During the second quarter we conducted extensive due diligence. As a result of that process, we have been unable to reach an agreement with the owner of the Business to be Acquired. Therefore, we have decided not to proceed with the transaction at this time and have terminated the letter of intent.

**Item 6. Exhibits**

(a) Exhibits The Company has included the following exhibits in this report:

- 4.1a Amended and Restated Loan and Security Agreement by and among LSB Industries, Inc., ThermaClime, Inc. and each of its subsidiaries that are Signatories, the lenders and Wells Fargo Foothill, Inc., which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2007.
- 4.1b Exhibits and Schedules to the Amended and Restated Loan and Security Agreement by and among LSB Industries, Inc., ThermaClime, Inc. and each of its subsidiaries that are Signatories, the lenders and Wells Fargo Foothill, Inc.
- 4.2a Term Loan Agreement, dated as of November 2, 2007, among LSB Industries, Inc., ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., the Lenders, the Administrative and Collateral Agent and the Payment Agent, which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended September 30, 2007.
- 4.2b Exhibits and Schedules to the Term Loan Agreement, dated as of November 2, 2007, among LSB Industries, Inc., ThermaClime, Inc. and certain subsidiaries of ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., the Lenders, the Administrative and Collateral Agent and the Payment Agent.
- 10.1a Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8-K, dated December 12, 2002.
- 10.1b Exhibits and Disclosure Letters to the Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC.
- 10.2 Second Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement, dated June 16, 2010, between El Dorado Nitrogen, L.P., El Dorado Chemical Company and Bayer MaterialScience, LLC. **CERTAIN INFORMATION WITHIN THIS EXHIBIT HAS BEEN OMITTED AS IT IS THE SUBJECT OF A REQUEST FOR CONFIDENTIAL TREATMENT UNDER THE FREEDOM OF INFORMATION ACT AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR THE PURPOSES OF THIS REQUEST.**

- 10.3 Consent, Joinder and Second Amendment, dated as of April 1, 2010, by and among LSB Industries, Inc., ThermaClime, Inc., each of the Subsidiaries of ThermaClime identified on the signature pages thereof, the lenders identified on the signature pages thereof, Wells Fargo Capital finance, Inc., as the arranger and administrative agent, and Consolidated Industries Corp., which the Company hereby incorporates by reference from Exhibit 99.3 to the Company's Form 8-K, filed April 7, 2010.
- 10.4 Amendment and Waiver to the Term Loan, dated April 1, 2010, by and among ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., Northwest Financial Corporation, Chemex I Corp., Chemex II Corp., Cherokee Nitrogen Company, ClimaCool Corp., ClimateCraft, Inc., Climate Master, Inc., DSN Corporation, El Dorado Chemical Company, International Environmental Corporation, Koax Corp., LSB Chemical Corp., The Climate Control Group, Inc., Trison Construction, Inc., ThermaClime Technologies, Inc., XpediAir, Inc., LSB Industries, Inc., each lender party thereto, Banc of America Leasing & Capital, LLC, as Administrative Agent and as Collateral Agent, Bank of Utah, as Payment Agent, and Consolidated Industries Corp., which the Company hereby incorporates by reference from Exhibit 99.4 to the Company's Form 8-K, filed April 7, 2010.
- 21.1 Subsidiaries of the Company
- 31.1 Certification of Jack E. Golsen, Chief Executive Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.
- 31.2 Certification of Tony M. Shelby, Chief Financial Officer, pursuant to Sarbanes-Oxley Act of 2002, Section 302.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly authorized, to sign this report on its behalf on this 5<sup>th</sup> day of August 2010.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

Tony M. Shelby  
Executive Vice President of Finance and Chief Financial Officer  
(Principal Financial Officer)

By: /s/ Harold L. Rieker, Jr.

Harold L. Rieker, Jr.  
Vice President and Principal Accounting Officer



## EXHIBITS AND SCHEDULES

EXHIBITS AND SCHEDULES OF AMENDED AND RESTATED LOAN AND SECURITY LOAN AGREEMENT (“AGREEMENT”) BY AND AMONG LSB INDUSTRIES, INC., THERMACLIME, INC. AND EACH OF ITS SUBSIDIARIES THAT ARE SIGNATORIES, THE LENDERS AND WELLS FARGO FOOTHILL, INC., WHICH AGREEMENT THE COMPANY FILED AS EXHIBIT 4.2 TO THE COMPANY’S FORM 10-Q FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 2007.

Exhibit A-1	Form of Assignment and Acceptance
Exhibit B-1	(intentionally left blank)
Exhibit C-1	Form of Compliance Certificate
Exhibit L-1	Form of LIBOR Notice
Schedule C-1	Commitments
Schedule E-1	Eligible Inventory Locations
Schedule P-1	Permitted Liens
Schedule 2.7(a)	Cash Management Banks
Schedule 3.1(m)	Collateral Access Locations
Schedule 5.5	Locations of Inventory and Equipment
Schedule 5.7	Chief Executive Office; FEIN
Schedule 5.8(b)	Capitalization of Borrowers
Schedule 5.8(c)	Capitalization of Borrowers’ Subsidiaries
Schedule 5.10	Litigation
Schedule 5.14	Environmental Matters
Schedule 5.16	Intellectual Property
Schedule 5.18	Demand Deposit Accounts
Schedule 5.20	Permitted Indebtedness
Schedule 7.4(b)	(intentionally left blank)
Schedule 7.13	Other Permitted Investments
Schedule 7.14	Transactions with Affiliates

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## FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

This **ASSIGNMENT AND ACCEPTANCE AGREEMENT** ("Assignment Agreement") is entered into as of \_\_\_\_\_ between \_\_\_\_\_ ("Assignor") and \_\_\_\_\_ ("Assignee"). Reference is made to the Agreement described in Item 2 of Annex I annexed hereto (the "Loan Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Loan Agreement.

In accordance with the terms and conditions of Section 14 of the Loan Agreement, the Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, that interest in and to the Assignor's rights and obligations under the Loan Documents as of the date hereof with respect to the Obligations owing to the Assignor, and Assignor's portion of the Total Commitments and the Revolver Commitments, all as specified in Item 4.b and Item 4.c of Annex I. After giving effect to such sale and assignments, the Assignee's portion of the Total Commitments and Revolver Commitments will be as set forth in Item 4.b of Annex I. After giving effect to such sale and assignment the Assignor's amount and portion of the Total Commitments and Revolver Commitments will be as set forth in Item 4.d and Item 4.e of Annex I.

The Assignor (a) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any other instrument or document furnished pursuant thereto; and (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or any of its Subsidiaries or the performance or observance by any Borrower or any of its Subsidiaries of any of their respective obligations under the Loan Documents or any other instrument or document furnished pursuant thereto.

The Assignee (a) confirms that it has received copies of the Loan Agreement and the other Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement; (b) agrees that it will, independently and without reliance, as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (c) confirms that it is eligible as an assignee under the terms of the Loan Agreement; (d) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (e) agrees that it will perform in accordance with their terms all of

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the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender [and (f) attaches the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's status for purposes of determining exemption from United States withholding taxes with respect to all payments to be made to the Assignee under the Loan Agreement or such other documents as are necessary to indicate that all such payments are subject to such rates at a rate reduced by an applicable tax treaty.]

Following the execution of this Assignment Agreement by the Assignor and Assignee, it will be delivered by the Assignor to the Agent for recording by the Agent. The effective date of this Assignment (the "Settlement Date") shall be the later of (a) the date of the execution hereof by the Assignor and the Assignee, the payment by Assignor or Assignee to Agent for Agent's sole and separate account a processing fee in the amount of \$5,000, and the receipt of any required consent of the Agent, and (b) the date specified in item 5 of Annex I.

Upon recording by the Agent, as of the Settlement Date (a) the Assignee shall be a party to the Loan Agreement and, to the extent of the interest assigned pursuant to this Assignment Agreement, have the rights and obligations of a Lender thereunder and under the other Loan Documents, and (b) the Assignor shall, to the extent of the interest assigned pursuant to this Assignment Agreement, relinquish its rights and be released from its obligations under the Loan Agreement and the other Loan Documents.

Upon recording by the Agent, from and after the Settlement Date, the Agent shall make all payments under the Loan Agreement and the other Loan Documents in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and commitment fees (if applicable) with respect thereto) to the Assignee. Upon the Settlement Date, the Assignee shall pay to the Assignor the Assigned Share (as set forth in item 4.b of Annex I) of the principal amount of any outstanding loans under the Loan Agreement and the other Loan Documents. The Assignor and Assignee shall make all appropriate adjustments in payments under the Loan Agreement and the other Loan Documents for periods prior to the Settlement Date directly between themselves on the Settlement Date.

THIS ASSIGNMENT AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[Remainder of page left intentionally blank.]

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IN WITNESS WHEREOF, the parties hereto have caused this Assignment Agreement and Annex I hereto to be executed by their respective officers thereunto duly authorized, as of the first date above written.

[NAME OF ASSIGNOR]  
as Assignor

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

[NAME OF ASSIGNEE]  
as Assignee

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

ACCEPTED THIS \_\_\_\_ DAY OF  
\_\_\_\_\_

WELLS FARGO FOOTHILL, INC.,  
AS AGENT

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

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ANNEX FOR ASSIGNMENT AND ACCEPTANCE

ANNEX I

1. Borrowers: ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), and each of the subsidiaries of ThermaClime and party to the below referenced Loan Agreement.
  2. Name and Date of Loan Agreement: Amended and Restated Loan and Security Agreement, dated as of November 5, 2007, among LSB Industries, Inc., an Delaware corporation, as guarantor, the Borrowers, the lenders signatory thereto as the Lenders, and Wells Fargo Foothill, Inc., a California corporation, as the arranger and administrative agent for the Lenders.
  3. Date of Assignment Agreement: \_\_\_\_\_
  4. Amounts:
    - a. Assignor's Total Commitment \$ \_\_\_\_\_
    - i. Assignor's Revolver Commitment \$ \_\_\_\_\_
    - b. Assignor's Share of Total Commitment \_\_\_\_\_ %
    - i. Assigned Share of Revolver Commitment \_\_\_\_\_ %
    - c. Assigned Amount of Total Commitment \$ \_\_\_\_\_
    - i. Assigned Amount of Revolver Credit Commitment \$ \_\_\_\_\_
    - d. Resulting Amount of Assignor's Total Commitment after giving effect to the sale and Assignment to Assignee \$ \_\_\_\_\_
    - i. Resulting Amount of Assignor's Revolver Commitment \$ \_\_\_\_\_
    - e. Assignor's Resulting Share of Total Commitment after giving effect to the Assignment to Assignee \_\_\_\_\_ %
    - i. Assignor's Resulting Share of Revolving Credit Commitment \_\_\_\_\_ %
-

5. Settlement Date: \_\_\_\_\_

6. Notice and Payment Instructions, etc.  
Assignee:

Assignor:

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

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

7. Agreed and Accepted:

[ASSIGNOR]

[ASSIGNEE]

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

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

Accepted:  
WELLS FARGO FOOTHILL, INC., as Agent

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

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[on Borrowers' letterhead]

To: Wells Fargo Foothill, Inc., as Agent  
under the below-referenced Loan Agreement  
2450 Colorado Avenue, Suite 3000 West  
Santa Monica, California 90404  
Attn: Business Finance Division Manager

Re: Compliance Certificate dated

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Loan and Security Agreement, dated as of **November 5, 2007** (the "Loan Agreement") among LSB Industries, Inc., an Delaware corporation ("Parent"), ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), certain of ThermaClime's subsidiaries identified on the signature pages thereof (such subsidiaries, together with ThermaClime, are collectively, jointly and severally, the "Borrowers"), the lenders signatory thereto (the "Lenders"), and Wells Fargo Foothill, Inc., a California corporation, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used in this Compliance Certificate have the meanings set forth in the Loan Agreement unless specifically defined herein.

Pursuant to Section 6.3 of the Loan Agreement, the undersigned officer of ThermaClime hereby certifies that:

1. The financial information of Parent and its Subsidiaries and of ThermaClime and its Subsidiaries, as the case may be, furnished in Schedule 1 attached hereto, has been prepared in accordance with GAAP (except for year-end adjustments and the lack of footnotes, in the case of financial statements delivered under Section 6.3(a) of the Loan Agreement) and fairly presents the financial condition of Parent and its Subsidiaries and of ThermaClime and its Subsidiaries, as the case may be.

2. Such officer has reviewed the terms of the Loan Agreement and has made, or caused to be made under his/her supervision, a review in reasonable detail of the transactions and condition of the Borrowers during the accounting period covered by the financial statements delivered pursuant to Section 6.3 of the Loan Agreement.

3. Such review has not disclosed the existence on and as of the date hereof, and the undersigned does not have knowledge of the existence as of the date hereof, of any event or condition that constitutes a Default or Event of Default, except for such conditions or events listed on Schedule 2 attached hereto, specifying the nature and period of existence thereof and what action Borrowers have taken, are taking, or propose to take with respect thereto.

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4. Borrowers are in timely compliance with all representations, warranties, and covenants set forth in the Loan Agreement and the other Loan Documents, except as set forth on Schedule 2 attached hereto. Without limiting the generality of the foregoing, Borrowers are in compliance with the covenants contained in Section 7.20 of the Loan Agreement as demonstrated on Schedule 3 hereof.

IN WITNESS WHEREOF, this Compliance Certificate is executed by the undersigned this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

THERMACLIME, INC.,  
an Oklahoma corporation,  
as Administrative Borrower

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

---

SCHEDULE 3

1. **Minimum EBITDA.**

(a) ThermaClime's and its Subsidiaries' EBITDA for the \_\_\_\_\_ ending \_\_\_\_\_, \_\_\_\_\_ is \$ \_\_\_\_\_, which amount **[is/is not]** greater than or equal to the amount set forth in Section 7.20(a)(i) of the Loan Agreement for the corresponding period.

2. **Fixed Charge Coverage Ratio.** [If Applicable]

- (a) The Fixed Charge Coverage Ratio of ThermaClime and its Subsidiaries, for the fiscal year ending \_\_\_\_\_, is calculated as follows
- (i) EBITDA of ThermaClime and its Subsidiaries for the 12 month period then ended: \$ \_\_\_\_\_
  - (ii) Principal Indebtedness of ThermaClime and its Subsidiaries scheduled to be paid or prepaid during such period: \$ \_\_\_\_\_
  - (iii) Gross interest expense of ThermaClime and its Subsidiaries for such period: \$ \_\_\_\_\_
  - (iv) Interest income of ThermaClime and its Subsidiaries for such period: \$ \_\_\_\_\_
  - (v) Non-cash accretion expense of ThermaClime and its Subsidiaries for such period: \$ \_\_\_\_\_
  - (vi) Non-cash amortization of debt origination cost of ThermaClime and its Subsidiaries for such period: \$ \_\_\_\_\_
  - (vii) Capitalized Lease Obligations of ThermaClime and its Subsidiaries having a scheduled due date during such period: \$ \_\_\_\_\_

Item (i) divided by the sum of  
Item (ii) plus Item (vii) plus the result of Item (iii) minus  
the sum of Item (iv) plus Item (v) plus Item (vi)  
(= Fixed Charge Coverage Ratio) \_\_\_\_\_ : \_\_\_\_\_

- (b) The Fixed Charge Coverage Ratio set forth above **[is/is not]** greater than or equal to the amount set forth in Section 7.20(a)(iii) of the Loan Agreement for the corresponding period.
-

FORM OF LIBOR NOTICE

Wells Fargo Foothill, Inc., as Agent  
under the below referenced Loan Agreement  
2450 Colorado Place  
Suite 3000 West  
Santa Monica, California 90404  
Attention: Business Finance Division Manager

Ladies and Gentlemen:

Reference hereby is made to that certain Amended and Restated Loan and Security Agreement, dated as of November 5, 2007 (the "Loan Agreement"), among LSB Industries, Inc., an Delaware corporation ("Parent"), ThermaClime, Inc., an Oklahoma corporation ("Administrative Borrower"), certain of Administrative Borrower's subsidiaries signatory thereto (such subsidiaries, together with Administrative Borrower, each a "Borrower" and collectively, the "Borrowers"), the lenders signatory thereto (the "Lenders"), and Wells Fargo Foothill, Inc., a California corporation, as the arranger and administrative agent for the Lenders ("Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

This LIBOR Notice represents the Borrowers' request to elect the LIBOR Option with respect to outstanding Advances in the amount of \$ \_\_\_\_\_ (the "LIBOR Rate Component"), and is a written confirmation of the telephonic notice of such election given to Agent].

Such LIBOR Rate Component will have an Interest Period of [1, 2, or 3] month(s) commencing on \_\_\_\_\_.

This LIBOR Notice further confirms the Borrowers' acceptance, for purposes of determining the rate of interest based on the LIBOR Rate under the Loan Agreement, of the LIBOR Rate as determined pursuant to the Loan Agreement.

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Administrative Borrower, on behalf of itself and the other Borrowers, represents and warrants that (i) as of the date hereof, each representation or warranty contained in or pursuant to any Loan Document, any agreement, instrument, certificate, document or other writing furnished at any time under or in connection with any Loan Document, and as of the effective date of any advance, continuation or conversion requested above is true and correct in all material respects (except to the extent any representation or warranty expressly related to an earlier date), (ii) each of the covenants and agreements contained in any Loan Document have been performed (to the extent required to be performed on or before the date hereof or each such effective date), and (iii) no Default or Event of Default has occurred and is continuing on the date hereof, nor will any thereof occur after giving effect to the request above.

Dated: \_\_\_\_\_

THERMACLIME, INC., an Oklahoma corporation, as Administrative Borrower

By \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Acknowledged by:

**WELLS FARGO FOOTHILL, INC.,**

as Agent

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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Schedule C-1

Commitments

<u>Lender</u>	<u>Revolver Commitment</u>	<u>Term Loan Sub-facility Commitment*</u>	<u>Total Commitment</u>
Wells Fargo Foothill, Inc.	\$ 30,000,000	\$ 4,500,000	\$ 30,000,000
Congress Financial Corporation (Southwest)	\$ 20,000,000	\$ 3,000,000	\$ 20,000,000
All Lenders	<u>\$ 50,000,000</u>	<u>\$ 7,500,000</u>	<u>\$ 50,000,000</u>

\* The Term Loan Commitment is a sub-facility of the Revolver Commitment.

**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**CHEMEX I CORP.**  
**(f/k/a SLURRY EXPLOSIVE CORPORATION)**  
(updated October 26, 2007)

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**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**CHEMEX II CORP.**  
**(f/k/a UNIVERSAL TECH CORPORATION)**  
(updated October 26, 2007)

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AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

**CLIMACOOOL CORP.**  
(updated October 26, 2007)

Inventory is located at:

1. 518 North Indiana, Oklahoma City, OK 73106 (**Landlord: Summit Machine Tool Manufacturing Corp.**)
2. 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (**Sublessor: Climate Master, Inc.**)

**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**CLIMATE MASTER, INC.**  
(updated October 26, 2007)

Inventory is located at:

1. 7300 Southwest 44th Street, Oklahoma City, Oklahoma 73179 (**Landlord: Raptor Master LLC**).
2. 4700 West Point Boulevard , Oklahoma City, Oklahoma 73179 (**Landlord: Prime Financial Corporation**)
3. 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (**Landlord: Summit Machinery Company**)

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

CLIMATECRAFT, INC.  
(updated October 26, 2007)

Inventory is located at:

1. 1427 Northwest 3rd Street, Oklahoma City, Oklahoma 73106. **(Landlord: Summit Machine Tool Manufacturing Corp.)**
2. 1601 Northwest 4th Street, Oklahoma City, Oklahoma 73106. **(Landlord: Summit Machine Tool Manufacturing Corp.)**

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

CHEROKEE NITROGEN COMPANY  
(updated October 26, 2007)

Inventory is located at 1080 Industrial Drive, Cherokee, Alabama 35616 (**Landlord: Cherokee Nitrogen Holdings, Inc.**)

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

EL DORADO CHEMICAL COMPANY  
(updated October 26, 2007)

Inventory is located at:

1. Bryan, Brazos County, Texas 77806 (**Landlord: Northwest Financial Corporation ("NWF")**)
2. Pittsburg, Camp County, Texas 75686 (**Landlord: NWF**)
3. El Dorado, Union County, Arkansas 71730 (**Landlord: NWF**)
4. Cooper, Delta County, Texas 75432 (**Landlord: NWF**)
5. Newbern, Dyer County, Tennessee 38059 (**Landlord: NWF**)
6. Whiteright, Grayson County, Texas 75491 (**Landlord: NWF**)
7. Tyler, Smith County, Texas 75706 (**Landlord: NWF**)
8. Itasca, Hill County, Texas 76055 (**Landlord: NWF**)
9. Trinity County, Texas 75862
10. Dublin, Erath County, Texas 76446
11. Athens, Henderson County, Texas 75751
12. Corsicana, Navarro County, Texas 75151 (**Landlord: NWF**)
13. Marquez, Leon County, Texas 77865 (**Landlord: Union Pacific**)
14. Terrell, Kaufman County, Texas 75160 (**Landlord: NWF**)
15. Cherokee, Alabama 35616 (**Landlord: Cherokee Nitrogen Holdings, Inc.**)
16. Annona, Texas 75550
17. Lamar, Missouri

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

INTERNATIONAL ENVIRONMENTAL CORPORATION  
(updated October 26, 2007)

1. Inventory is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Prime Holdings Corporation**).
2. Inventory is located at 4931 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
3. Inventory is located at 4925 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
4. Inventory is located at 4929 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
5. Inventory is located at 4927 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
6. Inventory is located at 4921 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
7. Inventory is located at 4919 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
8. Inventory is located at 2801 SW 15th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Absolute Delivery Service, LLC**).

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

**KOAX CORP.**  
(updated October 26, 2007)

Inventory is located at 510 North Indiana, Oklahoma City, Oklahoma 73106 (**Landlord: LSB Industries, Inc.**).

**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**LSB CHEMICAL CORP.**  
(updated October 26, 2007)

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**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**THERMACLIME, INC.**  
**(f/k/a CLIMACHEM, INC.)**  
(updated October 26, 2007)

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**AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS**

**TRISON CONSTRUCTION, INC.**  
(updated October 26, 2007)

Inventory is located at 4000 Northwest 39th Street, Oklahoma City, OK 73112 (**Landlord: Summit Machinery Company**)

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

**THERMACLIME TECHNOLOGIES, INC.**  
**(f/k/a ACP INTERNATIONAL LIMITED)**  
(updated October 26, 2007)

Inventory is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Prime Holdings Corporation**)

AMENDED AND RESTATED  
SCHEDULE E-1  
ELIGIBLE INVENTORY LOCATIONS

XPEDIAIR, INC.  
(f/k/a THE ENVIRONMENTAL GROUP, INC.)  
(updated October 26, 2007)

Inventory is located at 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (Landlord: Summit Machinery Company)

**AMENDED AND RESTATED  
SCHEDULE P-1**

**PERMITTED LIENS  
(updated October 26 2007)**

<b>Name of Obligor</b>	<b>Description of Secured Indebtedness</b>
ThermaClime Technologies, Inc. (f/k/a ACP International Limited ("TTI") (operating lease)	Secured Party: Park National Bank, assigned to Marquette Equipment Finance, LLC Collateral: All equipment, software and other property leased under that Equipment Lease dated March 1, 2007 between Prime Financial Corporation and TTI (Continental washer and dryer)
TTI, as bailee (operating lease)	Secured Party: Park National Bank, as bailor Collateral: Radiator coil washer and dryer
TTI (operating lease)	Secured Party: Prime Financial Corporation Collateral: One (1) Continental Equipment 2-stage belt washer, natural gas heated dryer and drain tank
TTI (operating lease)	Secured Party: Prime Financial Corporation Collateral: Burr oak fin die, S/N FDM-1532-1

<b>Name of Obligor</b>	<b>Description of Secured Indebtedness</b>
ThermaClime, Inc. (f/k/a ClimaChem, Inc.)	Secured Party: Toshiba America Information Systems Collateral: Six (6) Toshiba copiers

<b>Name of Obligor</b>	<b>Description of Secured Indebtedness</b>
ClimaCool Corp.	None

<b>Name of Obligor</b>	<b>Description of Secured Indebtedness</b>
ClimateCraft, Inc. ("CLC") (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf NC Punching Machine
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: 1999 Amada HFB1254 Promecam CNC Press Brake w/ Controls
CLC	Secured Party: City of Oklahoma City Collateral: Real estate owned by Summit Machine Tool Manufacturing Corp.
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Two (2) model 625014 Accushears w/ 48" extended travel and CNC front gauging 12'x6'x6'; S/N 5110 and 5111
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf model TC2020 Punch Machine, S/N A0030A0239 with tooling
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada CNC Hydraulic Press Brake model HFB220/440, SN H980519

Name of Obligor	Description of Secured Indebtedness
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Cherokee Nitrogen Company	None
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Name of Obligor	Description of Secured Indebtedness
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Climate Master, Inc. ("CLM,") as bailee (operating lease)	Secured Party: Marquette Equipment Finance, LLC, as Bailor, assigned to Park National Bank Collateral: One (1) Chiyoda SP-25ST 3 Axis Tube Bender with RH rotation, including all standard equipment and 5/8", 3/4" and 7/8" OD and mandrels
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CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf L3040 Laser Cutting Machine System purchased from Icon Machine Tool, Inc., S/N A0235A0061, and all accessories and attachments thereto.
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CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Trumpf TruLaser 3530 Laser Cutting Machine, Serial #AX035A0061
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CLM (operating lease)	Secured Party: National Machine Tool Financial Corporation and TCF Equipment Finance, Inc. Collateral: One (1) new Trumpf L3530 4000 Watt Laser with 60"x120", S/N A0235A0061, and all accessories and attachments thereto.
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CLM, as lessee (operating lease)	Secured Party: IOS Capital, as lessor Collateral: All equipment now or hereafter leased (PCP 1050, booklet maker and accessories) in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 2068765, as amended from time to time, between IOS Capital, LLC as lessor, and the above referenced Lessee/Debtor, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. Customer: 1095557 IKCPP500 C11029146
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CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: 1 each five stage Power Spray Stainless Washer (installed) in accordance with quote 3703-0107R3 from Industrial Finishing Systems.
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CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Ingersoll-Rand oil-free Nirvana compressor system consisting of various components; S/N IRN75H-OF.
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CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Gamma G333PC Wire Processing System per quote 06-0150-2743-0135C; S/N 1-528324-1 and all accessories and attachments thereto.
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Name of Obligor	Description of Secured Indebtedness
CLM, as lessee (operating lease)	Secured Party: IOS Capital, as lessor Collateral: All equipment now [5 Ricoh copiers] or hereafter leased in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 2929907, as amended from time to time, between Lessor and Lessee, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. CUSTOMER: 1095557 RIAF2035 S/P J5837002733 RIAF2035 S/P J5837002727 RIAF2035 S/P J5837102886 RIAF2035 S/P J5837102735 RIAF2035 S/P J5837102721 RIAF1060 J4235501227 RIAF1060 J422500470 RIAF2090 J7031100205 RIAF2090 J7031100244
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada Vipros 368 King, Turret Punch Press, S/N 36840024, with New London Slug Conveyor, One (1) Amada LUL510 loading device, S/N 00510090, Amada SR510 .30 unloading device, S/N 2218, Sun Classic Workstation with Line Control Software, S/N FW900085, AP100 Punch Upgrade, AP100 Punch Add. Seat Upgrade, complete with all attachments now or hereafter acquired.
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada press brake, model HFB 1003/8, S/N HFB010030 R981151, w/ ISB light curtain
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Raidzone GangSTOTR Systems RC8-2-R2000 (2x8 disk rack mount systems and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Nine (9) OptiGun-2AX Automatic Guns, Nine (9) OptiTronicPlus Control Units and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Six (6) sets of ECI line equipment (Procix) and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada 386 King, Vipros 30 ton CNC Turret Punch, S/N 36820017 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada CNC Blanking Shear, S/N 101000056 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories

Name of Obligor	Description of Secured Indebtedness
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories
CLM (operating lease)	Secured Party: RCA Capital Corp. Collateral: One (1) new Chiyoda SP-25ST 3 Axis CNC Pipe Bender and associated accessories
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) single Tube Cutoff Line (STCOS) and all accessories and attachments thereto (Burr Oak Copper Cut).
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor, as assigned to Marquette Equipment Finance, LLC, as assigned to Park National Bank Collateral: One (1) Chiyoda SP-25 ST 3-Axis Tube Bender and associated accessories.
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: One 1996 Amada FCXB-III-8025 CNC Press Brake
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: IPCS Equipment and accessories
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Used 1995 FBD-125 Amada Press Brake, S/N 12530058
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: 88 ton Amada HFB, S/N R091-18; 88 ton Amada HFB, S/N R970432; 138 ton Amada FBD, S/N 12530263

Name of Obligor	Description of Secured Indebtedness
El Dorado Chemical Company ("EDC") as bailee	Secured Party: Orica USA Inc., as bailor Collateral: All of bailor's inventory located at bailee's El Dorado, AR facility
EDC, as lessee (operating lease)	Secured Party: LSB Industries, Inc. Collateral: Catalysts associated with EDC's El Dorado, AR facility
EDC, as bailee (operating lease)	Secured Party: Republic Bank, Inc., as bailor Collateral: Personal property (rail cars) located at bailee's El Dorado, AR facility and described in Lease Schedule No. 001 to Master Lease Agreement No. AF10506 by and between Prime Financial Corporation, as lessee, and Applied Financial, LLC, as lessor
EDC	Secured Party: Air Liquide Industrial US LP Collateral: Gas generating plant, located at debtor's El Dorado, AR facility
EDC (operating lease)	Secured Party: General Electric Capital Corporation Collateral: PerkinElmer Analyst 700 AA Spectrometer and accessories



Name of Obligor	Description of Secured Indebtedness
XpediAir, Inc. (f/k/a The Environmental Group, Inc.)	None
Name of Obligor	Description of Secured Indebtedness
International Environmental Corporation ("IEC") (operating lease)	Secured Party: Prime Financial Corporation Collateral: Bolina Cut-to-Length; 2 Optiflex 110/08 Pullmax CNC Press Brakes; vertical bender; Trumpf laser cutting machine
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada Turret Press Dies & accessories
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Two Trumpf Laser Cutting Machines
IEC	Secured Party: Amada Capital Corporation Collateral: Amada Turret Press Model VIPROS358K w/ scrap conveyor and attachments
IEC	Secured Party: Amada Capital Corporation Collateral: Software package consisting of two seats of Anmest punch software and one seat AP100 US punch complete w/ all attachments
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: One (1) T-Drill SP-55 tube end spinner, 440V, S/N 97032
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: High Takt assembly line (spur line south bldg)
IEC (operating lease)	Secured Party: IOS Capital Collateral: All equipment now or hereafter leased in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 1842990, as amended from time to time, between IOS Capital, LLC as lessor, and the above referenced Lessee/Debtor, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. Customer: 357586 RIAF 2075 S/P C11020120, RIAF2075 S/P C11020023, RIAF 2075 S/P C11020123, RIAF2060 S/P C11020019, RIAF3030 S/P C11020011, RIAF3030 S/P C11020010, RIAF3030 W/P C11020009, RIAF3030 SP C11020008, RIAF3425C C11020124, ZZrightfax software
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf Laser 3040 Plus, 4000 watt resonator
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Security system

Name of Obligor	Description of Secured Indebtedness
Koax Corp (operating lease)	Secured Party: Intrust Bank Collateral: LSE 1751964 S/N MPH04374
Name of Obligor	Description of Secured Indebtedness
LSB Chemical Corp.	None
Name of Obligor	Description of Secured Indebtedness
Chemex I Corp. (f/k/a Slurry Explosive Corporation)	None
Name of Obligor	Description of Secured Indebtedness
Trison Construction, Inc.	None
Name of Obligor	Description of Secured Indebtedness
Chemex II Corp. (f/k/a Universal Tech Corporation)	None
Name of Obligor	Description of Secured Indebtedness
The Climate Control Group, Inc.	None
Name of Obligor	Description of Secured Indebtedness
Northwest Financial Corporation	None
Name of Obligor	Description of Secured Indebtedness
CEPOLK Holdings, Inc. ("CHI") (f/k/a ThermalClime, Inc.)	Prudential Insurance Company of America ("Prudential") holds a lien on the partnership interest owned by CHI in a limited partnership involved in an energy conservation project, to secure certain loans made by Prudential to CEPOLK Limited Partnership in the approximate amount of \$5,253,252.

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**THERMACLIME TECHNOLOGIES, INC.  
(f/k/a ACP INTERNATIONAL LIMITED)  
(updated October 26, 2007)**

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**THERMACLIME, INC.**  
**(f/k/a CLIMACHEM, INC.)**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**CLIMACOOOL CORP.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**CLIMATECRAFT, INC.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**CLIMATE MASTER, INC.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**EL DORADO CHEMICAL COMPANY**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102



**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**XPEDIAIR, INC.**  
**(f/k/a THE ENVIRONMENTAL GROUP, INC.)**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**INTERNATIONAL ENVIRONMENTAL CORPORATION**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**KOAX CORP.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**LSB CHEMICAL CORP.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS

**CHEMEX I CORP.**  
**(f/k/a SLURRY EXPLOSIVE CORPORATION)**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**TRISON CONSTRUCTION, INC.**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**CHEMEX II CORP.**  
**(f/k/a UNIVERSAL TECH CORPORATION)**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102

**AMENDED AND RESTATED  
SCHEDULE 2.7(a)  
CASH MANAGEMENT BANKS**

**CHEROKEE NITROGEN COMPANY**  
(updated October 26, 2007)

JP Morgan Chase Bank, N.A.  
100 North Broadway  
Oklahoma City, Oklahoma 73102



AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS

**THERMACLIME TECHNOLOGIES, INC.**  
**(f/k/a ACP INTERNATIONAL LIMITED)**  
(updated October 26, 2007)

Equipment and/or inventory is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128. (Landlord: **Prime Holdings Corporation**)

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**THERMACLIME, INC.  
(f/k/a CLIMACHEM, INC.)**

(updated October 26, 2007)

NONE

Page 2 of 14

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**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**CLIMACOOL CORP.**  
(updated October 26, 2007)

1. Equipment and/or inventory is located at 518 North Indiana, Oklahoma City, OK 73106 (**Landlord: Summit Machine Tool Manufacturing Corp.**)
2. Equipment and/or inventory is located at 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (**Sublessor: Climate Master, Inc.**)

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**CLIMATECRAFT, INC.**  
(updated October 26, 2007)

1. Equipment and/or inventory is located at 1427 Northwest 3rd Street, Oklahoma City, Oklahoma 73106. **(Landlord: Summit Machine Tool Manufacturing Corp.)**
2. Equipment and/or inventory is located at 1601 Northwest 4th Street, Oklahoma City, Oklahoma 73106. **(Landlord: Summit Machine Tool Manufacturing Corp.)**

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**CLIMATE MASTER, INC.**  
(updated October 26, 2007)

1. Equipment and/or inventory is located at 7300 Southwest 44th Street, Oklahoma City, Oklahoma 73179 (**Landlord: Raptor Master LLC**).
2. Equipment and/or inventory is located at 4700 West Point Boulevard, Oklahoma City, Oklahoma 73179 (**Landlord: Prime Financial Corporation**).
3. Equipment and/or inventory is located at 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (**Landlord: Summit Machinery Company**).

AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS

EL DORADO CHEMICAL COMPANY  
(updated October 26, 2007)

1. Bryan, Brazos County, Texas 77806 (**Landlord: Northwest Financial Corporation ("NWF")**)
2. Pittsburg, Camp County, Texas 75686 (**Landlord: NWF**)
3. El Dorado, Union County, Arkansas 71730 (**Landlord: NWF**)
4. Cooper, Delta County, Texas 75432 (**Landlord: NWF**)
5. Newbern, Dyer County, Tennessee 38059 (**Landlord: NWF**)
6. Whiteright, Grayson County, Texas 75491 (**Landlord: NWF**)
7. Tyler, Smith County, Texas 75706 (**Landlord: NWF**)
8. Itasca, Hill County, Texas 76055 (**Landlord: NWF**)
9. Corsicana, Navarro County, Texas 75151 (**Landlord: NWF**)
10. Marquez, Leon County, Texas 77865 (**Landlord: Union Pacific**)
11. Terrell, Kaufman County, Texas 75160 (**Landlord: NWF**)
12. Cherokee, Alabama 35616 (**Landlord: Cherokee Nitrogen Holdings, Inc.**)

AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS

**XPEDIAIR, INC.**  
**(f/k/a THE ENVIRONMENTAL GROUP, INC.)**  
(updated October 26, 2007)

Equipment and/or Inventory is located at 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112 (**Landlord: Summit Machinery Company**)

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**INTERNATIONAL ENVIRONMENTAL CORPORATION**  
(updated October 26, 2007)

1. Equipment and/or inventory is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Prime Holdings Corporation**).
2. Equipment and/or inventory is located at 4931 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
3. Equipment and/or inventory is located at 4925 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
4. Equipment and/or inventory is located at 4929 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
5. Equipment and/or inventory is located at 4927 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
6. Equipment and/or inventory is located at 4921 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
7. Equipment and/or inventory is located at 4919 SW 7th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Quail Creek Properties LLC**).
8. Equipment and/or inventory is located at 2801 SW 15th Street, Oklahoma City, Oklahoma 73128 (**Landlord: Absolute Delivery Service, LLC**).



AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS

**KOAX CORP.**  
(updated October 26, 2007)

Equipment and/or inventory is located at 510 North Indiana, Oklahoma City, Oklahoma 73106 (**Landlord: LSB Industries, Inc.**).

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**LSB CHEMICAL CORP.**  
(updated October 26, 2007)

NONE

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AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS

**CHEMEX I CORP.**  
**(f/k/a SLURRY EXPLOSIVE CORPORATION)**  
(updated October 26, 2007)

NONE

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**TRISON CONSTRUCTION, INC.**  
(updated October 26, 2007)

Equipment and/or inventory is located at 4000 Northwest 39th Street, Oklahoma City, OK 73112 (**Landlord: Summit Machinery Company**)

**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**CHEMEX II CORP.**  
**(f/k/a UNIVERSAL TECH CORPORATION)**  
(updated October 26, 2007)

NONE

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**AMENDED AND RESTATED  
SCHEDULE 3.1(m)  
COLLATERAL ACCESS LOCATIONS**

**CHEROKEE NITROGEN COMPANY**  
(updated October 26, 2007)

Equipment and/or inventory is located at 1080 Industrial Drive, Cherokee, Alabama 35616 (**Landlord: Cherokee Nitrogen Holdings, Inc.**)

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**THERMACLIME TECHNOLOGIES, INC.**  
**(f/k/a ACP INTERNATIONAL LIMITED)**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**THERMACLIME, INC.**  
**(f/k/a CLIMACHEM, INC.)**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1



**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CLIMACOOOL CORP.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CLIMATECRAFT, INC.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CLIMATE MASTER, INC.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**EL DORADO CHEMICAL COMPANY**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED'  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**XPEDIAIR, INC.**  
**(f/k/a THE ENVIRONMENTAL GROUP, INC.)**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**INTERNATIONAL ENVIRONMENTAL CORPORATION**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**KOAX CORP.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**LSB CHEMICAL CORP.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1



**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CHEMEX I CORP.**  
**(f/k/a SLURRY EXPLOSIVE CORPORATION)**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**TRISON CONSTRUCTION, INC.**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CHEMEX II CORP.**  
**(f/k/a UNIVERSAL TECH CORPORATION)**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.5  
LOCATIONS OF INVENTORY**

**CHEROKEE NITROGEN COMPANY**  
(updated October 26, 2007)

Please refer to Amended and Restated Schedule E-1

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
THERMACLIME TECHNOLOGIES, INC.  
(f/k/a ACP INTERNATIONAL LIMITED)  
(updated October 26, 2007)**

1. ThermaClime Technologies, Inc.'s, f/k/a ACP International Limited ("TTI"), chief executive office is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128.
2. TTI's FEIN is 73-1553910.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
THERMACLIME, INC.  
(f/k/a CLIMACHEM, INC.)  
(updated October 26, 2007)**

1. ThermaClime, Inc.'s, f/k/a ClimaChem, Inc. ("TCI"), chief executive office is located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.
2. TCI's FEIN is 73-1528549.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CLIMACOOOL CORP.**  
(updated October 26, 2007)

1. ClimaCool Corp.'s ("ClimaCool") chief executive office is located at 4000 NW 39th Street, Oklahoma City, Oklahoma 73112.
2. ClimaCool's FEIN is 73-1409358.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CLIMATECRAFT, INC.**  
(updated October 26, 2007)

1. ClimateCraft Inc.'s ("ClimateCraft") chief executive office is located at 518 North Indiana, Oklahoma City, Oklahoma 73106.
2. ClimateCraft's FEIN is 73-1207959.



**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CLIMATE MASTER, INC.**  
(updated October 26, 2007)

1. Climate Master, Inc.'s ("CM") chief executive office is located at 7300 Southwest 44th Street, Oklahoma City, Oklahoma 73179.
2. CM's FEIN is 93-0857025.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
EL DORADO CHEMICAL COMPANY**  
(updated October 26, 2007)

1. El Dorado Chemical Company's ("EDC") chief executive office is located at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107.
2. EDC's FEIN is 73-1183488.

AMENDED AND RESTATED  
SCHEDULE 5.7

CHIEF EXECUTIVE OFFICE; FEIN  
XPEDIAIR, INC.  
(f/k/a THE ENVIRONMENTAL GROUP, INC.)  
(updated October 26, 2007)

1. XpediAir, Inc.'s, f/k/a The Environmental Group, Inc. ("XPA"), chief executive office is located at 4000 N.W. 39th Street, Oklahoma City, Oklahoma 73112.
2. XPA's FEIN is 73-1431586.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
INTERNATIONAL ENVIRONMENTAL CORPORATION**  
(updated October 26, 2007)

1. International Environmental Corporation's ("IEC") chief executive office is located at 5000 Southwest 7th Street, Oklahoma City, Oklahoma 73128.
2. IEC's FEIN is 73-0754306.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
KOAX CORP.**  
(updated October 26, 2007)

1. Koax Corp.'s ("Koax") chief executive office is located at 510 North Indiana, Oklahoma City, Oklahoma 73106.
2. Koax's FEIN is 73-1284158.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
LSB CHEMICAL CORP.**  
(updated October 26, 2007)

1. LSB Chemical Corp.'s ("LSBCC") chief executive office is located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.
2. LSBCC's FEIN is 73-1207958.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CHEMEX I CORP.  
(f/k/a SLURRY EXPLOSIVE CORPORATION)  
(updated October 26, 2007)**

1. Chemex I Corp.'s, f/k/a Slurry Explosive Corporation ("Chemex I"), chief executive office is located at 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107.
2. Chemex I's FEIN is 73-1330903.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
TRISON CONSTRUCTION, INC.**  
(updated October 26, 2007)

1. Trison Construction, Inc.'s ("Trison") chief executive office is located at 4000 Northwest 39th Street, Oklahoma City, Oklahoma 73112.
2. Trison's FEIN is 73-1538285.



**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CHEMEX II CORP.  
(f/k/a UNIVERSAL TECH CORPORATION)  
(updated October 26, 2007)**

1. Chemex II Corp.'s, f/k/a Universal Tech Corporation ("Chemex II"), chief executive office is located at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107.
2. Chemex II's FEIN is 73-1364261.

**AMENDED AND RESTATED  
SCHEDULE 5.7**

**CHIEF EXECUTIVE OFFICE; FEIN  
CHEROKEE NITROGEN COMPANY**  
(updated October 26, 2007)

1. Cherokee Nitrogen Company's ("CNC") chief executive office is located at 16 South Pennsylvania, Oklahoma City, Oklahoma 73107.
2. CNC's FEIN is 41-2115998.

AMENDED AND RESTATED  
SCHEDULE 5.8(b)

CAPITALIZATION OF BORROWERS  
(updated October 26, 2007)

<b>Borrower</b>	<b>Class</b>	<b>No. of Authorized Shares</b>	<b>No. of Outstanding Shares</b>
International Environmental Corporation	Common	300, par value \$10.00	300, par value \$10.00
LSB Chemical Corp.	Common	50, par value \$10.00	50, par value \$10.00
El Dorado Chemical Company	Common	25,000, par value \$1.00	1,000, par value \$1.00
ThermaClime Technologies, Inc., f/k/a ACP International Limited	Common	500,000, par value \$0.10	10,000, par value \$0.10
ClimaCool Corp.	Common	50,000, par value \$1.00	1,000, par value \$1.00
XpediAir, Inc., f/k/a The Environmental Group, Inc.	Common	500,000, par value \$0.10	10,000, par value \$0.10
ThermaClime, Inc., f/k/a ClimaChem, Inc.	Common	500,000, par value \$0.10	10,000, par value \$0.10
Climate Master, Inc.	Common	1,000, par value \$1.00	1,000, par value \$1.00
ClimateCraft, Inc.	Common (Class A Voting)	900, par value \$0.50	900, par value \$0.50
ClimateCraft, Inc.	Common (Class B Non-Voting)	100, par value \$0.50	100, par value \$0.50
Koax Corp.	Common	50, par value \$10.00	50, par value \$10.00
Chemex I Corp., f/k/a Slurry Explosive Corporation	Common	10,000, par value \$1.00	1,000, par value \$1.00
Trison Construction, Inc.	Common	500,000, par value \$0.10	10,000, par value \$0.10
Chemex II Corp., f/k/a Universal Tech Corporation	Common	10,000, par value \$1.00	1,000, par value \$1.00
Cherokee Nitrogen Company	Common	500,000, par value \$0.10	10,000, par value \$0.10

AMENDED AND RESTATED  
SCHEDULE 5.8(c)

CAPITALIZATION OF BORROWERS' SUBSIDIARIES  
(updated October 26, 2007)

Subsidiary	Jurisdiction	No. of Authorized Shares	No. of Outstanding Shares
Northwest Financial Corporation	Oklahoma	100, par value \$1,000	54, par value \$1,000
CEPOLK Holdings, Inc. f/k/a ThermalClime, Inc.	Oklahoma	50,000, par value \$1.00	1,000, par value \$1.00
The Climate Control Group, Inc.	Oklahoma	100,000, par value \$0.10	10,000, par value \$0.10

Please also refer to Amended and Restated Schedule 5.8(b).

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**AMENDED AND RESTATED  
SCHEDULE 5.10**

**LITIGATION**  
(updated October 26, 2007)

NONE

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**AMENDED AND RESTATED  
SCHEDULE 5.14**

**ENVIRONMENTAL MATTERS**  
(updated October 26, 2007)

1. Two (2) inactive disposal areas are known to exist at the nitrate plant leased by Cherokee Nitrogen Company in Cherokee, Alabama. The first involves industrial waste disposed of in an on-site landfill located east of the plant. The landfill has been capped in excess of ten (10) years and is covered with vegetation. The second involves approximately one hundred (100) tons of phosphoric acid tank sludge buried directly east of the plant. Material was generated from an old phosphate plant that is no longer in existence. The material was buried prior to 1986. Any liability associated with these landfills is the responsibility of U.S. Steel, a prior owner of the site.
  2. An asbestos, construction debris, and elemental sulfur on-site landfill is located at El Dorado Chemical Company's ammonium nitrate plant located in El Dorado, Arkansas. The landfill was closed in 1995 under a state-approved closure plan.
-

AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
THERMACLIME TECHNOLOGIES, INC.  
(f/k/a ACP INTERNATIONAL LIMITED)  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

NONE

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NONE

AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
THERMACLIME, INC.  
(f/k/a CLIMACHEM, INC.)  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

NONE

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
CLIMACOOL CORP.  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

NONE

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
CLIMATECRAFT, INC.  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climatecraft"	#2,369,333	United States	07/18/00

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
**CLIMATE MASTER, INC.**  
(updated October 26, 2007)

<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Water-Cooled Air Conditioning system Using Condenser Water Regeneration for Precise Air Reheat in Dehumidifying Mode"	11/161,808	United States	Pending

**TRADEMARKS**

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climate Master (& Design)"	2,139,570	United States	02/24/98
"Climate Master (& Design)"	#TMA 471,487	Canada	02/21/97
"Climate Master"	808,500	United States	05/17/66
"Climate Master"	409,647	Chile	07/22/93
"Climate Master"	84930	Israel	10/08/92
"Climate Master"	292/82	Saudi Arabia	12/30/92
"Climate Master"	1,514,734	United Kingdom	11/13/98
"Climate Master"	11,215	Greece	07/07/98
"Climate Master"	280854	Korea	12/07/93
"Climate Master"	641,594	Taiwan	04/16/94
"Climate Master"	614,556	Taiwan	10/01/93
"Climate Master"	516424	Mexico	12/10/92
"Climate Master"	25162	Kuwait	08/16/93
"Climate Master"	0-999746	Czech Republic	03/20/00
"Climate Master"	583,151	Benelux	06/22/95
"Climate Master"	95575091	France	06/09/95
"Climate Master"	147,007	Hungary	04/25/95
"Climate Master"	172643	Norway	04/25/96
"Climate Master"	309 649	Portugal	05/06/96
"Climate Master"	O-POZ-1170-95	Slovak Republic	05/02/95
"Climate Master"	16121	Turkey	05/01/95
"Climate Master"	729,783	Italy	10/16/97

**TRADEMARKS**

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climate Master"	402,883	Europe	02/24/98
"Climate Master"	3480166	China	03/10/03
"Climate Master"	860,657	Australia	12/14/00
"Climate Mate"	TMA 371,539	Canada	08/03/90
"Roommate"	1,906,435	United States	07/18/95
"Paradigm"	2,112,244	United States	11/11/97
"Geodesigner"	2,184,992	United States	08/25/98
"Earthpure"	2,994,583	United States	09/13/05
"Climadry"	3,253,779	United States	06/19/07

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
**EL DORADO CHEMICAL COMPANY**  
(updated October 26, 2007).

**PATENTS**

NONE

**TRADEMARKS**

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"El Dorado (& Design)"	1,427,064	United States	02/03/87
"E-2"	833,891	United States	08/22/67

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
XPEDIAIR, INC.  
(f/k/a THE ENVIRONMENTAL GROUP, INC.)  
(updated October 26, 2007)

**PATENTS**

NONE

**TRADEMARKS**

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climacool"	2,564,496	United States	04/23/02
"CHP"	1,707,991	United States	08/18/92
XpediAir" (Design Only)*	2,986,893	United States	08/23/05

\* Trademark is the subject of a Settlement Agreement with Expedia, Inc. regarding XpediAir, Inc's right to use the name, throughout the world, in connection with the sale and manufacture of HVAC equipment and related goods and services, and to register the name with the USPTO or any foreign patent and trademark office in design form only.

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
INTERNATIONAL ENVIRONMENTAL CORPORATION  
(updated October 26, 2007)

PATENTS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Conditioned Air Fan Coil Unit"	6,109,044	United States	08/29/00

TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"International Environmental Corporation (& IE Design)"	1,569,505	United States	12/05/89
	439970	Mexico	08/18/93
	292/85	Saudi Arabia	08/31/93
"International Environmental"	B1,514,822	United Kingdom	07/01/94
	92/165,999	Hong Kong	11/21/94
IEC International Environmental (& Design)	77110687	United States	Pending
"Sureflow"	2,449,571	United States	05/08/01
"IE (Stylized)"	2,556,892	United States	04/02/02
"Air Coil Technologies"	1,755,144	United States	03/02/93
"UV Ultrashield"	2,660,647	United States	12/10/02

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
KOAX CORP.  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Koax"	1,776,407	United States	06/15/93
"Koax and design"	1,905,551	United States	07/18/95

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AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
LSB CHEMICAL CORP.  
(updated October 26, 2007)

**PATENTS**

NONE

**TRADEMARKS**

NONE

**COPYRIGHTS**

NONE

**AMENDED AND RESTATED**  
**SCHEDULE 5.16**

**INTELLECTUAL PROPERTY**  
**CHEMEX I CORP.**  
**(f/k/a SLURRY EXPLOSIVE CORPORATION)**  
(updated October 26, 2007)

**PATENTS**

NONE

**TRADEMARKS**

NONE

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NONE

AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
TRISON CONSTRUCTION, INC.  
(updated October 26, 2007)

**PATENTS**

NONE

**TRADEMARKS**

NONE

**COPYRIGHTS**

NONE

AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
CHEMEX II CORP.  
(f/k/a UNIVERSAL TECH CORPORATION)  
(updated October 26, 2007)

PATENTS

NONE

TRADEMARKS

NONE

COPYRIGHTS

NONE

AMENDED AND RESTATED  
SCHEDULE 5.16

INTELLECTUAL PROPERTY  
CHEROKEE NITROGEN COMPANY  
(updated October 26, 2007)

**PATENTS**

NONE

**TRADEMARKS**

NONE

**COPYRIGHTS**

NONE

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
THERMACLIME TECHNOLOGIES, INC.  
(f/k/a ACP INTERNATIONAL LIMITED)  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4005107842	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
THERMACLIME, INC  
(f/k/a CLIMACHEM, INC.)  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	400519526	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4005026745	P.O. Box 26788 Oklahoma City, OK	Payroll

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CLIMATECRAFT, INC.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	400526026	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4005097502	P.O. Box 26788 Oklahoma City, OK	Payroll
BancFirst	4005059015	P.O. Box 26788 Oklahoma City, OK	Working Fund



AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CLIMACOOOL CORP.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4005042554	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CLIMATE MASTER, INC.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009580563	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4003291308	P.O. Box 26788 Oklahoma City, OK	COD Account
BancFirst	4005107710	P.O. Box 26788 Oklahoma City, OK	Payroll Account

**AMENDED AND RESTATED  
SCHEDULE 5.18**

**DEMAND DEPOSIT ACCOUNTS  
EL DORADO CHEMICAL COMPANY  
(updated October 26, 2007)**

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009580181	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4025001220	P.O. Box 26788 Oklahoma City, OK	Workers Comp Claim
BancFirst	4005070248	P.O. Box 26788 Oklahoma City, OK	Payroll
BancFirst	4005107338	P.O. Box 26788 Oklahoma City, OK	Cafeteria Account
Regions Bank	8010112512	100 East Peach El Dorado, AR	General Account
The Bank of Union	1108810	P.O. Box 249 Union City, OK	Claims Account
The Bank of Union	1108802	P.O. Box 249 Union City, OK	Employee Benefits
The Bank of Union	1108828	P.O. Box 249 Union City, OK	Admin Account

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
XPEDIAIR, INC.  
(f/k/a THE ENVIRONMENTAL GROUP, INC.)  
(updated October 26, 2007)  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4005077684	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
INTERNATIONAL ENVIRONMENTAL CORPORATION  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009580110	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4009580204	P.O. Box 26788 Oklahoma City, OK	Payroll
BancFirst	400514958	P.O. Box 26788 Oklahoma City, OK	Operations Fund

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
KOAX CORP.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009580136	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
LSB CHEMICAL CORP.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009580071	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CHEMEX I CORP.  
(f/k/a SLURRY EXPLOSIVE CORPORATION)  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4003292284	P.O. Box 26788 Oklahoma City, OK	Operating



AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
TRISON CONSTRUCTION, INC.  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	400521962	P.O. Box 26788 Oklahoma City, OK	Operating
BancFirst	4005037879	P.O. Box 26788 Oklahoma City, OK	Payroll

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CHEMEX II CORP.  
(f/k/a UNIVERSAL TECH CORPORATION)  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4009586431	P.O. Box 26788 Oklahoma City, OK	Operating

AMENDED AND RESTATED  
SCHEDULE 5.18

DEMAND DEPOSIT ACCOUNTS  
CHEROKEE NITROGEN COMPANY  
(updated October 26, 2007)

<u>Name of Institutions</u>	<u>Account Number</u>	<u>Branch Address</u>	<u>Description of Account</u>
BancFirst	4005058027	P.O. Box 26788	Operating
Colonial Bank	8140017040	Oklahoma City, OK 1045 1st Street Cherokee, AL	Petty Cash

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
THERMACLIME TECHNOLOGIES, INC.  
(f/k/a ACP INTERNATIONAL LIMITED)  
(as of September 30, 2007)

ThermaClime Technologies, Inc. (f/k/a ACP International Limited) is indebted to the following entities in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
THERMACLIME, INC.  
(f/k/a CLIMACHEM, INC.)  
(as of September 30, 2007)

ThermaClime, Inc., f/k/a ClimaChem, Inc., is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holder of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000	NA	12/2007
2.a.	LSB Industries, Inc.	\$6,980,978	Semi-Annual Int	12/31/2009
2.b.	LSB Industries, Inc.	\$25,359,028	Semi-Annual Int.	On Demand
2.c.	LSB Industries, Inc.	4,907,916	Semi-Annual Int.	On Demand
3.	Northwest Financial Corporation	13,328,828	N/A	On Demand
4.	CEPOLK Holdings, Inc.	3,898,523	N/A	On Demand
5.	El Dorado Nitrogen, L.P.	25,734,720	N/A	On Demand
6.	The Climate Control Group, Inc.	\$3,104,268	N/A	On Demand

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CLIMACOOOL CORP.  
(as of September 30, 2007)

ClimaCool Corp. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CLIMATECRAFT, INC.  
(as of September 30, 2007)

ClimateCraft, Inc. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	City of Oklahoma City	\$2,450,000	(1)	(1)
2.	Summit Machine Tool Manufacturing Corp.	\$715,719	\$9,350	12/01/2015
3.	Holder of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	N/A	12/2007

(1) Annual payments are made to the City of Oklahoma City in the amount of \$175,000 on August 1. The final payment, a balloon payment, in the amount of \$875,000 is due on 08/01/2017. Interest is paid semi-annually.

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CLIMATE MASTER, INC.  
(as of September 30, 2007)

Climate Master, Inc. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee



AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
EL DORADO CHEMICAL COMPANY  
(as of September 30, 2007)

El Dorado Chemical Company ("EDC") is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

EDC guarantees the obligations of El Dorado Nitrogen, L.P. to Bayer Corporation in connection with the nitric acid plant project in Baytown, Texas, including the supply of such product.

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
XPEDIAIR, INC.  
(f/k/a THE ENVIRONMENTAL GROUP, INC.)  
(as of September 30, 2007)

XpediAir, Inc. (f/k/a The Environmental Group, Inc.) is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
INTERNATIONAL ENVIRONMENTAL CORPORATION  
(as of September 30, 2007)

International Environmental Corporation is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holder of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007
2.	Amada Capital Corporation	\$57,715	5,452.45	08/01/2008

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
KOAX CORP.  
(as of September 30, 2007)

Koax Corp. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
LSB CHEMICAL CORP.  
(as of September 30, 2007)

LSB Chemical Corp. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holder of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007
2.	DSN Corporation	\$275,773	N/A	On Demand

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CHEMEX I CORP.  
(f/k/a SLURRY EXPLOSIVE CORPORATION)  
(as of September 30, 2007)

Chemex I Corp. (f/k/a Slurry Explosive Corporation) is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
TRISON CONSTRUCTION, INC.  
(as of September 30, 2007)

Trison Construction, Inc. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CHEMEX II CORP.  
(f/k/a UNIVERSAL TECH CORPORATION)  
(as of September 30, 2007)

Chemex II Corp. (f/k/a Universal Tech Corporation) is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee



AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
THE CLIMATE CONTROL GROUP, INC.  
(as of September 30, 2007)

The Climate Control Group, Inc. is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holder of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007
2.	LSB Industries, Inc.	\$228,321	NA	On Demand

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
NORTHWEST FINANCIAL CORPORATION  
(as of September 30, 2007)

Northwest Financial Corporation is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

AMENDED AND RESTATED  
SCHEDULE 5.20

PERMITTED INDEBTEDNESS  
CEPOLK HOLDINGS, INC.  
(f/k/a THERMALCLIME, INC.)  
(as of September 30, 2007)

CEPOLK Holdings, Inc. (f/k/a ThermalClime, Inc.) is indebted to the following entities and in the following amounts:

	<u>Creditor</u>	<u>Amount</u>	<u>Monthly Payments</u>	<u>Maturity Date</u>
1.	Holders of the ThermaClime, Inc. Unsecured Notes due 2007	\$6,950,000*	NA	12/2007

\*guarantee

**AMENDED AND RESTATED  
SCHEDULE 5.20**

**PERMITTED INDEBTEDNESS  
CHEROKEE NITROGEN COMPANY**  
(as of September 30, 2007)

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AMENDED AND RESTATED  
SCHEDULE 7.13

**OTHER PERMITTED INVESTMENTS**

(as of September 30, 2007)

1. See Schedules 5.8(b) and (c) for Equity Interests.
  2. LSB Holdings, Inc., a subsidiary of LSB Industries, Inc., is indebted to ClimaCool Corp. in the principal amount of \$2,705,594.
  3. DSN Corporation is indebted to ThermaClime, Inc. in the principal amount of \$18,784,414 less \$4,500,000 (adjustment as of October 31, 2007).
-

**AMENDED AND RESTATED  
SCHEDULE 7.14**

**AFFILIATE TRANSACTIONS**

(updated October 26, 2007)

1. Lease Agreement between Prime Holdings Corporation ("PHC") and International Environmental Corporation ("IEC") for property at 5000 West I-40, OKC.
2. Lease Agreement between PHC and ThermaClime Technologies, Inc. ("TTI") for property at 5000 West I-40, OKC.
3. Railcar Services Agreement between Prime Financial Corporation ("PFC") and El Dorado Chemical Company ("EDC").
4. Industrial Plant Lease between PFC and Climate Master, Inc. ("CLM") for property at 4700 West Point Boulevard, OKC.
5. Equipment Lease between IEC and PFC Re: Laser Center, 2 Pullmax Press Brakes and accessories
6. Equipment Lease between IEC and PFC Re: Cabinet & Steel Rack w/ Amada Turret Press Dies and shop carts with Amada Turret Punch Press tooling.
7. Equipment Lease between IEC and PFC Re: Bolina Cut-to-Length, 2 Optiflex 110/08 Pullmax CNC Press Brakes, and 1 Vertical Bender Hairpin Bender.
8. Equipment Lease between IEC and PFC Re: Trumpf Laser 3040 Plus.
9. Equipment Lease between IEC and PFC Re: T-Drill SP-55 Tube End Spinner.
10. Equipment Lease between IEC and PFC Re: Security System.
11. Equipment Lease between IEC and PFC Re: High Takt Assembly Line.
12. Equipment Lease between CLM and PFC Re: IPCS Equipment
13. Equipment Lease between CLM and PFC Re: Optima Press Brake and accessories.
14. Equipment Lease between CLM and PFC Re: Amada Vipros 868 King, Turret Punch Press and accessories.
15. Equipment Lease between CLM and PFC Re: ECI equipment.

16. Equipment Lease between CLM and PFC Re: 1996 Amada FCXBIII-8025 CNC Press Brake.
17. Equipment Lease between CLM and PFC Re: Model HFB/1003/8 Amada Press Brake.
18. Equipment Lease between CLM and PFC Re: Model HFB/1003/8 Amada Press Brake.
19. Equipment Lease between CLM and PFC Re: Procix equipment.
20. Equipment Lease between CLM and PFC Re: Trumpf 3040 Laser System.
21. Equipment Lease between CLM and PFC Re: Trumpf 3040 Laser System.
22. Equipment Lease between CLM and PFC Re: RAIDZone GangStor System.
23. Equipment Lease between CLM and PFC Re: Blanking Shear.
24. Equipment Lease between CLM and PFC Re: Amada 386 King, Vipros 30 CNC Turret Punch
25. Equipment Lease between CLM and PFC Re: Optigun equipment.
26. Equipment Lease between CLM and PFC Re: Burr Oak Copper Cut.
27. Equipment Lease between CLM and PFC Re: Chiyoda SP-25ST Tube bender
28. Equipment Lease between CLM and PFC Re: Amada FBD-125 Press Brake.
29. Equipment Lease between CLM and PFC Re: Trumpf Laser L3040 Laser Cutting Machine.
30. Equipment Lease between CLM and PFC Re: Trumpf Trulaser 3530.
31. Equipment Lease between CLM and PFC Re: Ingersoll Rand Nirvana Compressor System.
32. Equipment Lease between CLM and PFC Re: Gamma Wire Processing System.
33. Equipment Lease between CLM and PFC Re: Power Spray Stainless Washer.
34. Equipment Lease between CLM and PFC Re: Three (3) Amada Press Brakes.
35. Equipment Sublease between ClimateCraft, Inc. ("CLC") and PFC for Trumpf Punching Machine.

36. Equipment Lease between CLC and PFC Re: 1999 Amada HFB 1254 Promecam CNC Press Brake.
37. Equipment Lease between CLC and PFC Re: Trumpf Tooling Set.
38. Equipment Lease between CLC and PFC Re: 2 Accushears.
39. Equipment Lease between CLC and PFC Re: Trumpf TC2020 Punch Machine.
40. Equipment Lease between CLC and PFC Re: Amada CNC Hydraulic Press Brake.
41. Equipment Lease between TTI and PFC Re: Continental Belt Washer.
42. Equipment Lease between TTI and PFC Re: Burr Oak Fin Die.
43. Equipment Lease between EDC and PFC Re: 2004 Chevy Impala.
44. Equipment Lease between EDC and PFC Re: 2002 International Spreader Truck.
45. Plant Equipment Lease between EDC and DSN Corporation ("DSN").
46. Equipment Lease between Trison Construction, Inc. ("Trison") and PFC Re: 2 John Deer Gators and 3 trailers with dove tail.
47. License Agreement Between CLC and ClimateCraft Technologies, Inc.
48. Assignment of Option to Purchase between CLM and PFC Re: CLM Facility Located at 7300 S.W. 44th Street, Oklahoma City from Raptor Master LLC.
49. Consulting Agreements between LSB Chemical Corp. ("LSB Chemical") and the following affiliates.
  - a. Summit Machine Tool Manufacturing Corp. ("Summit")
  - b. PFC
50. Lease Agreement between DSN and Northwest Financial Corporation.
51. Capital Lease Agreement with Right of Transfer of Title between Summit and CLC for CLC facility in OKC.
52. Lease of drilling equipment from LSB Holdings, Inc. to Trison.
53. Lease of office space from SMC to TCI at 4000 NW 39th Street, OKC.
54. Lease of office space from PFC to TCI at 16 South Pennsylvania Avenue, OKC.



55. Lease of office space from PFC to LSB Chemical at 16 South Pennsylvania Avenue, OKC.
56. Lease of office space from SMC to The Climate Control Group, Inc. ("CCG") at 4000 NW 39th Street, OKC.
57. Lease of office space from SMC to IEC at 4000 NW 39th Street, OKC.
58. Auto rental from PFC to CCG.
59. Services Agreements between TCI and the following subsidiaries:
  - a. DSN
  - b. El Dorado Nitric Company
  - c. El Dorado Acid, LLC
  - d. El Dorado Acid II, LLC
60. Please refer to Amended and Restated Schedules E-1, 5.20 and 7.13.



SCHEDULES AND EXHIBITS OF TERM LOAN AGREEMENT, DATED AS OF NOVEMBER 2, 2007, AMONG LSB INDUSTRIES, INC., THERMACLIME, INC. AND CERTAIN SUBSIDIARIES OF THERMACLIME, INC., CHEROKEE NITROGEN HOLDINGS, INC., THE LENDERS, THE ADMINISTRATIVE AND COLLATERAL AGENT AND THE PAYMENT AGENT, WHICH TERM LOAN AGREEMENT THE COMPANY FILED AS EXHIBIT 4.1 TO THE COMPANY'S FORM 10-Q FOR THE FISCAL QUARTER ENDED SEPTEMBER 30, 2007.

## SCHEDULES

1.01(a)	Cherokee Site
1.01(b)	El Dorado Site
1.01(c)	Facility Assets
1.01(d)	Lenders and Lending Offices
2.01	Commitments and Applicable Percentages
4.01(a)(iii)	Financing Statements
4.01(a)(iv)	Leased Property
5.03	Government Authorizations and Other Consents
5.05	Indebtedness
5.06	Litigation
5.09	Environmental Matters
5.13	Subsidiaries
5.18	IP Rights
5.21	Pipelines
5.22	Material Contracts
5.23	Permits
5.27	Labor Matters
7.01(b)	Existing Liens
7.02	Existing Indebtedness and Guarantees
7.03	Existing Investments
7.05	Facility Leases/Uses
7.08	Affiliate Transactions
7.09	Burdensome Agreements
11.02	Addresses for Notices; Payment Information

## EXHIBITS

A	Term Note
B	Compliance Certificate
C	Borrowing Notice
D	Assignment and Assumption
E	Security Agreement
F-1	Cherokee Mortgage
F-2	El Dorado Mortgage
G	Assignment and Consent Agreement
H-1	Intercompany Lease Subordination Agreement
H-2	Intercompany Loan Subordination Agreement
I	Management Agreement Subordination
J-1	Opinion Matters – Counsel to Loan Parties
J-2	Opinion Matters – Local Counsel (Alabama)
J-3	Opinion Matters – Local Counsel (Arkansas)
K	Inter-Lender Agreement
L	Assignment and Subordination Agreement
M	Trademark Security Agreement

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**LEGAL DESCRIPTION OF CHEROKEE SITE**

The tract or lot of land lying in the County of Colbert, State of Alabama, known and described as follows, to wit:

**PARCEL I:**

Begin at the Northwest corner of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, and run thence South 0 degrees 36 minutes 44 seconds West 2621.36 feet with the westerly boundary line of said Section 7 to a point on said boundary line; thence run North 88 degrees 55 minutes 46 seconds West 990.00 feet to a point; thence run South 0 degrees 35 minutes 43 seconds West 2623.55 feet parallel with the westerly boundary line of said Section 7, to a point on the northerly boundary line of Section 13, Township 3 South, Range 14 West; thence run South 0 degrees 46 minutes 39 seconds West a distance of 5329.16 feet to a point on the southerly boundary of Section 13, Township 3 South, Range 14 West; thence run South 87 degrees 49 minutes 42 seconds East 1000.47 feet to the Southwest corner of Section 18, Township 3 South, Range 13 West; thence run South 89 degrees 14 minutes 26 seconds East 1397.26 feet to the Southwest corner of the Southeast quarter of the Southeast quarter of said Section 18, which section is a fractional section; thence run North 0 degrees 21 minutes 39 seconds East a distance of 46.5 feet to a concrete monument on the north right-of-way margin of Lile Academy Road; thence south 89 degrees 08 minutes 27 seconds east along said north right-of-way margin a distance of 1,281.76 feet to a concrete monument; thence south 88 degrees 50 minutes 29 seconds east a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 474.74 feet; thence north 12 degrees 06 minutes 31 seconds east a distance of 784.37 feet; thence north 12 degrees 02 minutes 41 seconds east a distance of 51.11 feet; thence south 89 degrees 59 minutes 07 seconds west a distance of 726.65 feet; thence north 00 degrees 00 minutes 42 seconds east a distance of 414.62 feet; thence north 84 degrees 05 minutes 23 seconds east a distance of 780.35 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 816.26 feet to the south right-of-way margin of a 200 foot railroad right-of-way; thence north 88 degrees 03 minutes 37 seconds west along said south right-of-way margin a distance of 1,193.19 feet; thence westerly along the curving south right-of-way margin a distance of 347.85 feet (said curve concave south, having a radius of 1,046.00 feet, a chord bearing of south 82 degrees 24 minutes 48 seconds west, a chord length of 346.25 feet); thence north 02 degrees 12 minutes 51 seconds west a distance of 205.80 feet to the north right-of-way margin of a 200 foot railroad right-of-way; thence easterly along the curving north right-of-way margin a distance of 361.43 feet (said curve concave south, having a radius of 1,246.00 feet, a chord bearing north 83 degrees 37 minutes 48 seconds east, a chord distance of 360.16 feet); thence south 88 degrees 03 minutes 37 seconds east a distance of 1,188.82 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 310.14 feet; thence south 89 degrees 24 minutes 33 seconds east a distance of 240.77 feet to U.S.-T.V.A. Monument No. 50 (being a concrete monument capped by a bronz tablet showing said monument number and also "T.3S.R.13W.", and all other references to U.S.-T.V.A. monuments herein shall refer to monuments of like character); thence north 00 degrees 24 minutes 16 seconds east a distance of

420.42 feet to U.S.-T.V.A. Monument No. 51; thence run north 33 degrees 37 minutes west 2,733.00 feet to U.S.-T.V.A. Monument No. 52 in the north line of Section 17, which is in the south line of Section 8; thence north 37 degrees 38 minutes west 416.00 feet to U.S.-T.V.A. Monument No. 53 at the northwest corner of the Southwest Quarter of the Southwest Quarter of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 01 degree 35 minutes east 977.00 feet to U.S.-T.V.A. Monument No. 54 at the northwest corner of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 35 degrees 59 minutes west 1,633.00 feet to U.S.-T.V.A. Monument No. 55 at the southeast corner of the Southwest Quarter of the Southwest Quarter of the Southwest Quarter of the Northwest Quarter of Section 8; thence north 88 degrees 50 minutes west 332.00 feet to U.S.-T.V.A. Monument No. 56 at the southwest corner of the Northwest Quarter of Section 8; thence with the south line of the Northeast Quarter of Section 7 north 88 degrees 50 minutes west 330.00 feet to U.S.-T.V.A. Monument No. 57; thence leaving the said south line north 01 degree 23 minutes 15 seconds east 1,966.31 feet to U.S.-T.V.A. Monument No. 58; thence run north 88 degrees 35 minutes west 336.33 feet to U.S.-T.V.A. Monument No. 59; thence run south 68 degrees 55 minutes 24 seconds west 1,751.46 feet, more or less, to a point on the south line of the north half of the north half of Section 7, Township 3 South, Range 13 West, which point is to be found by finding the intersection of said south line of said north half of the north half of said Section 7 with a line run south 00 degrees 39 minutes 12 seconds west a distance of 45 feet from U.S.-T.V.A. Monument No. 60; thence run north 00 degrees 39 minutes 12 seconds east 659.42 feet; thence run north 56 degrees 58 minutes 57 seconds east 1,150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62 which is located in the north boundary of said Section 7 at a point 1,399.63 feet easterly from the northwest corner thereof; thence run north 88 degrees 39 minutes 30 seconds west with said section line 1,399.63 feet to the POINT OF BEGINNING.

LESS AND EXCEPT FROM THE FOLLOWING PARCELS: III, IV, V, VI, AND VII:

Parcel III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North 89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North 89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.00 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning of the tract herein described.

Parcel IV

Commence at the Southwest corner of the said Section 7, Township 3 South, Range 13 West, Colbert County, Alabama; thence North 0 degrees 36 minutes 44 seconds east along the west line of the said Section 7 a distance of 2621.68 feet to the northwest corner of the Southwest 1/4 of the said Section 7 and the point of beginning of the tract herein described; thence continuing north 0 degrees 36 minutes 44 seconds east a distance of 200.00 feet to a point; thence south 89 degrees 23 minutes 16 seconds east a distance of 1500.00 feet to a point; thence south 0 degrees 36 minutes 44 seconds west a distance of 600.0 feet to a point; thence north 89 degrees 23 minutes 16 seconds west a distance of 1500.0 feet to a point on the west line of said Section 7; thence north 0 degrees 36 minutes 44 seconds east a distance of 400.0 feet to the point of beginning of the tract herein described.

Parcel V

A parcel of land located in Section 18, Township 3-South, Range 13-West in Colbert County, State of Alabama, said parcel lying east of a right of way for a proposed road approximately 3 miles north of Cherokee, and being more particularly described as follows: Commencing at a point in the east line of Section 18, said point being 1276.0 feet south of the northeast corner of said section; thence due west, 620.9 feet to the POINT OF BEGINNING at the northeast corner of the parcel of land herein described; thence due south 600.0 feet to a point; thence due west, 500.0 feet to a point; thence with a line 132.0 feet east of and parallel to the east line of the right of way of a proposed road due north, 600.0 feet to a point; thence due east, 500.0 feet to the point of beginning.

Parcel VI

Also for the point of beginning, commence at the intersection of the South line of North half of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, with a line run South 0 degrees 39 minutes 12 seconds West from U.S.-T.V.A. Monument No. 60; thence run North 0 degrees 39 minutes 12 seconds East 659.42 feet to the point of beginning; from said point of beginning run thence North 56 degrees 58 minutes 57 seconds E 1150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62, which is located in the North boundary of Section 7 at a point of 1399.63 feet easterly from the Northwest corner thereof; from said Monument No. 62 run thence South 58 degrees 53 minutes 18 seconds West 1126.17 feet to U.S.-T.V.A. Monument No. 61; thence run South 0 degrees 39 minutes 12 seconds West to the point of beginning.

Parcel VII:

Commence at the southwest corner of Section 18, Township 3 South, Range 13 West, Colbert County, Alabama; thence south 89 degrees 14 minutes 26 seconds east along the South boundary of said Section 18 a distance of 1,397.26 feet; thence run North 00 degrees 21 minutes 39 seconds

East a distance of 825.71 feet to the POINT OF BEGINNING; continue thence North 00 degrees 21 minutes 39 seconds East a distance of 505.52 feet; thence South 89 degrees 22 minutes 51 seconds East a distance of 1,116.70 feet; thence South 66 degrees 13 minutes 10 seconds West along said southeasterly right of way margin a distance of 1,223.71 feet to the POINT OF BEGINNING, containing 6.48 acres, more or less, and then being that same parcel of land described in Deed Book 264, Page 560 as recorded in the Probate Office of Colbert County, Alabama.

PARCEL II:

A tract of land lying in Colbert County, State of Alabama, in the East half of East half of Northeast quarter, Section 7, the West half of Northwest quarter and Southwest quarter of Section 8, and the Northeast quarter and East half of Northwest quarter of Section 17, Township 3 South, Range 13 West on the southwest shore of Pickwick Landing Lake opposite Kogor's Island and approximately 4 miles northeast of Cherokee, Alabama, and being more particularly described as follows:

Beginning at U.S.-T.V.A. Monument 51 in the Southwest quarter of Southwest quarter of Northeast quarter of Section 17 and in the boundary of true United States of America's land at a corner of the land of Mrs. F.W. Benson and S.W. Frierson & C.W. Watts' thence with the United States of America's boundary North 33 degrees 37' West 2733.00 feet to the U.S.-T.V.A. Monument 52 in the north line of Section 17, which is the south line of Section 8; thence North 37 degrees 38' West, 416.00 feet to U.S.-T.V.A. Monument 53 at the northwest corner of the Southwest quarter of the Southwest quarter of the Southeast quarter of Southwest quarter, Section 8; thence North 1 degree 35' East, 977.00 feet to U.S.-T.V.A. Monument 54 at the northwest corner of the Southeast quarter of the SW 1/4 Section 8, thence North 35 degrees 59' West, 1633.00 feet to U.S.-T.V.A. Monument 55 at the southeast corner of the Southwest quarter of the Southwest quarter of Southwest quarter of Northwest quarter, Section 8; thence North 88 degrees 50' West, 332.00 feet to U.S.-T.V.A. Monument 56 at the southwest corner of the Northwest quarter of Section 8; thence with the south line of the Northeast quarter, Section 7 North 88 degrees 50' West, 330.00 feet to U.S.-T.V.A. Monument 57; thence leaving the said South line, North 1 degree 23 minutes 15 seconds East, 1966.31 feet to U.S.-T.V.A. Monument 58; thence, leaving the United States of America's boundary South 89 degrees 59 minutes 29 seconds East, 410 feet, passing a metal marker at 385.00 feet, to a point in the 423-foot contour on the shore of Pickwick Landing Lake; thence with the 423-foot contour as it meanders in a southeasterly direction to a point; thence, leaving the contour, South 61 degrees 19 minutes 05 seconds West, 534.50 feet, passing a metal marker at 17 feet, to U.S.-T.V.A. Monument 49 in the south line of the Northeast quarter of Section 17 and in the boundary of the United States of America's land; thence with the United States of America's boundary and the south line of the Northeast quarter of Section 17, North 89 degrees 19 minutes West, 260.20 feet to U.S.-T.V.A. Monument 50; thence leaving the said south line, North 0 degrees 24 minutes 16 seconds East, 420.42 feet to the point of beginning.

PARCEL III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a

concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North 89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North 89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.0 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning at the tract herein described.

PARCEL VIII:

A parcel of land lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County road and the POINT OF BEGINNING; thence north 12 degrees 05 minutes 42 seconds east a distance of 761.78 feet; thence south 70 degrees 57 minutes 14 seconds east a distance of 233.95 feet to a Point of Curve; thence southeasterly along a curve concave north a distance of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord bearing of south 79 degrees 59 minutes 24 seconds east, a chord distance of 635.97 feet) to the Point of Tangency; thence south 89 degrees 01 minute 08 seconds east a distance of 517.34 feet to a Point of Curve; thence southeasterly along said curve concave southwesterly a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of south 71 degrees 56 minutes 27 seconds east, a chord distance of 557.98 feet) to a Point of Reverse Curve; thence southwesterly along a curve a distance of 108.67 feet (said curve concave northeasterly having a chord bearing of south 25 degrees 43 minutes 19 seconds east, a chord distance of 88.51 feet) to a point; thence south 00 degrees 41 minutes 33' west a distance of 360.35 feet; thence north 89 degrees 04 minutes 24 seconds west a distance of 1,995.46 feet; thence north 00 degrees 46 minutes 28 seconds east a distance of 30.00 feet; thence north 88 degrees 59 minutes 48 seconds west a distance of 94.09 feet to the POINT OF BEGINNING.

PARCEL IX:

A parcel of land lying in Section 17, Township 3 South, Range 13 West and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County Road; thence north 12 degrees 05 minutes 42 seconds east along said east right-of-way a distance of 812.15 feet to the POINT OF BEGINNING; thence north 12 degrees 05 minutes 22 seconds east along said right-of-way a distance of 204.63 feet; thence north 01 degree 53 minutes 39 seconds east along said



right-of-way a distance of 310.69 feet; thence south 89 degrees 07 minutes 03 seconds east a distance of 1,802.58 feet to T.V.A. Monument #48; thence south 42 degrees 56 minutes 26 seconds east a distance of 310.99 feet; thence south 56 degrees 00 minutes 16 seconds west a distance of 808.14 feet to a point of curve; thence northwesterly along a curve concave southwesterly a distance of 43.45 feet (said curve having a radius of 1,000.00 feet, a chord bearing of N 87 deg 46 min 18 sec West a arc length of 43.45 feet) to the point of tangency; thence north 89 degrees 01 minutes 16 seconds West a distance 516.26 feet to the Point of a Curve; thence northwesterly along a curve concave north a distance of 622.86 feet (said curve having a radius of 1,975 feet, a chord bearing of North 79 degrees 59 minutes 24 seconds West, a chord distance of 620.28 feet) to the Point of Tangency; thence North 70 degrees 57 minutes 14 seconds West a distance of 240.04 feet to the POINT OF BEGINNING.

All the foregoing being the same property conveyed by LaRoche Industries, Inc. to Cherokee Nitrogen Company, by deed dated October 31, 2000, filed for record in the Office of the Judge of Probate of Colbert County, Alabama, on November 7, 2000, at 1:37 p.m., and recorded on Microfiche 2000 25, Frames 133-141.

Less and except therefrom property conveyed by Cherokee Nitrogen, Inc., to National Telephone Company of Alabama, by corrective warranty deed dated April 2, 2001 and recorded on Fiche 2001 09 Frame 748, being more particularly described as follows, to-wit:

Commence at a cotton spindle on the SW corner of Section 18, T-3-S, R-12-W, Colbert County, Alabama; then run S 89 degrees 14' 26" E for 1397.26' to a spike found; then run N 0 degrees 21' 39" E for 46.4' to a 6" concrete monument, the point of beginning; then run N 0 degrees 21' 39" E for 50.0' to an iron pin; then run S 89 degrees 14' 26" E for 50.0' to an iron pin; then run S 0 degrees 21' 39" W for 50.0' to an iron pin; then run N 89 degrees 14' 26" W for 50.0' to the point of beginning.

#### **Non-Exclusive Easement for Private Road**

A fifty (50) foot wide private road lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, thence North 00 degrees 44 minutes 27 seconds West a distance of 44.05 feet to a concrete monument on the northern right-of-way margin of Lile Academy road; thence South 88 degrees 50 minutes 29 seconds East along the northern right-of-way margin of a gravel road a distance of 2,191.21 feet; thence South 89 degrees 04 minutes 39 seconds East a distance of 535.74 feet to the east right-of-way margin of a County Road; thence North 12 degrees 05 minutes 42 seconds East a distance of 761.78 feet to the POINT OF BEGINNING; thence continue North 12 degrees 05 minutes 42 seconds East a distance of 50.37 feet; thence South 70 degrees 57 minutes 14 seconds East a distance of 240.04 feet to the P.C. of a curve; thence southeasterly a curve concave northerly a distance of 622.86 feet (said curve having a radius of 1,975.00 feet, a chord distance of 620.28 feet, a chord bearing of South 79 degrees 59 minutes 24 seconds East) to the P.T. of said curve; thence South 89 degrees 01 minute 16 seconds East a distance of 516.26 feet to the P.C. of a curve; thence southeasterly along a curve concave southwesterly a distance of

648.77 feet (said curve having a radius of 1,000.00 feet, a chord distance of 637.45 feet, a chord bearing of South 70 degrees 26 minutes 42 seconds East) to the P.T. of said curve and the P.C. of a cul-de-sac; thence easterly, southerly, northwesterly along a curve (having a radius of 50.00 feet; a chord bearing of South 82 degrees 09 minutes 16 seconds West, a chord distance of 70.63 feet) a distance of 234.31 feet to the P.T. of said curve; thence northwesterly along a curve concave southwest a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of North 71 degrees 56 minutes 27 seconds West, a chord distance of 557.98 feet) to the P.T. of said curve; thence North 89 degrees 01 minute 08 seconds West a distance of 517.34 feet to the P.C. of a curve; thence northwesterly along a curve concave northerly of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord distance of 635.97 feet, a chord bearing of 79 degrees 59 minute 24 seconds west) to the P.T. of said curve, thence North 70 degrees 57 minutes 14 seconds West) to the P.T. of said curve; thence North 70 degrees 57 minutes 14 seconds West a distance of 233.95 feet to the POINT OF BEGINNING.

**LEGAL DESCRIPTION OF EL DORADO SITE**

The land referred to herein below is all situated in Union County, Arkansas

**Tract 1:**

The South Half of Section 6, and the North Half of Section 7, and the Northwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, and the following described tract:

Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of Section 8 to the intersection with the South right-of-way line of the access road as now located, said right-of-way line being 50 feet perpendicular distance from the center line of said access road;  
thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom to the intersection with the South right-of-way line for the railroad spur herein above described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15 West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

**LESS AND EXCEPT THE FOLLOWING TRACTS:**

1. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, and  
thence run North 88 degrees 53 minutes 44 seconds West 1772.43 feet;  
thence North 01 degree 03 minutes 47 seconds East 576.89 feet for a POINT OF BEGINNING;  
thence North 88 degrees 56 minutes 13 seconds West 134.0 feet;  
thence North 01 degree 03 minutes 47 seconds East 40.00 feet;  
thence North 88 degrees 56 minutes 13 seconds West 16.00 feet;  
thence North 01 degree 03 minutes 47 seconds East 40.0 feet;  
thence South 88 degrees 56 minutes 13 seconds East 150.00 feet;  
thence South 01 degree 03 minutes 47 seconds West 80.00 feet to the POINT OF BEGINNING.

**AND**

2. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, run thence North 88 degrees 53 minutes 44 seconds West 2341.68 feet; thence North 01 degree 05 minutes 46 seconds East 545.52 feet for a POINT OF BEGINNING; thence North 88 degrees 54 minutes 14 seconds West 240.00 feet; thence North 01 degree 05 minutes 46 seconds East 30.00 feet; thence North 88 degrees 54 minutes 14 seconds West 96.71 feet; thence North 01 degree 05 minutes 46 seconds East 118.10 feet; thence South 88 degrees 54 minutes 14 seconds East 336.71 feet; thence South 01 degree 05 minutes 46 seconds West 85.72 feet; thence South 88 degrees 54 minutes 14 seconds East 59.31 feet; thence South 01 degree 05 minutes 46 seconds West 40.58 feet; thence North 88 degrees 54 minutes 14 seconds West 59.31 feet; thence South 01 degree 05 minutes 46 seconds West 21.80 feet to the POINT OF BEGINNING.

**Tract 2:**

Commencing at the North Quarter Corner of Section 1, Township 17 South, Range 16 West, thence South 88 degrees 46 minutes East, 282.7 feet; thence South 01 degree 14 minutes West, 269.2 feet to the POINT OF BEGINNING; thence South 88 degrees 46 minutes East, 150.0 feet; thence South 01 degree 14 minutes West, 150.0 feet; thence North 88 degrees 46 minutes West, 150.0 feet; thence North 01 degree 14 minutes East, 150.0 feet to the POINT OF BEGINNING.

**Tract 3:**

Beginning at the Southwest Corner of the Northeast Quarter of Section 31, Township 16 South, Range 15 West; thence North 00 degrees 07 minutes East 150 feet to a stake; thence South 88 degrees 37 minutes East 150 feet to a stake; thence South 00 degrees 07 minutes West 150 feet to a stake on South line of the Northeast Quarter; thence North 88 degrees 37 minutes West 150 feet to POINT OF BEGINNING.

**Tract 4:**

Beginning at the Southeast Corner of the Southwest Quarter of Section 30, Township 16 South, Range 15 West, at a iron pipe Corner; thence North 88 degrees 38 minutes West 150 feet along the South line of said Section 30 to a stake; thence North 00 degrees 07 minutes East 150 feet to a stake; thence South 88 degrees 38 minutes East to a stake on the East line of said Southwest Quarter; thence South 00 degrees 07 minutes West 150 feet to POINT OF BEGINNING.

**Tract 5:**  
Commencing at the Northwest Corner of the South Half of the Northeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence South 00 degrees 04 minutes East, 469.0 feet;  
thence North 53 degrees 09 minutes East, 126.45 feet;  
thence North 61 degrees 26 minutes East, 239.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 118.7 feet;  
thence North 89 degrees 56 minutes East, 150.0 feet;  
thence South 00 degrees 04 minutes East, 150.0 feet;  
thence South 89 degrees 56 minutes West, 150.0 feet;  
thence North 00 degrees 04 minutes West, 31.3 feet to the POINT OF BEGINNING.

**Tract 6:**  
Beginning at a point which is South 00 degrees 18 minutes East 223.2 feet and North 89 degrees 42 minutes East 273.1 feet distance from the Northwest Corner of the Southwest Quarter of Section 9, Township 17 South, Range 15 West;  
thence North 00 degrees 18 minutes West 150 feet;  
thence North 89 degrees 42 minutes East 150 feet;  
thence South 00 degrees 18 minutes East 150 feet;  
thence South 89 degrees 42 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 7:**  
Beginning at the Southwest Corner of the Southeast Quarter of Section 2, Township 17 South, Range 16 West;  
thence North 150 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake on South line of said Section 2;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

**Tract 8:**  
Beginning at the Southwest Corner, Section 2, Township 17 South, Range 16 West;  
thence North along Section line 150 feet to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

**Tract 9:**  
Commencing at the Southwest Corner of the Southeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence North 00 degrees 04 minutes West, 276.7 feet;  
thence North 89 degrees 56 minutes East, 271.8 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 150 feet;  
thence North 89 degrees 56 minutes East, 150 feet;  
thence South 00 degrees 04 minutes East, 150 feet;  
thence South 89 degrees 56 minutes West, 150 feet to the POINT OF BEGINNING.

**Tract 10:**

Commencing at the Southwest Corner of Southeast Quarter of Section 7, Township 17 South, Range 15 West;  
thence South 88 degrees 25 minutes East 155.4 feet;  
thence North 01 degree 35 minutes East 308.5 feet to the POINT OF BEGINNING;  
thence continuing North 01 degree 35 minutes East 150 feet;  
thence South 88 degrees 25 minutes East 150 feet;  
thence South 01 degree 35 minutes West 150 feet;  
thence North 88 degrees 25 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 11:**

Beginning at the Northwest Corner of the Southeast Quarter, Section 18, Township 17 South, Range 15 West;  
thence South 88 degrees 21 minutes East 150 feet along the North line of the said Southeast Quarter to a stake;  
thence South 00 degrees 11 minutes East 150 feet to a stake;  
thence North 88 degrees 21 minutes West 150 feet to a stake on the West line of the said Southeast Quarter;  
thence North 00 degrees 11 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 12:**

Beginning at a point on the West line of the Southeast Quarter of Section 18, Township 17 South, Range 15 West, located North 00 degrees 11 minutes West 150 feet from the Southwest Corner of said Southeast Quarter;  
thence North 00 degrees 11 minutes West 100 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 17 minutes East 150 feet to a stake;  
thence South 00 degrees 11 minutes East 100 feet to a stake;  
thence North 88 degrees 17 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 15:**

Beginning at the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence North 89 degrees 25 minutes West along the South line of said Section 1, 4830.14 feet to POINT OF BEGINNING;  
thence North 00 degrees 04 minutes East 150 feet;  
thence North 89 degrees 25 minutes West 150 feet;  
thence South 00 degrees 04 minutes West 150 feet to the intersection of South line of Section 1;  
thence South 89 degrees 25 minutes East along Section line 150 feet to POINT OF BEGINNING.

**Tract 16:**

Beginning at a point 10.4 feet North of the Southwest Corner of Section 5, Township 17South, Range 15 West;  
thence East 29.5 feet;  
thence North 150.0 feet;  
thence West 29.5 feet;  
thence South 150.0 feet to the POINT OF BEGINNING.

**Tract 17:**

Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence West 25.00 feet;  
thence South approximately 134.83 feet;  
thence East 25.00 feet;  
thence North to the PLACE OF BEGINNING.

**The exclusive right to produce water from any horizon lying under the following described Tract 18 in Union County, Arkansas, at and below a depth of 350 feet below the surface:**

**Tract 18:**

The East Half of Section 1 and the East Half of Section 12, all in Township 17 South, Range 16 West,

**And**

The South Half of Section 7 and all of Section 8, all in Township 17 South, Range 15 West,

**And**

All that part of the West Half of the West Half of Section 9, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all that part of the Southwest Quarter of the Southwest Quarter of Section 4, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all of Section 5 and the North Half of Section 6, all in Township 17 South, Range 15 West, **EXCEPT the following described tracts, lettered (a) through (k), both inclusive, to-wit:**

(a) The Northwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West.

(b) Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of said Section 8 to the intersection with the South right-of-way line of the Access Road as now located, said right-of-way line being 50 feet perpendicular distance from the center line of said Access Road;

thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom, to the intersection with the South right-of-way line for the railroad spur hereinabove described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15 West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

(c) Commencing at the Northwest Corner of Section 5, Township 17 South, Range 15 West;  
thence South 88 degrees 24 minutes East 4060.30 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 00 degrees 40 minutes West 1213.20 feet;  
thence South 88 degrees 10 minutes East 1200.33 feet to the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along said Highway to the North line of said Section 5;  
thence in a Westerly direction to the POINT OF BEGINNING.

(d) Commencing at the Northeast Corner of Section 6, Township 17 South, Range 15 West;  
thence North 88 degrees 23 minutes West 1327 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 01 degree 37 minutes West 90 feet;  
thence North 88 degrees 23 minutes West 990 feet;  
thence North 01 degree 37 minutes East 90 feet;  
thence South 88 degrees 23 minutes East 990 feet to the POINT OF BEGINNING.

(e) Tract 2 described above.

(f) Tract 5 described above.

(g) Tract 6 described above.

(h) Tract 9 described above.

(i) Tract 10 described above.

(j) Tract 16 described above.

(k) Tract 17 described above.

**TOGETHER WITH** all of the rights of the United States of America as granted to Lion Oil Company in an instrument entitled "Quitclaim Deed, Assignment and Bill of Sale" which was filed March 5, 1948 in Record Book 511, Page 405 to maintain, repair, replace and operate each electrical transmission line, telephone line, water line gas line, sanitary sewer, drainage sewer,



drainage ditch, road, trail or railroad upon any of the land which constitutes a part of Tract 18 described above or which leads from Tract 18 described above to Tracts 3, 4, 7, 8, 11, 12 and 15 described above, and the right-of-way in connection therewith, all as is more fully set forth in said Quitclaim Deed, Assignment and Bill of Sale.

**TOGETHER WITH** such water rights as were reserved by Monsanto Company in a Quitclaim Deed in favor of J. L. Lee which was filed February 23, 1981 in Record Book 1459, Page 601, of the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 417.4 feet;  
thence East 417.4 feet;  
thence South 417.4 feet;  
thence West 417.4 feet to the POINT OF BEGINNING.

**ALSO**

Commencing at the Southeast Corner of the Southeast Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 01 degree 06 minutes East 274.0 feet to the POINT OF BEGINNING;  
thence North 88 degrees 54 minutes West 69.8 feet;  
thence North 01 degree 06 minutes East 150.0 feet;  
thence South 88 degrees 54 minutes East 69.8 feet;  
thence South 01 degree 06 minutes West 150.0 feet to the POINT OF BEGINNING.

**TOGETHER WITH** such water rights as were reserved in a Quitclaim Deed in favor of Louis Knox White et al which was filed September 10, 1982 in Record Book 1521, Page 257, in the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 9, Township 17 South, Range 15 West;

and run North 00 degrees 38 minutes East 1729.4 feet to the South right-of-way line of the Missouri-Pacific Railroad;

thence in a Southeasterly direction along said right-of-way for 547.8 feet to the West line of Highway No. 7B;  
thence South 08 degrees 29 minutes East along said line 21.8 feet;  
thence South 05 degrees 24 minutes East along said line 1444.0 feet;  
thence South 02 degrees 50 minutes East along said line 96.57 feet;  
thence North 88 degrees 14 minutes West 675.4 feet to the POINT OF BEGINNING.

**Tract 41-1 (25):**

The West Half of the Southeast Quarter of the Southeast Quarter and the Northeast Quarter of the Southeast Quarter of Section 7, and the Southwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, Union County, Arkansas, **EXCEPTING THE FOLLOWING DESCRIBED TRACT:**

Beginning at a point 600.0 feet North of the Northwest Corner of the Southwest Quarter of said Section 8;  
thence North 435.6 feet;  
thence East 100.0 feet;  
thence South 435.6 feet;  
thence West 100.0 feet to the POINT OF BEGINNING.

**Tract 41-2 (20):**

The North Three-Quarters of the North Half of the Northwest Quarter of the Southeast Quarter (N 3/4 N/2 NW/4 SE/4) of Section 7, Township 17 South, Range 15 West, **LESS** three (3) acres in the form of a square in the Northeast Corner thereof.

**Tract 41-4 (22):**

Three acres in the form of a square out of the Northeast Corner of the Northwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

(Same Property as the exception in 41-2 (20) above)

**Tract 41-4 (23):**

Beginning at a point 600 feet North of the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian;  
thence East 100.0 feet;  
thence North 435.6 feet;  
thence West 100.0 feet;  
thence South 435.6 feet to the PLACE OF BEGINNING.

(Same Property as the exception in 41-1 (25) above)

**Tract 41-4 (24):**

A part of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian, described as follows:

Beginning at a point 417.4 feet North of the Southwest Corner of the said Southwest Quarter of the Southeast Quarter of Section 8 and running thence North 208.71 feet;  
thence East 208.71 feet;  
thence South 208.71 feet;  
thence West 208.71 feet to the PLACE OF BEGINNING,

**EXCEPT** that part of the Southwest Quarter of the Southeast Quarter of Section 8 contained within the following parcel of land, described as:

Commencing at the Southwest Corner of said Southwest Quarter of the Southeast Quarter of said Section 8;  
thence South 88 degrees 54 minutes East, 80.2 feet;  
thence North 01 degree 06 minutes East, 274.0 feet to the POINT OF BEGINNING of said parcel;  
thence North 88 degrees 54 minutes West, 150.0 feet;  
thence North 01 degree 06 minutes East, 150.0 feet;  
thence South 88 degrees 54 minutes East, 150.0 feet;  
thence South 01 degree 06 minutes West, 150.0 feet to the POINT OF BEGINNING.

**Tract 41-5 (19):**

The South Five-Eighths of the Northwest Quarter of the Southeast Quarter and the North Three-Eighths of the Southwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

**Tract 41-7:**

The Southwest Quarter of the Northeast Quarter and the Southeast Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-9:**

The Northwest Quarter of the Southwest Quarter of Section 5, Township 17 South, Range 15 West,

**AND**

The East Half of the Northeast Quarter of Section 6, Township 17 South, Range 15 West.

**Tract 41-10:**

The Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, **LESS AND EXCEPT** the following tract:

Commencing at the Northeast Corner of the Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, and run thence South 90 feet;  
thence West 990 feet;  
thence North 90 feet;  
thence East 990 feet to the POINT OF BEGINNING.

**Tract 41-11:**

The Southeast Quarter of the Northeast Quarter of Section 1, Township 17 South, Range 16 West,

**ALSO**

The Southwest Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West,

**LESS AND EXCEPT THE FOLLOWING TRACTS:**

1. All that part of the Southeast Quarter of the Northeast Quarter (SE/4 NE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335,
2. All that part of the Southwest Quarter of the Northwest Quarter (SW/4 NW/4) of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335.

**Tract 41-12:**

The East Quarter of the Southwest Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West

**AND**

the Southeast Quarter of the Southeast Quarter of Section 1 Township 17 South, Range 16 West of the Fifth Principal Meridian, **LESS THE FOLLOWING TRACTS:**

1. A tract described as:

Commencing 70 yards North of the Southeast Corner of the Southeast Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West, as a BEGINNING POINT;  
thence South 70 yards;  
thence West 330 yards;  
thence North 61.5 yards;  
thence in a straight line to a POINT OF BEGINNING.

2. A tract described as:

Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence North 15.17 feet;  
thence West 25.00 feet;  
thence South 15.17 feet;  
thence East to the POINT OF BEGINNING.

3. A tract described as:

Commencing at the Southeast Corner (SECor) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 24 minutes 22 seconds West along the South line of said Section 1 a distance of 1172.08 feet, more or less, to the center line of a county road for the point of beginning;  
thence run North 33 degrees 28 minutes 58 seconds East 432.00 feet;  
thence North 89 degrees 21 minutes 48 seconds West 715.87 feet;  
thence South 00 degrees 16 minutes 35 seconds West 363.30 feet to the South line of Section 1;  
thence South 89 degrees 24 minutes 22 seconds East 479.28 feet to the point of beginning.

4. (Monsanto to Gardner)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 199.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 15 minutes East 150.9 feet;  
thence North 89 degrees 25 minutes West 543.7 feet to the center of State Highway No. 335;  
thence South 33 degrees 55 minutes West along said Highway for 422.4 feet;  
thence South 89 degrees 25 minutes East 184.0 feet;  
thence North 00 degrees 15 minutes East 184.5 feet;  
thence North 89 degrees 00 minutes East 593.5 feet to the POINT OF BEGINNING.

5. (Monsanto to Haney)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence run North 00 degrees 15 minutes East 350.6 feet to the POINT OF BEGINNING;  
thence run North 00 degrees 15 minutes East 819.7 feet to the center of State Highway No. 335;  
thence run South 33 degrees 55 minutes West along said Highway for 979.8 feet;  
thence run South 89 degrees 25 minutes East 543.7 feet to the POINT OF BEGINNING.

6. (NWF to Cole Timber)

The East Quarter of the Southwest Quarter of the Southeast Quarter (E/4 SW/4 SE/4) and all that part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying West of Arkansas State Highway #335.

**Tract 41-12A:**

1. (Gardner to Monsanto)

Beginning at the Northeast Corner (NECor) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run South 00 degrees 15 minutes West 330.0 feet;  
thence North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 529.7 feet;  
thence North 89 degrees 00 minutes East 375.0 feet;  
thence South 00 degrees 15 minutes West 134.85 feet;  
thence South 89 degrees 25 minutes East 25.0 feet;  
thence South 00 degrees 15 minutes West 75.05 feet to the POINT OF BEGINNING, and being part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, and part of the Northeast Quarter of the Northeast Quarter (NE/4 NE/4) of Section 12, all in Township 17 South, Range 16 West.

2. (Haney to Monsanto)

Beginning at the Southeast Corner of the Northeast Quarter of the Northeast Quarter (SECor NE/4 NE/4) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 990.0 feet;  
thence South 89 degrees 25 minutes East 400.0 feet;  
thence South 00 degrees 15 minutes West 990.0 feet to the POINT OF BEGINNING.

**Tract 41-16:**

The North Half of the Southwest Quarter of Section 7, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-17:**

The Northwest Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-18:**

The Southwest Quarter of the Southwest Quarter (SW1/4 SW 1/4) and the West Half of the Southeast Quarter of the Southwest Quarter (W1/2 SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas

**AND**

Beginning at the Northeast Corner of the Southeast Quarter of the Southwest Quarter (SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas, and run North 88 degrees 53 minutes West 695.0 feet;  
thence South 00 degrees 11 minutes West 1326.0 feet to the South line of said forty;  
thence South 88 degrees 53 minutes East along said South line 347.5 feet;  
thence North 00 degrees 11 minutes East 1290.4 feet;  
thence South 88 degrees 53 minutes East 347.5 feet;  
thence North 00 degrees 11 minutes East 26.0 feet to the POINT OF BEGINNING.

**Railroad Right-of-Way:**

Railroad right-of-way extending 50 feet on each side of the centerline of the railroad track as the same is now located, on, over and across the North Half of Section 8, the North Half of Section 9, and the North Half of Section 10, all in Township 17 South, Range 15 West.

FACILITY ASSETS

Part A – Cherokee Facility

The major personal property assets identified at this facility include a concrete dome prill storage facility with a storage capacity of 14,000 tons; a Kellogg Company ammonia processing plant, 500 tons per day (“TPD”) rated capacity; a Chemical Industrial Engineers Company nitric acid plant #1, 300 TPD rated capacity; a D.M. Weatherly Company nitric acid plant #2, 500 TPD rated capacity; ammonium nitrate solution neutralizers; UAN production equipment; a Technip Company urea plant, 600 TPD rated capacity; a pollution control and irrigation system; cooling towers; a de-mineralizer; barge unloading equipment and storage tanks; forklift trucks; an auxiliary boiler; a de-aerator system; product storage tanks; air compressors; an electrical substation and transformers; and process plant piping, pumps and wiring.

Part B – El Dorado Facility

The major personal property assets identified at this facility include 2 Chemico weak nitric acid plants, 785 TPD combined rated capacity; a Chemico sulfuric acid plant, 360 TPD rated capacity; an E2 high-density ammonium nitrate prill plant, 1,100 TPD rated capacity; a K-T lo-density ammonium nitrate prill plant, 700 TPD rated capacity; a 100 TPD mixed acids plant, a D.M. Weatherly nitric acid plant, 350 TPD rated capacity; a CB&I tank farm, including ten ammonia storage spheres, a refrigerated ammonia tank, and six ammonia storage tanks; a plant steam generation system, including two Babcock & Wilcox processing boilers; a plant electrical generation system, including substations and transformers; maintenance and machine shop equipment; a wastewater pH neutralization system; a pollution control and irrigation system; cooling towers; forklift trucks; air compressors; and process plant piping, pumps and wiring.

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Lenders and Lending Offices

Banc of America Leasing & Capital LLC  
Mail Code: GA3-003-04-01  
NORTHEAST CENTER BUILDING  
2059 NORTHLAKE PKWY  
TUCKER GA 30084-5399  
Attn: Shelley B. LaCagnin, Vice President - Operations Manager  
Tel: 770-270-8590  
Fax: 770-270-8638

*With a copy to:*  
Banc of American Leasing & Capital LLC  
One Financial Plaza, 2<sup>nd</sup> Floor  
Mail Code: R11-537-02-01  
<http://corpdir.bankofamerica.com/staffresults.asp?txtField1Name=mailunit&txtField1Type=is&txtField1V>  
Providence, RI 02903  
Attn: Lee Bonaldi  
Vice President - Credit Underwriting  
Tel: 401-278-7655  
Fax: 401-719-8344

*And a copy to:*  
Banc of America Leasing & Capital LLC  
Annemarie L. Warren  
Vice President - Group Operations Manager  
Banc of America Leasing  
Mail Code: MA5-100-32-01  
100 FEDERAL ST  
BOSTON MA 02110  
Tel: 617-434-3611  
Fax: 617-434-0532

Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc.  
222 N. LaSalle Street, 16<sup>th</sup> Floor  
Chicago, IL 60601  
Attention: Gary Modesto, Vice President, Group Credit Manager  
Tel: 312-750-6204  
Fax: 312-316-3422  
Email: Gary\_Modesto@ml.com



Arvest Bank  
3900 N. Lincoln Boulevard  
Oklahoma City, OK 73105  
Attn: Cindy Batt, Sr. Vice President & Corporate Division Manager  
Tel: 405-523-4169  
Fax: 405-523-4126  
Email: cbatt@arvest.com

Bank of Utah, as Payment Agent  
ATTN: Corporate Trust Services  
200 E. South Temple, Suite 210  
Salt Lake City, UT 84111  
Phone: (801) 924-3690  
Fax: (801) 746-3519

## Commitments and Applicable Percentages

<u>Allocation:</u>	<u>As a % of Total Commitment</u>	<u>&amp;# 160; Commitment Amounts</u>	<u>Amounts</u>
Banc of America Leasing & Capital, LLC		\$10,000,000.00	20.00%
Banc of America Leasing & Capital, LLC		\$ 5,000,000.00	10.00%
Banc of America Leasing & Capital, LLC		\$ 5,000,000.00	10.00%
Arvest Bank		\$15,000,000.00	30.00%
Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc.		\$15,000,000.00	30.00%
<b>Total Commitment Amount:</b>		<b>\$50,000,000.00</b>	<b>100.00%</b>

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FINANCING STATEMENTS

1. Cherokee Mortgage filed in the real property records of the Probate Office (County Clerk) of Colbert County, Alabama.
2. Financing Statement filed in the Probate Office (County Clerk) of Colbert County, Alabama naming Collateral Agent, as secured party, and Cherokee Nitrogen Company ("CNC") and Cherokee Nitrogen Holdings, Inc. ("CNH"), as debtors, covering the Collateral with respect to CNC and CNH.
3. Financing Statement filed in the Office of the County Clerk of Oklahoma County, Oklahoma naming Collateral Agent, as secured party, and CNH, Northwest Financial Corporation ("NWF"), CNC, DSN Corporation ("DSN") and El Dorado Chemical Company ("EDC"), as debtors, covering the Collateral with respect to CNH, NWF, CNC, DSN and EDC.
4. El Dorado Mortgage filed in the real property records of the Office of the Circuit Clerk and Ex-Officio Recorder of Union County, Arkansas.
5. Financing Statement filed in the Office of the Circuit Clerk and Ex-Officio Recorder of Union County, Arkansas, naming Collateral Agent, as secured party, and NWF, EDC, and DSN, as debtors, covering the Collateral with respect to NWF, EDC and DSN.
6. Trademark Security Agreement filed in the United States Patent and Trademark Office made by EDC in favor of Collateral Agent covering the trademarks owned by EDC.

LEASED PROPERTY

None

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**GOVERNMENT AUTHORIZATIONS AND OTHER CONSENTS**

1. Filing of UCC-1 Financing Statements, Mortgages, and Trademark Security Agreement referenced on Schedule 4.01(a)(iii).
  2. Consent of Wells Fargo Foothill, Inc. and Persons party to the Assigned Agreements.
  3. Filing of UCC-3 Continuation Statements.
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**INDEBTEDNESS**  
**(as of September 30, 2007)**

Long Term Debt

1. El Dorado Chemical Company ("EDC") is indebted to the following:
  - a. ThermaClime, Inc. ("TCI") in the principal amount of \$35,593,138.
  - b. LSB Chemical Corp. ("LSB Chemical") in the principal amount of \$2,098,787.
2. Trison Construction, Inc. ("Trison") is indebted to TCI in the principal amount of \$6,364,700 less \$2,500,000<sup>1</sup>.
3. International Environmental Corporation ("IEC") is indebted to the following:
  - a. Amada Capital Corporation in the amount of \$57,714.
  - b. ThermaClime Technologies, Inc. ("TTI") in the principal amount of \$779,221.
4. ClimateCraft, Inc. ("CLC") is indebted to the following:
  - a. The City of Oklahoma City in the amount of \$2,450,000.
  - b. TCI in the principal amount of \$6,947,768 less \$5,200,000<sup>1</sup>.
  - c. Summit Machine Tool Manufacturing Corp. in the principal amount of \$715,719.
5. TCI is indebted to the following:
  - a. IEC in the principal amount of \$76,297,857.
  - b. The Climate Control Group, Inc. ("CCG") in the principal amount of \$3,104,268.
  - c. Climate Master, Inc. ("CLM") in the principal amount of \$40,537,986.
  - d. Koax Corp. ("Koax") in the principal amount of \$22,811,075.
  - e. Chemex I Corp. ("Chemex I") in the principal amount of \$276,944.
  - f. Chemex II Corp. ("Chemex II") in the principal amount of \$1,484,718.
  - g. Northwest Financial Corporation in the principal amount of \$13,328,828.
  - h. CEPOLK Holdings, Inc. in the principal amount of \$3,898,523.
  - i. El Dorado Nitrogen, L.P. in the principal amount of \$25,734,720.
  - j. LSB Industries, Inc. ("LSB") in the principal amount of \$36,287,224 and \$962,398 in interest.
  - k. Holders (LSB) of 10-3/4% Senior Unsecured Notes due 2007 in the principal amount of \$6,950,000.
6. Cherokee Nitrogen Company ("CNC") is indebted to the following companies:
  - a. TCI in the principal amount of \$10,604,163.
  - b. EDC in the principal amount of \$2,438,209.

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<sup>1</sup> Adjustment as of October 31, 2007.

7. LSB Chemical is indebted to the following companies:
  - a. TCI in the principal amount of \$24,187,624 plus \$4,500,000<sup>1</sup>.
  - b. DSN Corporation ("DSN") in the principal amount of \$275,773.
8. DSN is indebted to TCI in the principal amount of \$18,784,414 less \$4,500,000<sup>1</sup>.
9. XpediAir, Inc. ("XPA") is indebted to TCI in the principal amount of \$1,768,968 less \$1,900,000<sup>1</sup>.
10. CCG is indebted to LSB in the principal amount of \$228,321.
11. TTI is indebted to TCI in the principal amount of \$3,548,796 less \$2,700,000<sup>1</sup>.
12. ClimaCool Corp. ("CCC") is indebted to TCI in the principal amount of \$3,450,175 less \$2,300,000<sup>1</sup>.
13. Chemex I is indebted to the following companies:
  - (a) LSB Chemical in the principal amount of \$385,282 less \$150,000<sup>1</sup>.
  - (b) Chemex II in the principal amount of \$348.
14. Cherokee Nitrogen Holdings, Inc. is indebted to LSB in the principal amount of \$61,899,327.

Accrued Liabilities

15. TCI has accrued \$1,940,175 for payroll, taxes, insurance other expenses.
16. IEC has accrued \$4,247,406 for payroll, taxes and other expenses.
17. TTI has accrued \$245,358 for payroll, taxes and other expenses.
18. Koax has accrued \$125,735 for payroll, taxes and other expenses.
19. CLM has accrued \$ 10,231,111 for payroll, taxes and other expenses.
20. CLC has accrued \$ 1,143,698 for payroll, taxes and other expenses.
21. XPA has accrued \$66,966 for payroll, taxes and other expenses.
22. Trison has accrued \$105,893 for payroll, taxes and other expenses.
23. CCC has accrued \$408,394 for payroll, taxes and other expenses.

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<sup>1</sup> Adjustment as of October 31, 2007.

24. LSB Chemical has accrued \$33,737 for payroll, taxes and other expenses.
25. EDC has accrued \$3,284,122 for payroll, taxes and other expenses.
26. Chemex I \$492,052 for payroll, taxes and other expenses.
27. CNC has \$466,714 for payroll, taxes and other expenses.

Accounts Payable

28. TCI has accounts payable in the amount of \$457,490.
29. CLM has accounts payable in the amount of \$10,393,220.
30. IEC has accounts payable in the amount of \$5,951,735.
31. TTI has accounts payable in the amount of \$1,686,575.
32. CLC has accounts payable in the amount of \$947,479.
33. Trison has accounts payable in the amount of \$495,550.
34. Koax has accounts payable in the amount of \$254,471.
35. LSB Chemical has accounts payable in the amount of \$31,429.
34. EDC has accounts payable in the amount of \$8,929,336.
35. CNC has accounts payable in the amount of \$3,821,811.

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<sup>2</sup> Adjustment as of October 31, 2007.



**LITIGATION**

Donna Wetheral v. Climate Master. On September 14, 2007 Climate Master, Inc. ("Climate Master") was served with the complaint filed in this litigation with the Circuit Court of Johnson County, Illinois. Plaintiff sues in its individual capacity and as a class action representative stating that Climate Master now offers a coated coil option for its evaporator coils to protect its evaporator coils from corrosion from airborne chemicals resulting from modern building material out gassing and most airborne environmental chemicals. Plaintiff asserts that it was well known in the industry that a coating was necessary to prevent failure of evaporator coils, that Climate Master was aware of the need to coat its coils since the mid-1990s, and that Climate Master sold untreated coils to thousands of consumers, including the Plaintiff, despite knowledge that they were defective and failing without the coating. Plaintiff asserts itself as a representative of a class consisting of, "all consumers who purchased heating and cooling systems sold or installed in Illinois, with evaporator coils manufactured by Climate Master, Inc. prior to Climate Master's utilization of their new E-coated technology". Plaintiff asserts claims against Climate Master based upon negligence and strict liability. As these claims arise in tort, Climate Master intends to place its applicable insurance carriers on notice of this claim. Insurance coverage on this matter is unknown at this time.

Climate Master advises that there has been an industry wide issue related to coil failures. The research of others appears to link coil failures to formicary corrosion that is suspected of being the result of environmental airborne materials. Although the occurrence of such failures is low nationwide, such research indicates that unexplainable failures seem to occur more frequently in some geographical areas and that the failure appear to occur after one to four years of installation and use. Climate Master, like other manufacturers, began to experience certain coil failures (many times concentrated in a particular geographic area) which began to appear to be the result of formicary corrosion. In an effort to minimize any formicary corrosion issues, Climate Master began offering its E-coating as a standard part of its offering of residential products in June, 2003. In April, 2004, the coating was made standard on Climate Masters vertical stack commercial products and as an option on all its other commercial products, except Climate Master's commercial roof top series of products. In March, 2006, Climate Master then began offering a non-coated option for its vertical stack commercial products. Not all HVAC manufacturer's have decided even to offer coated coils. While Climate Master has continued to experience some coil failures of coated coils, the incidences appear to have declined in number for the coated coils.

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ENVIRONMENTAL MATTERS**A. ITEMS DISCUSSED IN PARENT'S FORM 10Q FOR THE PERIOD ENDING JUNE 30, 2007**

El Dorado Chemical Company - Discharge Water Matters. The El Dorado Facility within our Chemical Business generates process wastewater. The process water discharge and storm-water run off are governed by a state National Pollutant Discharge Elimination System ("NPDES") water discharge permit issued by the Arkansas Department of Environmental Quality ("ADEQ"), which permit is to be renewed every five years. The ADEQ issued to the El Dorado Facility a NPDES water discharge permit in 2004, and the El Dorado Facility had until June 1, 2007 to meet the compliance deadline for the more restrictive limits under the 2004 NPDES permit. In order to meet the El Dorado Facility's June 2007 limits, the El Dorado Facility has significantly reduced the effluent levels of its wastewater.

In order to directly discharge its wastewater from the El Dorado Facility into the creek and to meet the June 2007 permit limits, the El Dorado Facility has conducted a study of the adjacent stream to determine whether a permit modification is appropriate. On September 22, 2006, the Arkansas Pollution Control and Ecology Commission ("Commission") approved the results of the study that showed that the proposed permit modification is appropriate. A public hearing was held on the matter on November 13, 2006 with minimal opposition.

The El Dorado Facility has demonstrated its ability to comply with the more restrictive permit limits, and the rules which support the more restrictive dissolved minerals rules have been revised to authorize a permit modification to adopt achievable dissolved minerals permit limits. The ADEQ has orally agreed to issue a consent administrative order to authorize the El Dorado Facility to continue operations without incurring permit violations pending the modification of the permit to implement the revised rule and to allow the El Dorado Facility to continue to discharge its wastewater into the creek from and after June 1, 2007.

In addition, the El Dorado Facility has entered into a consent administrative order ("CAO") that recognizes the presence of nitrate contamination in the shallow groundwater at the El Dorado Facility. A new CAO to address the shallow groundwater contamination became effective on November 16, 2006 and requires the evaluation of the current conditions and remediation based upon a risk assessment. The final remedy for shallow groundwater contamination, should any remediation be required, will be selected pursuant to the new CAO and based upon the risk assessment. Based on area well surveys performed, there are no known users of this shallow groundwater in the area, and

preliminary risk assessments have not identified any public health risk that would require remediation. As an interim measure, the El Dorado Facility has installed two recovery wells to recycle groundwater and to recover nitrates. The cost of any additional remediation that may be required will be determined based on the results of the investigation and risk assessment and cannot currently be reasonably estimated. Therefore, no liability has been established at June 30, 2007.

El Dorado Chemical Company - Air Matters. Under the terms of a consent administrative order relating to air matters ("AirCAO"), which became effective in February 2004, resolving certain air regulatory alleged violations associated with the El Dorado Facility's sulfuric acid plant and certain other alleged air emission violations, the El Dorado Facility is required to implement additional air emission controls at the El Dorado Facility no later than February 2010. We have decided to accelerate this capital expenditure and currently estimate the environmental compliance related expenditures to be between \$6.0 and \$6.5 million, to be expended through the third quarter of 2008.

Slurry Explosive Corporation (n/k/a Chemex I Corp.). In April 2002, Slurry Explosive Corporation ("Slurry"), later renamed Chemex I Corp., a subsidiary within our Chemical Business, entered into a Consent Administrative Order ("Slurry Consent Order") with the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The Slurry Consent Order addressed the release of contaminants from the facility into the soils and groundwater and surface water at the Hallowell Facility. There are no known users of the groundwater in the area. Under the terms of the Slurry Consent Order, Slurry is required to, among other things, submit an environmental assessment work plan to the KDHE for review and approval, and agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility.

In connection with the sale of substantially all of the operating assets of Slurry and Universal Tech Corporation ("UTeC") in December 2002, which was accounted for as discontinued operations, both subsidiaries within our Chemical Business, UTeC leased the Hallowell Facility to the buyer under a triple net long-term lease agreement. However, Slurry retained the obligation to be responsible for, and perform the activities under, the Slurry Consent Order. In addition, certain of our subsidiaries agreed to indemnify the buyer of such assets for these environmental matters. The successor ("Chevron") of the prior owner of the Hallowell Facility has agreed, within certain limitations, to pay and has been paying one-half of the costs of certain interim remediation measures at the site approved by the KDHE, subject to reallocation.

At June 30, 2007, the total estimated liability (which is included in current and noncurrent accrued and other liabilities) in connection with this remediation matter is approximately \$1.4 million and Chevron's share for one-half of these costs (which is included in accounts receivable and other assets) is approximately \$.7 million. Slurry and Chevron expect to pursue a course with the KDHE of long-term surface and ground

water monitoring to track the natural decline in contamination, instead of the soil excavation. We estimate the costs relating to this course of action to be substantially less than the cost of soil excavation but we are unable to determine if the KDHE will ultimately accept the proposal.

**B. OTHER DISCLOSURES**

El Dorado Chemical Company - Landfill. In 1995, the EDC entered into a Consent Administrative Agreement (“Agreement”) with the State of Arkansas. The Agreement provided for the Company to remediate (by removal of hazardous material) and close a landfill located on the EDC site. The Agreement also provided for the Company to monitor groundwater for certain contaminants and, depending on the results of the monitoring program, to submit a remediation plan, upgrade certain equipment to reduce wastewater effluent. EDC timely completed the landfill remediation and closure and performed the ground water monitoring activities.

El Dorado Chemical Company – Caustic. On May 8, 1998, approximately 2,300 gallons of caustic spilled when a valve in a storage vessel failed, which was released to a stormwater drain and resulted in a minor fish kill in a drainage ditch near the plant. EDC entered into a CAO with ADEQ to resolve this event.

SUBSIDIARIES

**Part (a) – Subsidiaries of Parent**

1. ThermaClime, Inc., a Borrower
2. Northwest Financial Corporation, a Borrower
3. LSB Chemical Corp., a Borrower
4. El Dorado Chemical Company, a Borrower
5. Chemex I Corp., a Borrower
6. DSN Corporation, a Borrower
7. Chemex II Corp., a Borrower
8. El Dorado Nitric Company
9. El Dorado Acid, L.L.C.
10. El Dorado Acid II, L.L.C.
11. El Dorado Nitrogen, L.P.
12. XpediAir, Inc., a Borrower
13. International Environmental Corporation, a Borrower
14. Climate Master, Inc., a Borrower
15. The Climate Control Group, Inc., a Borrower
16. ClimateCraft, Inc., a Borrower
17. ThermaClime Technologies, Inc., a Borrower
18. CEPOLK Holdings, Inc.
19. ClimaCool Corp., a Borrower
20. Trison Construction, Inc., a Borrower
21. Koax Corp., a Borrower
22. Cherokee Nitrogen Company, a Borrower
23. Prime Financial Corporation
24. Prime Holdings Corporation
25. Northwest Capital Corporation
26. LSB Holdings, Inc.
27. LSB-Europa Limited
28. Summit Machine Tool Inc. Corp.
29. Cherokee Nitrogen Holdings, Inc., a Borrower
30. ClimateCraft Technologies, Inc.
31. Summit Machine Tool Manufacturing Corp.
32. Summit Machinery Company
33. Pryor Plant Chemical Company
34. Hercules Energy Mfg. Corporation

**Part (b) - Equity Investments of Parent**

1. CEPOLK Holdings, Inc., a subsidiary of ThermaClime, Inc., is the sole limited partner of, and owns a fifty percent (50%) interest in, CEPOLK Limited Partnership.
2. Summit Machinery Company, a subsidiary of Parent, owns a 50% of the value of KAC Acquisition Company, an Oklahoma corporation, the value of which is de minimis.

**Part (c) - Parent's Outstanding Equity Interest in Each of the Borrowers**

1. ThermaClime, Inc. ("TCI"). The total authorized capital stock of TCI is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000, of which LSB owns 9,500 shares (95% ownership) and Prime Financial Corporation ("PFC") owns 500 shares (5% ownership).
2. Northwest Financial Corporation ("NWF"). The total authorized capital stock of NWF is 100 shares of common stock. The total outstanding shares of capital stock is 54 which is owned 100% by TCI.
3. LSB Chemical Corp. ("LSBCC"). The total authorized capital stock of LSBCC is 50 shares of common stock. The total outstanding shares of capital stock is 50 which is owned 100% by TCI.
4. El Dorado Chemical Company ("EDC"). The total authorized capital stock of EDC is 25,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by LSBCC.
5. Chemex I Corp. ("Chemex I"). The total authorized capital stock of Chemex I is 10,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by EDC.
6. DSN Corporation ("DSN"). The total authorized capital stock of DSN is 50,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by LSBCC.
7. Chemex II Corp. ("Chemex II"). The total authorized capital stock of Chemex II is 10,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by LSBCC.
8. XpediAir, Inc. ("XPA"). The total authorized capital stock of XPA is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by TCI.
9. International Environmental Corporation ("IEC"). The total authorized capital stock of IEC is 300 shares of common stock. The total outstanding shares of capital stock is 300 which is owned 100% by TCI.

10. Climate Master, Inc. (“CLM”). The total authorized capital stock of CLM is 1,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by TCI.
11. The Climate Control Group, Inc. (“CGG”). The total authorized capital stock of CCG is 100,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by TCI.
12. ClimateCraft, Inc. (“CLC”). The total authorized capital stock of CLC is 1,000, of which 900 shares are Class A voting common stock and 100 shares are Class B non-voting common stock. The total outstanding shares of both classes of common stock combined is 1,000 which is owned 100% by TCI.
13. ThermaClime Technologies, Inc. (“TTI”). The total authorized capital stock of TTI is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by TCI.
14. ClimaCool Corp. (“CCC”). The total authorized capital stock of CCC is 50,000 shares of common stock. The total outstanding shares of capital stock is 1,000 which is owned 100% by TCI.
15. Trison Construction, Inc. (“Trison”). The total authorized capital stock of Trison is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by TCI.
16. Koax Corp. (“Koax”). The total authorized capital stock of Koax is 50 shares of common stock. The total outstanding shares of capital stock is 50 which is owned 100% by TCI.
17. Cherokee Nitrogen Company (“CNC”). The total authorized capital stock of CNC is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by TCI.
18. Cherokee Nitrogen Holdings, Inc. (“CNH”). The total authorized capital stock of CNH is 500,000 shares of common stock. The total outstanding shares of capital stock is 10,000 which is owned 100% by LSB Holdings, Inc.

INTELLECTUAL PROPERTY RIGHTS

Chemex I Corp.

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Cherokee Nitrogen Company.

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Cherokee Nitrogen Holdings, Inc.

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ClimaCool Corp.

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<sup>1</sup> Other than the formal corporate name.

Climate Master, Inc.

PATENTS

<u>Patent</u>	<u>App./Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Water-Cooled Air Conditioning System Using Condenser Water Regeneration for Precise Air Reheat in Dehumidifying Mode"	11/161,808	United States	Pending

TRADEMARKS

<u>Mark</u>	<u>Serial./Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climate Master (& Design)"	2,139,570	United States	02/24/98
"Climate Master (& Design)"	#TMA 471,487	Canada	02/21/97
"Climate Master"	808,500	United States	05/17/66
"Climate Master"	409,647	Chile	07/22/93
"Climate Master"	84930	Israel	10/08/92
"Climate Master"	292/82	Saudi Arabia	12/30/92
"Climate Master"	1,514,734	United Kingdom	11/13/98
"Climate Master"	11,215	Greece	07/07/98
"Climate Master"	280854	Korea	12/07/93
"Climate Master"	641,594	Taiwan	04/16/94
"Climate Master"	614,556	Taiwan	10/01/93
"Climate Master"	516424	Mexico	12/10/92
"Climate Master"	25162	Kuwait	08/16/93
"Climate Master"	0-999746	Czech Republic	03/20/00
"Climate Master"	583,151	Benelux	06/22/95
"Climate Master"	95575091	France	06/09/95
"Climate Master"	147,007	Hungary	04/25/95
"Climate Master"	172643	Norway	04/25/96
"Climate Master"	309 649	Portugal	05/06/96
"Climate Master"	O-POZ-1170-95	Slovak Republic	05/02/95
"Climate Master"	16121	Turkey	05/01/95
"Climate Master"	729,783	Italy	10/16/97
"Climate Master"	402,883	Europe	02/24/98
"Climate Master"	3480166	China	03/10/03
"Climate Master"	860,657	Australia	12/14/00
"Climate Mate"	TMA 371,539	Canada	08/03/90

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Roommate"	1,906,435	United States	07/18/95
"Paradigm"	2,112,244	United States	11/11/97
"Geodesigner"	2,184,992	United States	08/25/98
"Earthpure"	2,994,853	United States	09/13/05
"Climadry"	3,253,779	United States	06/19/07

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Climate Master

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ClimateCraft, Inc.

PATENTS

NONE

TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climatecraft"	#2,369,333	United States	07/18/00

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DSN Corporation

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El Dorado Chemical Company.

PATENTS

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TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"El Dorado (& Design)" "E-2"	1,427,064 833,891	United States United States	02/03/87 08/22/67

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<sup>1</sup> Other than the formal corporate name.

**International Environmental Corporation**

**PATENTS**

<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Conditioned Air Fan Coil Unit"	6,109,044	United States	08/29/00

**TRADEMARKS**

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"International Environmental Corporation (& IE Design)"	1,569,505	United States	12/05/89
	439970	Mexico	08/18/93
	292/85	Saudi Arabia	08/31/93
"International Environmental"	B1,514,822	United Kingdom	07/01/94
	92/165,999	Hong Kong	11/21/94
IEC International Environmental (& Design)"	77110687	United States	Pending
"Sureflow"	2,449,571	United States	05/08/01
"IE (Stylized)"	2,556,892	United States	04/02/02
"Air Coil Technologies"	1,755,144	United States	03/02/93
"UV Ultrashield"	2,660,647	United States	12/10/02

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Air Coil Technologies  
International Climate Systems

**SERVICE MARKS**

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<sup>1</sup> Other than the formal corporate name.

Koax Corp.

PATENTS

NONE

TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Koax"	1,776,407	United States	06/15/93
"Koax and design"	1,905,551	United States	07/18/95

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LSB Chemical Corp.

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Northwest Financial Corporation

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<sup>1</sup> Other than the formal corporate name.

The Climate Control Group, Inc.

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TRADEMARKS

<u>Mark</u>	<u>Serial/Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"APR Corporation and Design"	1,624,527	United States	11/27/90

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ThermaCline, Inc.

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DOMAIN NAMES

The following domain names are registered by ThermaClime, Inc. with Catalog.com:

1. climatecontrolgroup.com
2. koax.com
3. koax.biz
4. climacoolcorp.com
5. edc-ark.com
6. bryantgeo.com
7. carriergeo.com
8. climatemast.com
9. climatemaster.com
10. climatemaster.eu
11. climatemaster.hk
12. climatematergenesis.com
13. climasize.com
14. climatemate.com
15. climadry.com
16. watersourceparts.com
17. trison.us
18. trisonconstruction.biz
19. trisonconstruction.com
20. trisonconstruction.info
21. trisonconstruction.org
22. trisonconstruction.net
23. sureflow.net
24. iec-okc.com
25. iecokc.com
26. sureflowcomfort.com
27. sureflow-comfort.com
28. iecreps.com
29. carriersolutioncenter.com
30. ineedhvac.com
31. hvacbids.com
32. fancoil.com
33. uvcdirect.com



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Trison Construction, Inc.

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Trison Geothermal Construction Inc.

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XpediAir, Inc.

PATENTS

NONE

TRADEMARKS

<u>Mark</u>	<u>Serial./Reg. No.</u>	<u>Place of Registration</u>	<u>Issue Date</u>
"Climacool"	2,564,496	United States	04/23/02
"CHP"	1,707,991	United States	08/18/92
"XpediAir" (Design Only) <sup>2</sup>	2,986,893	United States	08/23/05

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\* Trademark is the subject of a Settlement Agreement with Expedia, Inc. regarding XpediAir, Inc's right to use the name, throughout the world, in connection with the sale and manufacture of HVAC equipment and related goods and services, and to register the name with the USPTO or any foreign patent and trademark office in design form only.

<sup>1</sup> Other than the formal corporate name.

LICENSES

1. License Agreement between Koax Corp. and The City of Oklahoma City Pursuant to ONG Franchise Ordinance to Authorize Receipt of Transport Gas, dated July 3, 2006.
2. License Agreement between Climate Master, Inc. and The City of Oklahoma City Pursuant to ONG Franchise Ordinance to Authorize Receipt of Transport Gas, dated December 8, 2005.
3. License Agreement between International Environmental Corporation and The City of Oklahoma City Pursuant to ONG Franchise Ordinance to Authorize Receipt of Transport Gas, dated December 8, 2006.
4. System License Agreement between Cherokee Nitrogen Company and Tennessee Gas Pipeline Company and Midwestern Gas Transmission Company, dated November 30, 2000.
5. Software License between PTC Global and International Environmental Corporation.
6. Software License between SigmaTEK and International Environmental Corporation.
7. Software License and Services Agreement between ThermaClime, Inc. (formerly known as ClimaChem, Inc.) and Cognos Corporation (successor in interest to Adaytum, Inc.), effective June 29, 2000, as amended.
8. Software License Agreement between ThermaClime, Inc. (formerly known as ClimaChem, Inc.) and Electronic Storage Corporation, executed April 4, 2003.
9. Software and Services License Agreement between Cherokee Nitrogen Company and Mainsaver Software, effective December 4, 2002.
10. Master License Agreement for Software Program Processes between El Dorado Chemical Company and Marcam Solutions, Inc.
11. Engineering and License Agreement between El Dorado Chemical Company and Kaltenbach-Thuring S.A., dated October 27, 1994, regarding LDAN plant capacity increase.
12. Order Form, dated June 26, 1997, between SSA Global Technologies, Inc., successor in interest to Computer Associates International, Inc., and LSB Industries, Inc., as amended.

PIPELINES

**Cherokee Site**

1. North Alabama natural gas pipeline.
2. Enbridge natural gas pipeline.
3. Cherokee Water Company water line.

**El Dorado Site**

1. Valero ammonia pipeline.
  2. Centerpoint Energy natural gas pipeline.
  3. Water pipeline supplies treated river water to the facility as industrial water make up.
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**MATERIAL CONTRACTS**

1. Anhydrous Ammonia Sales Agreement between El Dorado Chemical Company (“EDC”) and Koch Nitrogen International SARL and Koch Nitrogen Company (“Koch”), effective January 3, 2005.
2. AN Supply Agreement between EDC and Orica USA, Inc., dated November 1, 2001, as amended.
3. On-Site Product Supply Agreement between EDC and Air Liquide America Corporation, dated as of May 31, 1994.
4. Sales Agreement between CNC and Nelson Brothers LLC for Ammonium Nitrate, dated October 1, 2001.
5. NAESB Base Contract between CNC and Interconn Resources, Inc., dated April 1, 2003.

See also Schedules 5.23 and 7.05.

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PERMITS

Cherokee Nitrogen Company, Cherokee, Alabama

- NPDES Wastewater Discharge Permit #AL 0000418; effective date 2-1-06; expiration date 1-31-11
- Title V Air Permit #701-0013; effective date 12-14-06; expiration date 11-28-11

El Dorado Chemical Company, El Dorado, Arkansas

- NPDES Wastewater Discharge Permit #AR0000752; effective date 7-1-02; expiration date 6-30-07
  - Title V Air Permit #0573-AOP-R7; effective date 4-12-05; expiration date 4-11-10
-

LABOR MATTERS

1. El Dorado Chemical Company ("EDC") is party to collective bargaining agreement, effective October 17, 2004, with the International Association of Machinists and Aerospace Workers, AFL-CIO, Local 224.
  2. EDC is party to a collective bargaining agreement, effective August 1, 2004, with the Paper, Allied-Industrial, Chemical & Energy (PACE) Workers International Union AFL-CIO and Its Local 5-434.
  3. Cherokee Nitrogen Company is party to a collective bargaining agreement, dated November 12, 2004, with the United Steelworkers of America's International Union, AFL-CIO, CLC, Cherokee Local 417-G.
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EXISTING LIENS

Name of Obligor	Description of Secured Indebtedness
Chemex I Corp.	None
Chemex II Corp.	None
Cherokee Nitrogen Company	None
Cherokee Nitrogen Holdings, Inc.	None
ClimaCool Corp.	None
Climate Master, Inc. ("CLM,") as bailee (operating lease)	Secured Party: Marquette Equipment Finance, LLC, as Bailor, assigned to Park National Bank Collateral: One (1) Chiyoda SP-25ST 3 Axis Tube Bender with RH rotation, including all standard equipment and 5/8", 3/4" and 7/8" OD and mandrels
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf L3040 Laser Cutting Machine System purchased from Icon Machine Tool, Inc., S/N A0235A0061, and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Trumpf TruLaser 3530 Laser Cutting Machine, Serial #AX035A0061
CLM (operating lease)	Secured Party: National Machine Tool Financial Corporation and TCF Equipment Finance, Inc. Collateral: One (1) new Trumpf L3530 4000 Watt Laser with 60"x120", S/N A0235A0061, and all accessories and attachments thereto.

Name of Obligor	Description of Secured Indebtedness
CLM, as lessee (operating lease)	Secured Party: IOS Capital, as lessor Collateral: All equipment now or hereafter leased (PCP 1050, booklet maker and accessories) in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 2068765, as amended from time to time, between IOS Capital, LLC as lessor, and the above referenced Lessee/Debtor, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. Customer: 1095557 IKCPP500 C11029146
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: 1 each five stage Power Spray Stainless Washer (installed) in accordance with quote 3703-0107R3 from Industrial Finishing Systems.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Ingersoll-Rand oil-free Nirvana compressor system consisting of various components; S/N IRN75H-OF.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Gamma G333PC Wire Processing System per quote 06-0150-2743-0135C; S/N 1-528324-1 and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: IOS Capital, as lessor Collateral: All equipment now [5 Ricoh copiers] or hereafter leased in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 2929907, as amended from time to time, between Lessor and Lessee, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. CUSTOMER: 1095557 RIAF2035 S/P J5837002733 RIAF2035 S/P J5837002727 RIAF2035 S/P J5837102886 RIAF2035 S/P J5837102735 RIAF2035 S/P J5837102721 RIAF1060 J4235501227 RIAF1060 J422500470 RIAF2090 J7031100205 RIAF2090 J7031100244

Name of Obligor	Description of Secured Indebtedness
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada Vipros 368 King, Turret Punch Press, S/N 36840024, with New London Slug Conveyor, One (1) Amada LUL510 loading device, S/N 00510090, Amada SR510 .30 unloading device, S/N 2218, Sun Classic Workstation with Line Control Software, S/N FW900085, AP100 Punch Upgrade, AP100 Punch Add. Seat Upgrade, complete with all attachments now or hereafter acquired.
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada press brake, model HFB 1003/8, S/N HFB010030 R981151, w/ ISB light curtain
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Raidzone GangSTOTR Systems RC8-2-R2000 (2x8 disk rack mount systems and all accessories and attachments thereto.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Nine (9) OptiGun-2AX Automatic Guns, Nine (9) OptiTronicPlus Control Units and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: Six (6) sets of ECI line equipment (Procix) and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada 386 King, Vipros 30 ton CNC Turret Punch, S/N 36820017 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) Amada CNC Blanking Shear, S/N 101000056 and associated accessories.
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One(1) Trumpf Laser 3040 Plus and associated accessories
CLM (operating lease)	Secured Party: RCA Capital Corp. Collateral: One (1) new Chiyoda SP-25ST 3 Axis CNC Pipe Bender and associated accessories
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor Collateral: One (1) single Tube Cutoff Line (STCOS) and all accessories and attachments thereto (Burr Oak Copper Cut).
CLM, as lessee (operating lease)	Secured Party: Prime Financial Corporation, as lessor, as assigned to Marquette Equipment Finance, LLC, as assigned to Park National Bank Collateral: One (1) Chiyoda SP-25 ST 3-Axis Tube Bender and associated accessories.

Name of Obligor	Description of Secured Indebtedness
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: One 1996 Amada FCXB-III-8025 CNC Press Brake
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: IPCS Equipment and accessories
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: Used 1995 FBD-125 Amada Press Brake, S/N 12530058
CLM (operating lease)	Secured Party: Prime Financial Corporation Collateral: 88 ton Amada HFB, S/N R091-18; 88 ton Amada HFB, S/N R970432; 138 ton Amada FBD, S/N 12530263

Name of Obligor	Description of Secured Indebtedness
ClimateCraft, Inc. ("CLC") (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf NC Punching Machine
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: 1999 Amada HFB1254 Promecam CNC Press Brake w/ Controls
CLC	Secured Party: City of Oklahoma City Collateral: Real estate owned by Summit Machine Tool Manufacturing Corp.
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Two (2) model 625014 Accushears w/ 48" extended travel and CNC front gauging 12'x6'x6'; S/N 5110 and 5111
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf model TC2020 Punch Machine, S/N A0030A0239 with tooling
CLC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada CNC Hydraulic Press Brake model HFB220/440, SN H980519

Name of Obligor	Description of Secured Indebtedness
DSN Corporation	None

Name of Obligor	Description of Secured Indebtedness
El Dorado Chemical Company ("EDC") as bailee	Secured Party: Orica USA Inc., as bailor Collateral: All of bailor's inventory located at bailee's El Dorado, AR facility
EDC, as lessee (operating lease)	Secured Party: LSB Industries, Inc. Collateral: Catalysts associated with EDC's El Dorado, AR facility

Name of Obligor	Description of Secured Indebtedness
EDC, as bailee (operating lease)	Secured Party: Republic Bank, Inc., as bailor Collateral: Personal property (rail cars) located at bailee's El Dorado, AR facility and described in Lease Schedule No. 001 to Master Lease Agreement No. AF10506 by and between Prime Financial Corporation, as lessee, and Applied Financial, LLC, as lessor
EDC	Secured Party: Air Liquide Industrial US LP Collateral: Gas generating plant, located at debtor's El Dorado, AR facility
EDC (operating lease)	Secured Party: General Electric Capital Corporation Collateral: PerkinElmer Analyst 700 AA Spectrometer and accessories

Name of Obligor	Description of Secured Indebtedness
International Environmental Corporation ("IEC") (operating lease)	Secured Party: Prime Financial Corporation Collateral: Bolina Cut-to-Length; 2 Optiflex 110/08 Pullmax CNC Press Brakes; vertical bender; Trumpf laser cutting machine
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Amada Turret Press Dies & accessories
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Two Trumpf Laser Cutting Machines
IEC	Secured Party: Amada Capital Corporation Collateral: Amada Turret Press Model VIPROS358K w/ scrap conveyor and attachments
IEC	Secured Party: Amada Capital Corporation Collateral: Software package consisting of two seats of Anmest punch software and one seat AP100 US punch complete w/ all attachments
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: One (1) T-Drill SP-55 tube end spinner, 440V, S/N 97032
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: High Takt assembly line (spur line south bldg)

Name of Obligor	Description of Secured Indebtedness
IEC (operating lease)	Secured Party: IOS Capital Collateral: All equipment now or hereafter leased in an equipment leasing transaction in connection with that certain Master Agreement No. -----, Product Schedule No./Agreement No. 1842990, as amended from time to time, between IOS Capital, LLC as lessor, and the above referenced Lessee/Debtor, including, without limit, the equipment listed below, and all additions, improvements, attachments, accessories, accessions, upgrades and replacements related thereto, and any and all substitutions or exchanges, and any and all products, insurance and/or other proceeds (cash and non-cash) therefrom. Customer: 357586 RIAF 2075 S/P C11020120, RIAF2075 S/P C11020023, RIAF 2075 S/P C11020123, RIAF2060 S/P C11020019, RIAF3030 S/P C11020011, RIAF3030 S/P C11020010, RIAF3030 W/P C11020009, RIAF3030 SP C11020008, RIAF3425C C11020124, ZZrightfax software
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Trumpf Laser 3040 Plus, 4000 watt resonator
IEC (operating lease)	Secured Party: Prime Financial Corporation Collateral: Security system

Name of Obligor	Description of Secured Indebtedness
Koax Corp (operating lease)	Secured Party: Intrust Bank Collateral: LSE 1751964 S/N MPH04374

Name of Obligor	Description of Secured Indebtedness
LSB Chemical Corp.	None

Name of Obligor	Description of Secured Indebtedness
Northwest Financial Corporation	None

Name of Obligor	Description of Secured Indebtedness
The Climate Control Group, Inc.	None

Name of Obligor	Description of Secured Indebtedness
ThermaClime, Inc. (f/k/a ClimaChem, Inc.)	Secured Party: Toshiba America Information Systems Collateral: Six (6) Toshiba copiers

Name of Obligor	Description of Secured Indebtedness
ThermaClima Technologies, Inc. (f/k/a ACP International Limited ("TTI") (operating lease)	Secured Party: Park National Bank, assigned to Marquette Equipment Finance, LLC Collateral: All equipment, software and other property leased under that Equipment Lease dated March 1, 2007 between Prime Financial Corporation and TTI (Continental washer and dryer)
TTI, as bailee (operating lease)	Secured Party: Park National Bank, as bailor Collateral: Radiator coil washer and dryer
TTI (operating lease)	Secured Party: Prime Financial Corporation Collateral: One (1) Continental Equipment 2-stage belt washer, natural gas heated dryer and drain tank
TTI (operating lease)	Secured Party: Prime Financial Corporation Collateral: Burr oak fin die, S/N FDM-1532-1

Name of Obligor	Description of Secured Indebtedness
Trison Construction, Inc. ("Trison")	None

Name of Obligor	Description of Secured Indebtedness
XpediAir, Inc.	None

**EXISTING INDEBTEDNESS AND GUARANTEES**  
**(as of September 30, 2007)**

**Part A - Indebtedness**

1. International Environmental Corporation is indebted to Amada Capital Corporation in the amount of \$57,714.
2. ClimateCraft, Inc. is indebted to the following:
  - a. The City of Oklahoma City in the amount of \$2,450,000.
  - b. Summit Machine Tool Manufacturing Corp. in the principal amount of \$715,719.
3. ThermaClime, Inc. is indebted to the following:
  - a. CEPOLK Holdings, Inc. in the principal amount of \$3,898,523.
  - b. El Dorado Nitrogen, L.P. in the principal amount of \$25,734,720.
- 4.

**Part B - Guarantees**

N/A

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**EXISTING INVESTMENTS**  
**(as of September 30, 2007)**

1. See Schedule 5.13 for Equity Interests.
2. El Dorado Chemical Company ("EDC") is indebted to the following:
  - a. ThermaClime, Inc. ("TCI") in the principal amount of \$35,593,138.
  - b. LSB Chemical Corp. ("LSB Chemical") in the principal amount of \$2,098,787.
3. Trison Construction, Inc. is indebted to TCI in the principal amount of \$6,364,700 less \$2,500,000<sup>1</sup>.
4. ClimateCraft, Inc. is indebted to TCI in the principal amount of \$6,947,768 less \$5,200,000<sup>1</sup>.
5. TCI is indebted to the following:
  - a. International Environmental Corporation in the principal amount of \$76,297,857.
  - b. The Climate Control Group, Inc. in the principal amount of \$3,104,268.
  - c. Climate Master, Inc. in the principal amount of \$40,537,986.
  - d. Koax Corp. in the principal amount of \$22,811,075.
  - e. Chemex I Corp. ("Chemex I") in the principal amount of \$276,944.
  - f. Chemex II Corp. ("Chemex II") in the principal amount of \$1,484,718.
  - g. Northwest Financial Corporation in the principal amount of \$13,328,828.
6. Cherokee Nitrogen Company is indebted to the following companies:
  - a. TCI in the principal amount of \$10,604,163.
  - b. EDC in the principal amount of \$2,438,209.
7. LSB Chemical is indebted to the following companies:
  - a. TCI in the principal amount of \$24,187,624 plus \$4,500,000<sup>1</sup>.
  - b. DSN Corporation ("DSN") in the principal amount of \$275,773.
8. DSN is indebted to TCI in the principal amount of \$18,784,414 less \$4,500,000<sup>1</sup>.
9. XpediAir, Inc. is indebted to TCI in the principal amount of \$1,768,968 less \$1,900,000<sup>1</sup>.
10. ThermaClime Technologies, Inc. is indebted to TCI in the principal amount of \$3,548,796 less \$2,700,000<sup>1</sup>.
11. ClimaCool Corp. ("CCC") is indebted to TCI in the principal amount of \$3,450,175 less \$2,300,000<sup>1</sup>.

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<sup>1</sup> Adjustment as of October 31, 2007.

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12. Chemex I is indebted to the following companies:
    - a. LSB Chemical in the principal amount of \$385,282 less \$150,000<sup>1</sup>.
    - b. Chemex II in the principal amount of \$348.
  13. LSB Holdings, Inc., a subsidiary of LSB Industries, Inc., is indebted to CCC in the principal amount of \$2,705,594.
-

FACILITY USE/LEASES

Part I – Cherokee Site

1. Cherokee Nitrogen Company leases from Cherokee Nitrogen Holdings, Inc. (“CNH”) the Cherokee Site and Facility Assets therein pursuant to a Lease Agreement effective January 1, 2004.
2. Nelson Brothers LLC leases from CNH a certain portion of the Cherokee Site pursuant to a Ground Lease dated November 4, 1998, as amended.
3. Farm Lease between CNH and Isbell Farms, effective as of January 1, 2007.
4. Ground Lease between United States Steel Corporation and The Industrial Development Board of the Town of Cherokee (“Board”) dated as of April 1, 1980, Lease Agreement between the Board and Airco, Inc. dated as of April 1, 1980, as amended between the Board and The BOC Group, Inc. (formerly known as Airco, Inc.) on August 1, 1993, Trust Indenture between the Board and Trust Company Bank dated as of April 1, 1980 and Indenture of Trust between the Board and First-Citizens Bank and Trust Company dated as of August 1, 1993.
5. Airgas Specialty Products, Inc. leases from CNH a certain portion of the Cherokee Site pursuant to a Lease Agreement dated June 1, 2005.
6. Austin Powder Company leases from CNH a certain portion of the Cherokee Site pursuant to a Real Property Lease and Easement dated effective November 1, 2007.

Part II – El Dorado Site

1. El Dorado Chemical Company (“EDC”) leases from Northwest Financial Corporation (“NWF”) a certain portion of the El Dorado Site pursuant to a Lease Agreement dated March 7, 1988, as amended.
2. DSN Corporation (“DSN”) leases from NWF a certain portion of the El Dorado Site pursuant to a Lease Agreement dated April 15, 2003.
3. EDC subleases from DSN a certain portion of the El Dorado Site and the Facility Assets therein pursuant to a Sublease Agreement dated April 15, 2003.
4. On-Site Product Supply Agreement between EDC and Air Liquide America Corporation dated May 31, 1994.

**AFFILIATE TRANSACTIONS**

1. Agreement for Raw Material Sourcing between LSB Industries, Inc. ("LSB") and its subsidiaries.
2. Tax Sharing Agreement between LSB and ThermaClime, Inc. (f/k/a ClimaChem, Inc. ("TCI")).
3. Tax Sharing Agreement between LSB and ClimateCraft, Inc. ("CLC").
4. Management Agreement between LSB and TCI.
5. Lease Agreement between Prime Holdings Corporation ("PHC") and International Environmental Corporation ("IEC") for property at 5000 West I-40, OKC.
6. Lease Agreement between Prime Holdings Corporation ("PHC") and ThermaClime Technologies, Inc. ("TTI") for property at 5000 West I-40, OKC.
7. Railcar Services Agreement between Prime Financial Corporation ("PFC") and El Dorado Chemical Company ("EDC").
8. Industrial Plant Lease between PFC and Climate Master, Inc. ("CLM") for property at 4700 West Point Boulevard, OKC.
9. Equipment Lease between IEC and PFC Re: Laser Center, 2 Pullmax Press Brakes and accessories
10. Equipment Lease between IEC and PFC Re: Cabinet & Steel Rack w/ Amada Turret Press Dies and shop carts with Amada Turret Punch Press tooling.
11. Equipment Lease between IEC and PFC Re: Bolina Cut-to-Length, 2 Optiflex 110/08 Pullmax CNC Press Brakes, and 1 Vertical Bender Hairpin Bender.
12. Equipment Lease between IEC and PFC Re: Trumpf Laser 3040 Plus.
13. Equipment Lease between IEC and PFC Re: T-Drill SP-55 Tube End Spinner.
14. Equipment Lease between IEC and PFC Re: Security System.
15. Equipment Lease between IEC and PFC Re: High Takt Assembly Line.
16. Equipment Lease between CLM and PFC Re: IPCS Equipment

17. Equipment Lease between CLM and PFC Re: Optima Press Brake and accessories.
18. Equipment Lease between CLM and PFC Re: Amada Vipros 868 King, Turret Punch Press and accessories.
19. Equipment Lease between CLM and PFC Re: ECI equipment.
20. Equipment Lease between CLM and PFC Re: 1996 Amada FCXBIII-8025 CNC Press Brake.
21. Equipment Lease between CLM and PFC Re: Model HFB/1003/8 Amada Press Brake.
22. Equipment Lease between CLM and PFC Re: Model HFB/1003/8 Amada Press Brake.
23. Equipment Lease between CLM and PFC Re: Procix equipment.
24. Equipment Lease between CLM and PFC Re: Trumpf 3040 Laser System.
25. Equipment Lease between CLM and PFC Re: Trumpf 3040 Laser System.
26. Equipment Lease between CLM and PFC Re: RAIDZone GangStor System.
27. Equipment Lease between CLM and PFC Re: Blanking Shear.
28. Equipment Lease between CLM and PFC Re: Amada 386 King, Vipros 30 CNC Turret Punch
29. Equipment Lease between CLM and PFC Re: Optigun equipment.
30. Equipment Lease between CLM and PFC Re: Burr Oak Copper Cut.
31. Equipment Lease between CLM and PFC Re: Chiyoda SP-25ST Tube bender
32. Equipment Lease between CLM and PFC Re: Amada FBD-125 Press Brake.
33. Equipment Lease between CLM and PFC Re: Trumpf Laser L3040 Laser Cutting Machine.
34. Equipment Lease between CLM and PFC Re: Trumpf Trulaser 3530.
35. Equipment Lease between CLM and PFC Re: Ingersoll Rand Nirvana Compressor System.
36. Equipment Lease between CLM and PFC Re: Gamma Wire Processing System.

37. Equipment Lease between CLM and PFC Re: Power Spray Stainless Washer.
  38. Equipment Lease between CLM and PFC Re: Three (3) Amada Press Brakes.
  39. Equipment Lease between CLM and IEC Re: Trumpf Laser 3040 Plus.
  40. Equipment Sublease between LSB and CLM Re: Blanking Shear (leased by LSB from PFC).
  41. Equipment Sublease between CLC and PFC for Trumpf Punching Machine.
  42. Equipment Lease between CLC and PFC Re: 1999 Amada HFB 1254 Promecam CNC Press Brake.
  43. Equipment Lease between CLC and PFC Re: Trumpf Tooling Set.
  44. Equipment Lease between CLC and PFC Re: 2 Accushears.
  45. Equipment Lease between CLC and PFC Re: Trumpf TC2020 Punch Machine.
  46. Equipment Lease between CLC and PFC Re: Amada CNC Hydraulic Press Brake.
  47. Equipment Lease between TTI and PFC Re: Continental Belt Washer.
  48. Equipment Lease between TTI and PFC Re: Burr Oak Fin Die.
  49. Equipment Lease between EDC and PFC Re: 2004 Chevy Impala.
  50. Equipment Lease between EDC and PFC Re: 2002 International Spreader Truck.
  51. Plant Equipment Lease between EDC and DSN Corporation
  52. Equipment Lease between Trison Construction, Inc. ("Trison") and PFC Re: 2 John Deer Gators and 3 trailers with dove tail.
  53. Services Agreements between LSB and the following subsidiaries:
    - a. Chemex II Corp.
    - b. Koax Corp.
    - c. Climate Master, Inc.
    - d. International Environmental Corporation
    - e. The Climate Control Group, Inc.
    - f. LSB Chemical Corp.
    - g. ClimateCraft, Inc.
    - h. El Dorado Chemical Company
-

- i. Chemex I Corp.
- j. ThermaClime, Inc.
- k. DSN Corporation
- l. ThermaClime Technologies, Inc.
- m. XpediAir, Inc.
- n. Trison Construction, Inc.

- 54. Precious Metals Lease between LSB and EDC.
- 55. Exclusive License Agreement Between CLC and ClimateCraft Technologies, Inc.
- 56. Assignment of Option to Purchase between CLM and PFC Re: CLM Facility Located at 7300 S.W. 44th Street, Oklahoma City from Raptor Master LLC.
- 57. Consulting Agreements between LSB Chemical Corp. ("LSB Chemical") and various affiliates.
- 58. Lease between Summit Machinery Company ("SMC") and Trison for office space at 4000 N.W. 39th Street, OKC.
- 59. Lease between XpediAir, Inc. and SMC at 4000 NW 39th Street, OKC.
- 60. Warehouse Lease between CLM and SMC at 4000 NW 39th Street, OKC.
- 61. Warehouse Lease between Summit Machine Tool Manufacturing Corp. ("Summit") and ClimaCool Corp. at 518 North Indiana, OKC.
- 62. Warehouse Lease between Summit and CLC at 1601 NW 4th Street, OKC.
- 63. Capital Lease Agreement with Right of Transfer of Title between Summit and CLC for CLC facility in OKC.
- 64. Lease of drilling equipment from LSB Holdings, Inc. to Trison.
- 65. Lease of office space from SMC to TCI at 4000 NW 39th Street, OKC.
- 66. Lease of office space from PFC to TCI at 16 South Pennsylvania Avenue, OKC.
- 67. Lease of office space from TCI to LSB at 16 South Pennsylvania Avenue, OKC.
- 68. Lease of building from LSB to Koax Corp. ("Koax") at 510 North Indiana, OKC.
- 69. Lease of warehouse space from Summit to Koax at 518 North Indiana, OKC.

70. Lease of office space from PFC to LSB Chemical at 16 South Pennsylvania Avenue, OKC.
71. Lease of office space from SMC to The Climate Control Group, Inc. ("CCG") at 4000 NW 39th Street, OKC.
72. Lease of office space from SMC to IEC at 4000 NW 39th Street, OKC.
73. Computer rental from LSB to TCI.
74. Auto rental from LSB to TCI.
75. Auto rental from LSB to CCG.
76. Auto rental from PFC to CCG.
77. See Schedules 5.05, 7.03 and 7.05.



**RESTRICTIVE AGREEMENTS**

1. Amended and Restated Loan and Security Agreement dated as of November \_\_\_\_, 2007, by and among ThermaClime, Inc. and each of the Subsidiaries of ThermaClime identified on the signature pages thereof, LSB Industries, Inc., the lenders identified on the signature pages thereof and Wells Fargo Foothill, Inc., as the arranger and administrative agent for the Lenders, as amended.
2. Equipment Purchase and Security Agreement between International Environmental Corporation and Amada America, Inc., dated June 27, 2003.\*
3. Capital Lease Agreement with Right of Transfer of Title by and between Summit Machine Tool Manufacturing Corp. and ClimateCraft, Inc., effective December 31, 1999, as amended.\*
4. Loan Agreement between The City of Oklahoma City and ClimateCraft, Inc., dated December 23, 1999.\*

\*These agreements relate to equipment and property not part of Collateral. The restrictions (including lien restrictions) are limited to the equipment and property that are the subject of such agreements.

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**Addresses for Notices; Payment Information**

**BORROWERS:**

ThermaClime, Inc.  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Attention: Tony M. Shelby, Ex. V.P.  
Tel: 405-235-4546  
Fax: 405-235-5067

*with copy to:*

ThermaClime, Inc.  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Attention: David Shear, General Counsel  
Tel: 405-235-4546  
Fax: 405-236-1209

**AGENTS:**

**Addresses for Notices**

Banc of America Leasing & Capital LLC, as Collateral Agent  
Mail Code: GA3-003-04-01  
Northeast Center Building  
2059 Northlake Pkwy  
Tucker GA 30084-5399  
Attn: Shelley B. LaCagnin  
Vice President - Operations Manager  
Tel: 770-270-8590  
Fax: 770-270-8638

Banc of America Leasing & Capital LLC, as Administrative Agent  
Mail Code: MA5-100-32-01  
100 Federal St  
Boston MA 02110  
Attn: Annemarie L. Warren  
Vice President - Group Operations Manager  
Tel: 617-434-3611  
Fax: 617-434-0532

**PARENT:**

LSB Industries, Inc.  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Attention: Tony M. Shelby, Ex. V.P.  
Tel: 405-235-4546  
Fax: 405-235-5067

*with copy to:*

LSB Industries, Inc.  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Attention: David Shear, General Counsel  
Tel: 405-235-4546  
Fax: 405-236-1209

**Payment Information**

Bank: Bank of America  
Address: Concord, CA  
ABA: 026 009 593  
Account No: 1233401992  
Account Name: Banc of America Leasing & Capital, LLC  
Attention: Benny Sumardi  
Reference: ThermaClime

Bank: Bank of America  
Address: Concord, CA  
ABA: 026 009 593  
Account No: 1233401992  
Account Name: Banc of America Leasing & Capital, LLC  
Attention: Benny Sumardi  
Reference: ThermaClime

**Addresses for Notices**

Bank of Utah, as Payment Agent  
ATTN: Corporate Trust Services  
200 E. South Temple, Suite 210  
Salt Lake City, UT 84111  
Phone: (801) 924-3690  
Fax: (801) 746-3519

**Payment Information**

Bank: Bank of Utah  
ABA No. 124-300-107  
Acct. No. 01020296  
Re: ThermaClima Acct. No. 8000099

**LENDERS:**

**Addresses for Notices**

Banc of America Leasing & Capital LLC,  
Northeast Center Building  
Mail Code: GA3-003-04-01  
2059 Northlake Pkwy  
Tucker GA 30084-5399  
Attn: Shelley B. LaCagnin  
Vice President - Operations Manager  
Tel: 770-270-8590  
Fax: 770-270-8638

*With Copy to:*

Banc of America Leasing & Capital LLC  
One Financial Plaza, 2<sup>nd</sup> Floor  
Mail Code: R11-537-02-01  
<http://corpdir.bankofamerica.com/staffresults.asp?txtField1Name=mailunit&txtField1Type=is&txtField1V>  
Providence, RI 02903  
Attn: Lee Bonaldi  
Vice President - Credit Underwriting  
Tel: 401-278-7655  
Fax: 401-719-8344

**Addresses for Notices**

Merrill Lynch Capital, a Division of Merrill Lynch Business Financial Services Inc.  
222 N. LaSalle Street, 16<sup>th</sup> Floor  
Chicago, IL 60601  
Attention: Gary Modesto  
Vice President, Group Credit Manager  
Tel: 312-750-6204  
Fax: 312-316-3422  
Email: Gary\_Modesto@ml.com

Arvest Bank  
3900 N. Lincoln Boulevard  
Oklahoma City, OK 73105  
Attn: Cindy Batt  
Sr. Vice President & Corporate Division Manager  
Tel: 405-523-4169  
Fax: 405-523-4126  
Email: cbatt@arvest.com

## FORM OF TERM NOTE

§ \_\_\_\_\_ □ 6 0 ; \_\_\_\_\_, 2007

FOR VALUE RECEIVED, each of THERMACLIME, INC. ("ThermaClime") and each of the undersigned Affiliates of ThermaClime (each a "Borrower" and collectively the "Borrowers") hereby jointly and severally promises to pay to \_\_\_\_\_ or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of the Term Loan made by the Lender to the Borrower under that certain Term Loan Agreement, dated as of \_\_\_\_\_, 2007 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrowers, each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), Banc of America Leasing & Capital, LLC, as Administrative Agent and Collateral Agent, and Bank of Utah, as Payment Agent.

Each Borrower, jointly and severally, promises to pay interest on the unpaid principal amount of such Lender's Term Loan from the date of such Term Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to the Collateral Agent for the account of the Lender at the Collateral Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This note is one of the Term Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. This Term Note is also entitled to the benefits of the Guaranty and is secured by the Collateral Documents. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Term Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. The Term Loan made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Term Note and endorse thereon the date, amount, currency and maturity of its Term Loans and payments with respect thereto.

Each Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Term Note.

THIS TERM NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

THERMACLIME, INC.  
CHEROKEE NITROGEN HOLDINGS, INC.,  
NORTHWEST FINANCIAL CORPORATION,  
CHEMEX I CORP.,  
CHEMEX II CORP.,  
CHEROKEE NITROGEN COMPANY,  
CLIMACOOOL CORP.,  
CLIMATECRAFT, INC.,  
CLIMATE MASTER, INC.,  
DSN CORPORATION,  
EL DORADO CHEMICAL COMPANY,  
INTERNATIONAL ENVIRONMENTAL CORPORATION,  
KOAX CORP.,  
LSB CHEMICAL CORP.,  
THE CLIMATE CONTROL GROUP, INC.,  
TRISON CONSTRUCTION, INC.,  
THERMACLIME TECHNOLOGIES, INC.,  
XPEDIAIR, INC.

By:  
Name:  
Title:

Exhibit A-2

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LOANS AND PAYMENTS WITH RESPECT THERETO

<b>Date</b>	<b>Type of Loan Made</b>	<b>Amount of Loan Made</b>	<b>End of Interest Period</b>	<b>Amount of Principal or Interest Paid This Date</b>	<b>Outstanding Principal Balance This Date</b>	<b>Notation Made By</b>

## FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: \_\_\_\_\_, \_\_\_\_

To: Bank of Utah, as Payment Agent

Ladies and Gentlemen:

Reference is made to that certain Term Loan Agreement, dated as of \_\_\_\_\_, 2007 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among THERMACLIME, INC. ("ThermaClime") and certain Affiliates of ThermaClime, as borrowers (with ThermaClime, collectively, the "Borrowers" and each a "Borrower"), LSB Industries, Inc., as guarantor ("Parent"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), Banc of America Leasing & Capital, LLC, as Administrative Agent and Collateral Agent, and Bank of Utah, as Payment Agent.

The undersigned hereby certifies as of the date hereof that he/she is the [chief executive officer/chief financial officer/treasurer/controller] of each of Parent and ThermaClime, and that, as such, he/she is authorized to execute and deliver this Certificate to the Collateral Agent on the behalf of each of Parent and ThermaClime, and that:

*[Use following paragraph 1 for fiscal year-end financial statements]*

1. Each of Parent and ThermaClime has delivered the year-end audited financial statements required by Section 6.01(a) of the Agreement for the fiscal year of Parent or ThermaClime, as applicable, ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

*[Use following paragraph 1 for fiscal quarter-end financial statements]*

1. Each of Parent and ThermaClime has delivered the unaudited financial statements required by Section 6.01(b) of the Agreement for the fiscal quarter of Parent or ThermaClime, as applicable, ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Parent or ThermaClime, as applicable, and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Parent and the Borrowers during the accounting period covered by such financial statements.

3. A review of the activities of Parent and the Borrowers during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period a Default has occurred under the Loan Documents, and



[select one:]

[to the knowledge of the undersigned, during such fiscal period each of Parent and the Borrowers was in compliance with each covenant and condition of the Loan Documents applicable to it, and no Default has occurred and is continuing.]

--or--

[to the knowledge of the undersigned, during such fiscal period the following is a list of each Default that occurred and its nature and status:]

4. The financial covenant analyses and information set forth on Schedule 1 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of \_\_\_\_\_, 200[ ].

THERMACLIME, INC.

By:  
Name:  
Title:

LSB INDUSTRIES, INC.

By:  
Name:  
Title:

**SCHEDULE 1  
to the Compliance Certificate**

**1. Consolidated Leverage Ratio. [If applicable.]**

(a) The Consolidated Leverage Ratio of ThermaClime and its Subsidiaries (the "ThermaClime Entities") for such period is calculated as follows:

- (i) Consolidated Total Indebtedness as of the financial statement date: \$ \_\_\_\_\_
- (ii) Borrowers' Consolidated EBITDA for such period: \$ \_\_\_\_\_

The ratio of item (i) to (ii) = Consolidated Leverage Ratio = \_\_\_\_\_ : \_\_\_\_\_

(b) The Consolidated Leverage Ratio set forth above [is/is not] greater than or equal to the amount set forth in Section 7.11(a) of the Loan Agreement for such period, which is 4.50 to 1.00.

**2. Consolidated Fixed Charge Coverage Ratio.**

(a) The Consolidated Fixed Charge Coverage Ratio of the ThermaClime Entities for such period is calculated as follows:

- (i) Consolidated EBITDA of the ThermaClime Entities for the most recently completed four fiscal quarters (the "Measurement Period"): \$ \_\_\_\_\_
- (ii) Aggregate amount of all Capital Expenditures made during the Measurement Period by the ThermaClime Entities on a consolidated basis (\$ \_\_\_\_\_), but excluding any such payments to the extent financed through the incurrence of additional Indebtedness (\$ \_\_\_\_\_): \$ \_\_\_\_\_
- (iii) Aggregate amount of federal, state, local and foreign income taxes paid in cash, in each case of or by the ThermaClime Entities for the most recently completed Measurement Period: \$ \_\_\_\_\_
- (iv) Consolidated Interest Charges: \$ \_\_\_\_\_
- (v) Aggregate principal amount of all regularly scheduled principal payments or redemptions or similar acquisitions for value of outstanding debt for borrowed money for ThermaClime on a consolidated basis during such Measurement Period<sup>1</sup>: \$ \_\_\_\_\_

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<sup>1</sup> Excluding (a) prepayments of principal under the Revolving Credit Agreement which are not accompanied by or give rise to a reduction in the aggregate outstanding commitments under the Revolving Credit Agreement and not

- (vi) All amounts paid or payable by the ThermaClime Entities on Capitalized Lease Obligations having a scheduled due date during such Measurement Period: \$ \_\_\_\_\_
- (vii) Dividends paid by ThermaClime to Parent during such Measurement Period: \$ \_\_\_\_\_

The ratio of items (i) minus (ii) minus (iii) divided by the sum of items (iv) plus (v) plus (vi) = Consolidated Fixed Charge Coverage Ratio \_\_\_\_ : \_\_\_\_

(b) The Consolidated Fixed Charge Coverage Ratio set forth above [is/is not] greater than or equal to the amount set forth in Section 7.11(b) of the Loan Agreement for the Measurement Period, which is 1.10 to 1.00.

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including the final scheduled payment of amounts due under the Revolving Credit Agreement at maturity and (b) payment at maturity of the Indebtedness of ThermaClime to Parent under the \$6,950,000 10 3/4 % bonds maturing in November 2007, provided that Parent is the sole holder of such Indebtedness and such Indebtedness is at all times subject to the terms of the Intercompany Loan Subordination Agreement.

FORM OF BORROWING NOTICE

Date: \_\_\_\_\_, 2007

To: Bank of Utah, as Payment Agent

Ladies and Gentlemen:

Reference is made to that certain Term Loan Agreement, dated as of \_\_\_\_\_, 2007 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among THERMACLIME, INC. ("ThermaClime") and certain Affiliates of ThermaClime, as borrowers (collectively, the "Borrowers" and each a "Borrower"), LSB Industries, Inc., as guarantor, each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), Banc of America Leasing & Capital, LLC, as Administrative Agent and Collateral Agent, and Bank of Utah, as Payment Agent.

The undersigned Borrowers hereby request the borrowing of the Term Loans:

1. On \_\_\_\_\_ (a Business Day at least one (1) Business Day following the date of this notice).
2. In the amount of \$\_\_\_\_\_.
3. The proceeds of which shall be disbursed as follows:

[INCLUDE WIRE TRANSFER INSTRUCTIONS]

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THERMACLIME, INC.  
CHEROKEE NITROGEN HOLDINGS, INC.,  
NORTHWEST FINANCIAL CORPORATION,  
CHEMEX I CORP.,  
CHEMEX II CORP.,  
CHEROKEE NITROGEN COMPANY,  
CLIMACOOOL CORP.,  
CLIMATECRAFT, INC.,  
CLIMATE MASTER, INC.,  
DSN CORPORATION,  
EL DORADO CHEMICAL COMPANY,  
INTERNATIONAL ENVIRONMENTAL CORPORATION,  
KOAX CORP.,  
LSB CHEMICAL CORP.,  
THE CLIMATE CONTROL GROUP, INC.,  
TRISON CONSTRUCTION, INC.,  
THERMACLIME TECHNOLOGIES, INC.,  
XPEDIAIR, INC.

By:  
Name:  
Title:

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## ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [the][each] <sup>2</sup> Assignor identified in item 1 below ([the][each, an] “Assignor”) and [the][each] <sup>3</sup> Assignee identified in item 2 below ([the][each, an] “Assignee”). [It is understood and agreed that the rights and obligations of [the Assignors][the Assignees] <sup>4</sup> hereunder are several and not joint.] <sup>5</sup> Capitalized terms used but not defined herein shall have the meanings given to them in the Term Loan Agreement identified below (the “Loan Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, [the][each] Assignor hereby irrevocably sells and assigns to [the Assignee][the respective Assignees], and [the][each] Assignee hereby irrevocably purchases and assumes from [the Assignor][the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Loan Agreement, as of the Effective Date inserted by the Collateral Agent as contemplated below (i) all of [the Assignor’s][the respective Assignors’] rights and obligations in [its capacity as a Lender][their respective capacities as Lenders] under the Loan Agreement, the Loan Documents and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor][the respective Assignors] under the respective facilities identified below and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)][the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Loan Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned by [the][any] Assignor to [the][any] Assignee pursuant to clauses (i) and (ii) above being referred to herein collectively as [the][an] “Assigned Interest”). Each such sale and assignment is without recourse to [the][any] Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by [the][any] Assignor.

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<sup>2</sup> For bracketed language here and elsewhere in this form relating to the Assignor(s), if the assignment is from a single Assignor, choose the first bracketed language. If the assignment is from multiple Assignors, choose the second bracketed language.

<sup>3</sup> For bracketed language here and elsewhere in this form relating to the Assignee(s), if the assignment is to a single Assignee, choose the first bracketed language. If the assignment is to multiple Assignees, choose the second bracketed language.

<sup>4</sup> Select as appropriate.

<sup>5</sup> Include bracketed language if there are either multiple Assignors or multiple Assignees.

1. Assignor[s]:
2. Assignee[s]:  
[for each Assignee, indicate [Affiliate][Approved Fund] of [identify Lender]]
3. Borrower(s): ThermaClime, Inc. and certain of its Affiliates
4. Collateral Agent: Banc of America Leasing & Capital, LLC, as the collateral agent under the Loan Agreement
5. Loan Agreement: Term Loan Agreement, dated as of \_\_\_\_\_, 2007, among THERMACLIME, INC. and certain Affiliates of ThermaClime, as borrowers (collectively, the "Borrowers" and each a "Borrower"), LSB Industries, Inc., as guarantor, each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), Banc of America Leasing & Capital, LLC, as Administrative Agent and Collateral Agent, and Bank of Utah, as Payment Agent.
6. Assigned Interest[s]:

Assignor[s] <u>6</u>	Assignee[s] <u>7</u>	Facility Assigned	Aggregate Amount		Percentage
			of Term Loans for all Lenders <u>8</u>	Amount of Term Loans Assigned	Assigned of Term Loans <u>9</u>
		Term Loans	\$ _____	\$ _____	_____ %
		Term Loans	\$ _____	\$ _____	_____ %
		Term Loans	\$ _____	\$ _____	_____ %

7. [Trade Date: \_\_\_\_\_]<sup>10</sup>  
**Effective Date:** \_\_\_\_\_, 20\_\_ [TO BE INSERTED BY COLLATERAL AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

<sup>6</sup> List each Assignor, as appropriate.

<sup>7</sup> List each Assignee, as appropriate.

<sup>8</sup> Amounts in this column and in the column immediately to the right to be adjusted by the counterparties to take into account any payments or prepayments made between the Trade Date and the Effective Date.

<sup>9</sup> Set forth, to at least 9 decimals, as a percentage of the Term Loans of all Lenders thereunder.

<sup>10</sup> To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By:  
Title:

ASSIGNEE

[NAME OF ASSIGNEE]

By:  
Title:

[Consented to and]<sup>11</sup> Accepted:

BANC OF AMERICA LEASING & CAPITAL, LLC,  
as Collateral Agent

By:  
Title:

[Consented to:]<sup>12</sup>

THERMACLIME, INC.

By:  
Title:

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<sup>10</sup> To be added only if the consent of the Collateral Agent is required by the terms of the Loan Agreement.

<sup>11</sup> To be added only if the consent of the Company is required by the terms of the Loan Agreement.



## STANDARD TERMS AND CONDITIONS FOR

## ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. [The][Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the][the relevant] Assigned Interest, (ii) [the][such] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim created by Assignor and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Loan Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of any Borrower, any of their Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by any Borrower, any of their Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. [The][Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Loan Agreement, (ii) it meets all the requirements to be an assignee under the definition of "Eligible Assignee" and Sections 11.06(b)(iii), (v) and (vi) of the Loan Agreement (subject to such consents, if any, as may be required under Section 11.06(b)(iii) of the Loan Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Loan Agreement and other Loan Documents to which it is bound as a Lender thereunder and, to the extent of [the][the relevant] Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by [the][such] Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire [the][such] Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Loan Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, (vi) it has, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase [the][such] Assigned Interest, and (vii) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Loan Agreement, duly completed and executed by [the][such] Assignee; and (b) agrees that (i) it will, independently and without reliance upon any Agent, [the][any] Assignor or any other Lender, 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 the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. **Payments.** From and after the Effective Date, the Collateral Agent shall make all payments in respect of [the][each] Assigned Interest (including payments of principal, interest, fees and other amounts) to [the][the relevant] Assignor for amounts which have accrued to but excluding the Effective Date and to [the][the relevant] Assignee for amounts which have accrued from and after the Effective Date.

3. **General Provisions.** This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

## SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of November 2, 2007 (as amended, supplemented, amended and restated or otherwise modified from time to time, this "Security Agreement"), is made by CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation, NORTHWEST FINANCIAL CORPORATION, an Oklahoma corporation, CHEROKEE NITROGEN COMPANY, an Oklahoma corporation, DSN CORPORATION, an Oklahoma corporation, and EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, (each individually a "Grantor" and collectively, the "Grantors"), in favor of BANC OF AMERICA LEASING & CAPITAL LLC, as the collateral agent (together with its successor(s) thereto in such capacity, the "Collateral Agent") for each of the Secured Parties.

## WITNESSETH:

WHEREAS, pursuant to a Term Loan Agreement, dated as of November 2, 2007 (as amended, supplemented, amended and restated or otherwise modified from time to time, the "Loan Agreement"), among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), and certain subsidiaries and an affiliate of ThermaClime including each of the Grantors, as borrowers (collectively, together with ThermaClime, the "Borrowers"), LSB Industries, Inc., as guarantor; the various financial institutions and other Persons from time to time party thereto, Banc of America Leasing & Capital, LLC, as administrative agent, and the Collateral Agent, the Lenders have agreed, subject to the terms and conditions set forth in the Loan Agreement, to make Term Loans to the Borrowers; and

WHEREAS, as a condition precedent to the making of the Term Loans under the Loan Agreement, each Grantor is required to execute and deliver this Security Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce the Lenders to make Term Loans to the Grantors and the other Borrowers, each Grantor agrees, for the benefit of each Secured Party, as follows:

ARTICLE I  
DEFINITIONS

SECTION 1.1. Certain Terms. The following terms (whether or not underscored) when used in this Security Agreement, including its preamble and recitals, shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof):

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

"Books" means all of each Borrower's now owned or hereafter acquired books and records (including all of its records indicating, summarizing, or evidencing its assets (including the UCC 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).

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“**Cherokee Collateral**” means (a) the Cherokee Plant, (b) all Material Contracts, Assigned Agreements, Support Rights and Interests, Intellectual Property Collateral, and Permits, (c) all data bases, skill, experience, processes, models, drawings, manuals, materials, records and all other Cherokee General Intangibles, (d) all insurance proceeds arising in connection with the Cherokee Plant or used in or necessary to conduct the Facility Business or the operation or maintenance of the Facility Assets, and (e) all Proceeds of the Cherokee Collateral described in clauses (a) through (d) above; provided, however, the Cherokee Collateral shall not include any of the Excluded Assets.

“**Cherokee General Intangibles**” means the General Intangibles which, in whole or in part, relate to the Cherokee Plant or are used in or necessary to conduct the Facility Business or the operation or maintenance of the Facility Assets.

“**Cherokee Plant**” means (a) the Cherokee Site and (b) the land, land improvements, buildings, Fixtures, Equipment (including, without limitation, chemical processing equipment, office equipment, barge unloading equipment and laboratory equipment), the Kellogg Company ammonia processing plant, the Chemical Industrial Engineers Company nitric acid plant, the D.M. Weatherly Company nitric acid plant, the Technip Company UREA plant, the ammonium nitrate prill plant, a pollution control and irrigation system, cooling towers, a demineralizer, transformers, substations, storage tanks, office furniture, computers and software, vehicles and forklift trucks (other than rolling stock or titled vehicles), an auxiliary boiler, a deaerator system, product storage tanks, air compressors, an electrical substation and transformers, process plant piping, pumps and wiring, and other tangible assets located on the Cherokee Site or used in or necessary to the conduct of the Facility Business or the operation or maintenance of the Facility Assets at the Cherokee Site from time to time, including, without limitation, as described on Part A of Schedule 1.1(a).

“**Cherokee Site**” means the real property described on Schedule 1.1(b).

“**Collateral**” is defined in Section 2.1.

“**Collateral Agent**” is defined in the preamble.

“**El Dorado Collateral**” means (a) the El Dorado Plant, (b) all Material Contracts, Assigned Agreements, Support Rights and Interests, Intellectual Property Collateral, and Permits, (c) all data bases, data, skill, experience, processes, models, drawings, manuals, materials, records and all other El Dorado General Intangibles, (d) all insurance proceeds arising in connection with the El Dorado Plant or used in or necessary to conduct the Facility Business or the operation or maintenance of the Facility Assets, and (e) all Proceeds of the El Dorado Collateral described in clauses (a) through (d) above; provided, however, the El Dorado Collateral shall not include any of the Excluded Assets.<sup>1</sup>

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<sup>1</sup> Final Collateral descriptions are subject to final update and modification by the Appraiser.

**“El Dorado General Intangibles”** means General Intangibles which, in whole or in part, relate to the El Dorado Plant or are used in or necessary to conduct the Facility Business or the operation or maintenance of the Facility Assets.

**“El Dorado Plant”** means (a) the El Dorado Site and (b) the land, land improvements, buildings, Fixtures, Equipment (including, without limitation, chemical processing equipment, office equipment, maintenance and machine shop equipment and laboratory equipment), the Chemico east/west weak nitric plant, the Chemico sulfuric acid plant, the Chemico E2 high-density ammonium nitrate prill plant, the K-T lo-density ammonium nitrate prill plant, a 100 TPD mixed acids plant, the D.M. Weatherly nitric acid plant, the UHDE 285 TPD direct strong nitric acid processing plant, the CB&I tank farm including ammonia storage spheres, a refrigerated ammonia tank and ammonia storage tanks, a plant steam generation system including Babcock & Wilcox processing boilers, a plant electrical generation system including substations and transformers, a wastewater ph neutralization system, a pollution control and irrigation system, cooling towers, air compressors, transformers, substations, storage tanks, office furniture, computers and software, vehicles, forklift trucks (other than rolling stock or titled vehicles), process plant piping, pumps and wiring, and other tangible assets located on the El Dorado Site or used in or necessary to the conduct of the Facility Business or the operation or maintenance of the Facility Assets at the El Dorado Site from time to time, including, without limitation, as described on Part B of Schedule 1.1(a).

**“El Dorado Site”** means the real property described on Schedule 1.1(c).

**“Equipment”** means all “equipment” as such term is defined in the UCC, now owned or hereafter acquired by any Grantor and located on the Cherokee Site or the El Dorado Site or used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets at either of the Sites, including all such Grantor’s machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment, including embedded software and peripheral equipment, and all engineering, processing and manufacturing equipment, office machinery, furniture, materials, handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles (other than rolling stock or titled vehicles), other equipment of every kind and nature, trade fixtures and fixtures not forming a part of real property, together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings, instructions, warranties and rights with respect thereto, and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

**“Excluded Assets”** means (i) all titled vehicles, railcars, rolling stock, Accounts, Non Facility General Intangibles and Books, Inventory, Investment Property, and Negotiable Collateral, (ii) all insurance proceeds relating to the assets described in clause (i) above, and (iii) all Proceeds of the assets described in clauses (i) and (ii) above.

**“Facility Business”** means the business conducted by the Borrowers at the Cherokee Site and the El Dorado Site.

“Fixtures” means all “fixtures” as such term is defined in the UCC, now owned or hereafter acquired by any Grantor.

“General Intangibles” means all of Grantor’s now owned or hereafter acquired right, title, and interest with respect to “general intangibles” as that term is defined in the UCC (including contract rights, 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, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, and catalogs) and any and all supporting obligations in respect thereof.

“Grantor” and “Grantors” are defined in the preamble.

“Intellectual Property Collateral” means patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, service marks, trade names, trade styles, patent applications, trademark applications and service mark applications, trade secrets, proprietary or confidential information, inventions (whether or not patented or patentable), technical information, procedures, designs, knowledge and know-how used in or necessary to the conduct of the Facility Business or the operation and maintenance of the Facility Assets from time to time, and any licenses and rights related to any of the foregoing, including without limitation, with respect to the Grantors, those patents, trademarks, service marks, trade names, and copyright registrations set forth on Schedule 3.4 to this Security Agreement and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present and future infringement of any of the foregoing.

“Inventory” means all Borrowers’ 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 Borrower as lessor, goods that are furnished by a Borrower under a contract of service, and raw materials, work in process, or materials used or consumed in a Borrower’s business.

“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 UCC, and any and all supporting obligations in respect thereof.

“Loan Agreement” is defined in the first recital.

“Negotiable Collateral” means all of Borrowers’ now owned or 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.

“Non Facility General Intangibles and Books” means General Intangibles and Books of Borrowers, but excluding all (i) Cherokee General Intangibles, (ii) El Dorado General Intangibles and (iii) Intellectual Property Collateral.<sup>2</sup>

“Proceeds” has the meaning set forth in Article 9 of the UCC.

“Security Agreement” is defined in the preamble.

SECTION 1.2. Loan Agreement Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Security Agreement, including its preamble and recitals, have the meanings provided in the Loan Agreement.

## ARTICLE II SECURITY INTEREST

SECTION 2.1. Grant of Security Interest. Each Grantor hereby grants to the Collateral Agent, for its benefit and the ratable benefit of each other Secured Party, a continuing security interest in all of such Grantor’s following property, whether now or hereafter existing, owned or acquired by such Grantor, and wherever located (collectively, the “Collateral”):

- (a) the Cherokee Collateral;
  - (b) the El Dorado Collateral;
  - (c) all books, records, writings, databases, information and other property relating to or used in connection with, evidencing, embodying, incorporating or referring to, any of the foregoing in this Section or the Facility Business; and
  - (d) all Proceeds of the foregoing and, to the extent not otherwise included,
- (i) all payments under insurance (whether or not the Collateral Agent is the loss payee thereof) and (ii) all tort claims relating to the foregoing.

Notwithstanding anything hereto to the contrary, the Collateral shall not include any of the Excluded Assets.

SECTION 2.2. Security for Obligations. This Security Agreement and the Collateral in which the Collateral Agent for the benefit of the Secured Parties is granted a security interest hereunder by the Grantors secure the payment and performance of all of the Obligations.

SECTION 2.3. Grantors Remain Liable. Anything herein to the contrary notwithstanding:

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<sup>2</sup>Note to Foothill: As we discussed, to the extent that any books, records or intellectual property items are carved out of your collateral by clauses (i), (ii) and (iii), Foothill is given access and a license to use these items in the Inter-Lender Agreement.

(a) the Grantors will remain liable under the contracts and agreements included in the Collateral to the extent set forth therein, and will perform all of their duties and obligations under such contracts and agreements to the same extent as if this Security Agreement had not been executed;

(b) the exercise by the Collateral Agent of any of its rights hereunder will not release any Grantor from any of its duties or obligations under any such contracts or agreements included in the Collateral; and

(c) no Secured Party will have any obligation or liability under any contracts or agreements included in the Collateral by reason of this Security Agreement, nor will any Secured Party be obligated to perform any of the obligations or duties of any Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 2.4. Security Interest Absolute, etc. This Security Agreement shall in all respects be a continuing, absolute, unconditional and irrevocable grant of security interest, and shall remain in full force and effect until the Obligations have been indefeasibly paid in full. All rights of the Secured Parties and the security interests granted to the Collateral Agent (for its benefit and the ratable benefit of each other Secured Party) hereunder, and all obligations of the Grantors hereunder, shall, in each case, be absolute, unconditional and irrevocable irrespective of:

(a) any lack of validity, legality or enforceability of any Loan Document;

(b) the failure of any Secured Party (i) to assert any claim or demand or to enforce any right or remedy against any Loan Party or any other Person (including any other Grantor) under the provisions of any Loan Document or otherwise, or (ii) to exercise any right or remedy against any other guarantor (including any other Grantor) of, or collateral securing, any Obligations;

(c) any change in the time, manner or place of payment of, or in any other term of, all or any part of the Obligations, or any other extension, compromise or renewal of any Obligations;

(d) any reduction, limitation, impairment or termination of any Obligations for any reason, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to (and each Grantor hereby waives any right to or claim of) any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or occurrence affecting, any Obligations or otherwise;

(e) any amendment to, rescission, waiver, or other modification of, or any consent to or departure from, any of the terms of any Loan Document;

(f) any addition, exchange or release of any collateral or of any Person that is (or will become) a grantor (including the Grantors hereunder) of the Obligations, or any surrender or non-perfection of any collateral, or any amendment to or waiver or release or addition to, or consent to or departure from, any other guaranty held by any Secured Party securing any of the Obligations; or



(g) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, any Loan Party, any surety or any guarantor.

**SECTION 2.5. Postponement of Subrogation.** Each Grantor agrees that it will not exercise any rights against another Grantor which it may acquire by way of rights of subrogation under any Loan Document to which it is a party until the Indefeasible Payment and Performance of All Obligations has occurred. No Grantor shall seek or be entitled to seek any contribution or reimbursement from any Loan Party, in respect of any payment made under any Loan Document, until after the Indefeasible Payment and Performance of All Obligations has occurred. Any amount paid to such Grantor on account of any such subrogation rights prior to the indefeasible payment in full of the Obligations shall be held in trust for the benefit of the Secured Parties and shall immediately be paid and turned over to the Collateral Agent for the benefit of the Secured Parties in the exact form received by such Grantor (duly endorsed in favor of the Collateral Agent, if required), to be credited and applied against the Obligations, whether matured or unmatured, in accordance with Section 6.1. In furtherance of the foregoing, at all times prior to the Indefeasible Payment and Performance of All Obligations, such Grantor shall refrain from taking any action or commencing any proceeding against any Loan Party (or its successors or assigns, whether in connection with a bankruptcy proceeding or otherwise) to recover any amounts in respect of payments made under this Security Agreement to any Secured Party. The foregoing provisions of this Section 2.5 are in addition to and not by way of limitation of the provisions set forth in Article XI of the Loan Agreement.

**ARTICLE III  
REPRESENTATIONS AND WARRANTIES**

In order to induce the Secured Parties to enter into the Loan Agreement and make the Term Loans, the Grantors represent and warrant to each Secured Party as of the date hereof, the date of the Borrowing Notice and the Borrowing Date, as set forth below.

**SECTION 3.1. Grantor Name, Location, etc.**

- (a) The jurisdiction in which each Grantor is located for purposes of Sections 9-301 and 9-307 of the UCC is set forth in Part A of Schedule 3.1.
- (b) Each location a secured party would have filed a UCC financing statement in the five years prior to the date hereof to perfect a security interest in Equipment and General Intangibles owned by such Grantor is set forth in Part B of Schedule 3.1.
- (c) The Grantors do not have any trade names (other than the respective corporate names of the Grantors except to the extent such names or portions thereof are used in any other trade names) other than those set forth in Part C of Schedule 3.1.

(d) During the four months preceding the date hereof, no Grantor has been known by any legal name different from the one set forth on the signature page hereto, nor has such Grantor been the subject of any merger or other corporate reorganization, except as set forth in Part D of Schedule 3.1 hereto.

(e) Each Grantor's federal taxpayer identification number is (and, during the four months preceding the date hereof, such Grantor has not had a federal taxpayer identification number different from that) set forth in Part E of Schedule 3.1 hereto.

(f) The name set forth on the signature page attached hereto is the true and correct legal name (as defined in the UCC) of each Grantor.

SECTION 3.2. Ownership, No Liens, etc. Each Grantor has rights in or the power to transfer the Collateral, and owns its Collateral free and clear of any Lien, except for any security interest (a) created by this Security Agreement or (b) that is a Permitted Encumbrance. No effective UCC financing statement or other filing similar in effect (other than Permitted Encumbrances solely with respect to a filing similar in effect) covering all or any part of the Collateral is on file in any recording office, except those filed in favor of the Collateral Agent relating to this Security Agreement or as to which a duly authorized termination statement relating to such UCC financing statement or other instrument has been delivered to the Collateral Agent on the Closing Date. There are no parties to the Intercompany Leases other than the Grantors.

SECTION 3.3. Possession of Equipment. Each Grantor has, and agrees that it will maintain, exclusive possession of its Equipment constituting Collateral, other than (i) Equipment in transit in the ordinary course of business and (ii) Equipment that is in the possession or control of a warehouseman, bailee agent or other Person (other than a Person controlled by or under common control with the applicable Grantor) which other Person holds such Equipment in the ordinary course of its business for purposes of repairing or maintaining such Equipment. In the case of Equipment described in clause (ii) above, no lessor or warehouseman of any premises or warehouse upon or in which such Equipment is located has (i) issued any warehouse receipt or other receipt in the nature of a warehouse receipt in respect of any such Equipment, (ii) issued any document for any such Equipment, (iii) received notification of any Secured Party's interest (other than the security interest granted hereunder) in any such Equipment or (iv) any Lien on any such Equipment.

SECTION 3.4. Intellectual Property Collateral.

(a) In respect of the Intellectual Property Collateral:

(i) set forth in Part A of Schedule 3.4 hereto is a complete and accurate list of all issued and applied-for patents and all patent licenses owned by each Grantor and used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets, including those that have been issued by or are on file with the United States Patent and Trademark Office;

(ii) set forth in Part B of Schedule 3.4 hereto is a complete and accurate list all registered and applied-for trademarks and all trademark licenses owned by each Grantor and used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets, including those that are registered, or for which an application for registration has been made, with the United States Patent and Trademark Office;

(iii) set forth in Part C of Schedule 3.4 hereto is a complete and accurate list of all registered and applied-for copyrights and all copyright licenses owned by each Grantor and used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets, including those that are registered, or for which an application for registration has been made, with the United States Copyright Office;

(iv) the Grantors are the sole and exclusive owners of the entire and unencumbered rights, title and interest in and to the Intellectual Property Collateral (except for the Permitted Encumbrances), and no claim has been made that any such Grantor is or may be, in conflict with, infringing, misappropriating, diluting, misusing or otherwise violating any of the rights of any third party or that challenges the ownership, use, protectability, registerability, validity, enforceability of any Intellectual Property Collateral and, to such Grantor's knowledge, there is no valid basis for any such claims, and the Grantors have not licensed the Intellectual Property Collateral to any Affiliates or any third parties.

(b) In respect of each Grantor:

(i) the Intellectual Property Collateral owned by it is valid, subsisting, and enforceable and has not been abandoned or adjudged invalid or unenforceable, in whole or in part, and no consents from third parties are required in connection with the collateral assignment to the Collateral Agent of any licenses constituting Intellectual Property Collateral;

(ii) such Grantor has made all necessary filings and recordings, including recordings in the United States Patent and Trademark Office and the United States Copyright Office, as appropriate, to protect its interest in (x) the Intellectual Property Collateral that is set forth in Part B of Schedule 3.4 and (y) all other Intellectual Property used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets, which in the case of clause (y) would have a Material Adverse Effect if Grantor failed to make such filings or recordings;

(iii) no action by such Grantor is currently pending or threatened in writing which asserts that any third party is infringing, misappropriating, diluting, misusing or voiding any Intellectual Property Collateral and, to such Grantor's knowledge, no third party is infringing upon, misappropriating, diluting, misusing or voiding any Intellectual Property Collateral owned or used by such Grantor in any material respect, or any of its respective licensees;

(iv) no settlement or consents, covenants not to sue, nonassertion assurances, or releases have been entered into by such Grantor or to which such Grantor is bound that adversely affects its rights to own or use any Intellectual Property Collateral;

(v) such Grantor has executed and delivered to the Collateral Agent, Intellectual Property Collateral security agreements for all Intellectual Property Collateral owned by such Grantor;

(vi) the consummation of the transactions contemplated by the Loan Agreement and this Security Agreement will not result in the termination or material impairment of any of the Intellectual Property Collateral;

(vii) such Grantor owns directly or is entitled to use by license or otherwise, all Intellectual Property used in, or necessary for or of importance to the business conducted at the Cherokee Plant and the El Dorado Plant.

SECTION 3.5. Validity, etc.

(a) This Security Agreement creates a valid security interest in the Collateral securing the payment of the Obligations.

(b) Each Grantor has filed or caused to be filed all UCC-1 financing statements in the filing office for each Grantor's jurisdiction of organization listed in Part A of Schedule 3.1 (collectively, the "Financing Statements") (or has authenticated and delivered to the Collateral Agent the Financing Statements suitable for filing in such offices) and has taken all other:

(i) actions necessary to obtain control of the Collateral as provided in Sections 9-104, 9-105, 9-106 and 9-107 of the UCC in accordance with Article IV; and

(ii) actions necessary to perfect the Collateral Agent's security interest with respect to any Collateral evidenced by a certificate of ownership.

(c) Upon the filing of the Financing Statements with the appropriate agencies therefor the security interests created under this Security Agreement shall constitute a perfected first priority security interest in the Collateral described on such Financing Statements in favor of the Collateral Agent on behalf of the Secured Parties to the extent that a security interest therein may be perfected by filing pursuant to the relevant UCC, subject only to Permitted Encumbrances.

SECTION 3.6. Authorization, Approval, etc. Except as have been obtained or made and are in full force and effect, no authorization, approval or other action by, and no notice to or filing with, any Governmental Authority, except for the Assignments and Consents to be delivered pursuant to Section 4.01(a)(iii)(D) of the Loan Agreement, or any other third party is required either

- (a) for the grant by the Grantors of the security interest granted hereby or for the execution, delivery and performance of this Security Agreement by the Grantors;
- (b) for the perfection or maintenance of the security interests hereunder including the first priority nature of such security interest (except with respect to the Financing Statements or UCC-3 Continuation Statements required to be filed in the future with respect thereof or, with respect to Intellectual Property Collateral, the recordation of any agreements with the United States Patent and Trademark Office or the United States Copyright Office) or the exercise by the Collateral Agent of its rights and remedies hereunder; or
- (c) for the exercise by the Collateral Agent of the rights provided for in this Security Agreement.

ARTICLE IV  
COVENANTS

Each Grantor covenants and agrees that, until the indefeasible payment in full of the Obligations, such Grantor will perform, comply with and be bound by the obligations set forth below.

SECTION 4.1. Change of Name, etc. No Grantor will change its name or place of incorporation or organization or federal taxpayer identification number except upon 30 days' prior written notice to the Collateral Agent.

SECTION 4.2. Equipment.

(a) Each Grantor shall promptly inform the Collateral Agent of any material additions to or deletions from its Equipment constituting Collateral. No Grantor shall permit any of its Equipment constituting Collateral to become a Fixture with respect to real property or to become an accession with respect to other personal property with respect to which real or personal property the Collateral Agent does not have a Lien except as provided for in the final paragraph of Section 7.01 of the Loan Agreement. No Grantor will, without the Collateral Agent's prior written consent, alter or remove any identifying symbol or number on any of such Grantor's Equipment constituting Collateral.

(b) Except as set forth in the Loan Agreement, no Grantor shall, without the Collateral Agent's prior written consent, sell, license, lease as a lessor, or otherwise dispose of any of the Grantor's Equipment.

SECTION 4.3. As to Intellectual Property Collateral. Each Grantor covenants and agrees to comply with the following provisions as such provisions relate to any Intellectual Property Collateral used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets:

- (a) such Grantor shall not (i) do or fail to perform any act whereby any of the patents or patent licenses may lapse or become abandoned or dedicated to the public or

unenforceable, (ii) itself or permit any of its licensees to (A) fail to continue to use any of the trademarks, trade names or trademark licenses in order to maintain the Intellectual Property Collateral in full force free from any claim of abandonment for non-use, (B) fail to maintain as in the past the quality of products and services offered under the trademarks, trade names or trademark licenses, or (C) do or permit any act or knowingly omit to do any act whereby any of the trademarks, trade names or trademark licenses may lapse or become invalid or unenforceable, or (iii) do or permit any act or knowingly omit to do any act whereby any of the copyrights or copyright licenses or any of the trade secrets may lapse or become invalid or unenforceable or placed in the public domain except upon expiration of the end of an unrenovable term of a registration thereof, unless, in the case of any of the foregoing requirements in clauses (i), (ii) and (iii), such Grantor shall reasonably and in good faith determine that any of such Intellectual Property Collateral is of negligible economic value to such Grantor or is no longer used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets, and the loss of such Intellectual Property Collateral would not have a Material Adverse Effect on the business;

(b) such Grantor shall promptly notify the Collateral Agent if it knows, or reasonably suspects, that any application or registration relating to any material item of the Intellectual Property Collateral may become abandoned or dedicated to the public or placed in the public domain or invalid or unenforceable, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any foreign counterpart thereof or any court) regarding such Grantor's ownership of any Intellectual Property Collateral, its right to register the same or to keep and maintain and enforce the same except with respect to such Intellectual Property which such Grantor reasonably determines is of negligible economic value to such Guarantor or is no longer used in or necessary to the conduct of the Facility Business or the operation of the Facility Assets;

(c) such Grantor shall notify Collateral Agent within a reasonable period (i) of such Grantor or any of its agents, employees, designees or licensees filing an application for the registration of any patent or trademark constituting Intellectual Property Collateral with the United States Patent and Trademark Office or (ii) of such Grantor receiving, as owner or exclusive licensee, a copyright registration constituting Intellectual Property Collateral with the United States Copyright Office, and upon request of the Collateral Agent, promptly execute and deliver the Trademark Security Agreement and other documents as the Collateral Agent may request to evidence the Collateral Agent's security interest in such Intellectual Property Collateral;

(d) except as permitted under clause (a) and (b) above, such Grantor shall take all reasonable steps, including in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office, to maintain and pursue any application (and to obtain the relevant registration) filed with respect to, and to maintain any registration of, the Intellectual Property Collateral, including the filing of applications for renewal, affidavits of use, affidavits of incontestability and opposition, interference and cancellation proceedings and the payment of fees and taxes; and

(e) such Grantor shall promptly, but within sixty (60) days, after it obtains an ownership interest in any patent or trademark constituting Intellectual Property Collateral, execute and deliver to the Collateral Agent an IP Security Agreement, and Grantor shall promptly, but within thirty (30) days, after it obtains an ownership interest or an exclusive license in any copyright constituting Intellectual Property Collateral, execute and deliver to the Collateral Agent an IP Security Agreement, and in each case such Grantor shall execute and deliver to the Collateral Agent any other document required to acknowledge or register, record or perfect the Collateral Agent's interest in any part of such item of Intellectual Property Collateral unless such Grantor shall determine in good faith using its commercially reasonable business judgment that any such Intellectual Property Collateral is not material and is of negligible economic value to such Grantor.

SECTION 4.4. Further Assurances, etc. Each Grantor agrees that, (i) from time to time at its own expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or that the Collateral Agent may request, in order to perfect, preserve and protect any security interest granted or purported to be granted hereby or to enable the Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, such Grantor will

(a) file (and hereby authorize the Collateral Agent to file) such Financing Statements or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or that the Collateral Agent may request in order to perfect and preserve the security interests and other rights granted or purported to be granted to the Collateral Agent hereby; and

(b) furnish to the Collateral Agent, from time to time at the Collateral Agent's request, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Collateral Agent may request, all in reasonable detail.

With respect to the foregoing and the grant of the security interest hereunder, each Grantor hereby authorizes the Collateral Agent to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral; and to make all relevant filings with the United States Patent and Trademark Office and the United States Copyright Office in respect of the Intellectual Property Collateral. Each Grantor agrees that a carbon, photographic or other reproduction of this Security Agreement or any UCC financing statement covering the Collateral or any part thereof shall be sufficient as a UCC financing statement where permitted by law.

#### ARTICLE V THE COLLATERAL AGENT

SECTION 5.1. Collateral Agent Appointed Attorney-in-Fact. Each Grantor hereby irrevocably appoints the Collateral Agent its attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, from time to time in the

Collateral Agent's discretion, following the occurrence and during the continuance of an Event of Default, to take any action and to execute any instrument which the Collateral Agent may deem necessary or advisable to accomplish the purposes of this Security Agreement, including:

- (a) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;
- (b) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above;
- (c) to file any claims or take any action or institute any proceedings which the Collateral Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Collateral Agent with respect to any of the Collateral; and
- (d) to perform the affirmative obligations of such Grantor hereunder.

Each Grantor hereby acknowledges, consents and agrees that the power of attorney granted pursuant to this Section is irrevocable and coupled with an interest.

SECTION 5.2. Grant of License to Use Intellectual Property Collateral. For the purpose of enabling Collateral Agent to exercise rights and remedies under Article VI hereof (including, without limiting the terms of Article VI hereof, in order to take possession of, hold, preserve, process, assemble, prepare for sale, market for sale, sell or otherwise dispose of Collateral) at such time as Collateral Agent shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby grants to Collateral Agent, for the benefit of Collateral Agent and Lenders, which shall be effective upon the occurrence of an Event of Default and during the continuance thereof, an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to such Grantor) to use, license or sublicense any Intellectual Property Collateral now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof.

SECTION 5.3. Collateral Agent Has No Duty. The powers conferred on the Collateral Agent hereunder are solely to protect its interest (on behalf of the Secured Parties) in the Collateral and shall not impose any duty on it to exercise any such powers. Except for reasonable care of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Collateral Agent shall have no duty as to any Collateral or responsibility for taking any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

#### ARTICLE VI REMEDIES

SECTION 6.1. Certain Remedies. If any Event of Default shall have occurred and be continuing:



(a) The Collateral Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a Secured Party on default under the UCC (whether or not the UCC applies to the affected Collateral) and also may

(i) take possession of any Collateral not already in its possession without demand and without legal process;

(ii) require each Grantor to, and each Grantor hereby agrees that it will, at its expense and upon request of the Collateral Agent forthwith, assemble all or part of the Collateral as directed by the Collateral Agent and make it available to the Collateral Agent at a place to be designated by the Collateral Agent that is reasonably convenient to both parties,

(iii) enter onto the property where any Collateral is located and take possession thereof without demand and without legal process;

(iv) without notice except as specified below, lease, license, sell or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Collateral Agent may deem commercially reasonable. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' prior notice to such Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash Proceeds received by the Collateral Agent in respect of any sale of, collection from, or other realization upon, all or any part of the Collateral shall be applied by the Collateral Agent against, all or any part of the Obligations as set forth in Section 8.03 of the Loan Agreement.

(c) The Collateral Agent may

(i) transfer all or any part of the Collateral into the name of the Collateral Agent or its nominee, with or without disclosing that such Collateral is subject to the Lien hereunder,

(ii) notify the parties obligated on any of the Collateral to make payment to the Collateral Agent of any amount due or to become due thereunder,

(iii) enforce collection of any of the Collateral by suit or otherwise, and surrender, release or exchange all or any part thereof, or compromise or extend or

renew for any period (whether or not longer than the original period) any obligations of any nature of any party with respect thereto,

(iv) endorse any checks, drafts, or other writings in any Grantor's name to allow collection of the Collateral,

(v) take control of any Proceeds of the Collateral, and

(vi) execute (in the name, place and stead of any Grantor) endorsements, assignments and other instruments of conveyance or transfer with respect to all or any of the Collateral.

(d) Without limiting the foregoing, in respect of the Intellectual Property Collateral:

(i) upon the request of the Collateral Agent, each Grantor shall execute and deliver to the Collateral Agent an assignment or assignments of the Intellectual Property Collateral, subject (in the case of any licenses thereunder) to any valid and enforceable requirements to obtain consents from any third parties, and such other documents as are necessary or appropriate to carry out the intent and purposes hereof;

(ii) each Grantor agrees that the Collateral Agent may file applications and maintain registrations for the protection of the Intellectual Property Collateral and/or bring suit in the name of such Grantor, the Collateral Agent or any Secured Party to enforce the Intellectual Property Collateral and any licenses thereunder and, upon the request of the Collateral Agent, each Grantor shall use all commercially reasonable efforts to assist with such filing or enforcement (including the execution of relevant documents); and

(iii) in the event that the Collateral Agent elects not to make any filing or bring any suit as set forth in clause (ii), each Grantor shall, upon the request of Collateral Agent, use all commercially reasonable efforts, whether through making appropriate filings or bringing suit or otherwise, to protect, enforce and prevent the infringement, misappropriation, dilution, unauthorized use or other violation of the Intellectual Property Collateral.

Notwithstanding the foregoing provisions of this Section 6.1, for the purposes of this Section 6.1, "Collateral" and "Intellectual Property Collateral" shall include any "intent to use" trademark application only to the extent (i) that the business of such Grantor, or portion thereof, to which that mark pertains is also included in the Collateral and (ii) that such business is ongoing and existing.

SECTION 6.2. Compliance with Restrictions. Each Grantor agrees that in any sale of any of the Collateral whenever an Event of Default shall have occurred and be continuing, the Collateral Agent is hereby authorized to comply with any limitation or restriction in connection with such sale as it may be advised by counsel is necessary in order to avoid any violation of applicable law (including compliance with such procedures as may restrict the number of

prospective bidders and purchasers, require that such prospective bidders and purchasers have certain qualifications, and restrict such prospective bidders and purchasers to Persons who will represent and agree that they are purchasing for their own account for investment and not with a view to the distribution or resale of such Collateral), or in order to obtain any required approval of the sale or of the purchaser by any Governmental Authority or official, and such Grantor further agrees that such compliance shall not result in such sale being considered or deemed not to have been made in a commercially reasonable manner, nor shall the Collateral Agent be liable nor accountable to such Grantor for any discount allowed by the reason of the fact that such Collateral is sold in compliance with any such limitation or restriction.

SECTION 6.3. Protection of Collateral. The Collateral Agent may from time to time, at its option (a) perform any act which any Grantor fails to perform after being requested in writing so to perform (it being understood that no such request need be given after the occurrence and during the continuance of an Event of Default) and (b) take any other action which the Collateral Agent deems necessary for the maintenance, preservation or protection of any of the Collateral or of its security interest therein and, in each case, the expenses of the Collateral Agent incurred in connection therewith shall be payable by such Grantor pursuant to Section 11.04 of the Loan Agreement.

## ARTICLE VII

### MISCELLANEOUS PROVISIONS

SECTION 7.1. Loan Document. This Security Agreement is a Loan Document executed pursuant to the Loan Agreement and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof, including Article XI thereof.

SECTION 7.2. Binding on Successors, Transferees and Assigns; Assignment. This Security Agreement shall remain in full force and effect until the indefeasible payment in full of the Obligations has occurred, shall be binding upon the Grantors and their successors, transferees and assigns and shall inure to the benefit of and be enforceable by each Secured Party and its successors, transferees and assigns; provided that no Grantor may (unless otherwise permitted under the terms of the Loan Agreement or this Security Agreement) assign any of its obligations hereunder without the prior written consent of all Lenders.

SECTION 7.3. Amendments, etc. No amendment to or waiver of any provision of this Security Agreement, nor consent to any departure by any Grantor from its obligations under this Security Agreement, shall in any event be effective unless the same shall be in writing and signed by the Collateral Agent (on behalf of the Lenders or the Required Lenders, as the case may be, pursuant to Section 11.01 of the Loan Agreement) and the Grantors and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 7.4. Notices. All notices and other communications provided for hereunder shall be in writing or by facsimile and addressed, delivered or transmitted to the appropriate party at the address or facsimile number of such party specified in the Loan Agreement in accordance with the notice provisions set forth in the Loan Agreement.

SECTION 7.5. **Release of Liens and Termination of Rights.** Upon (a) the Disposition of Collateral in accordance with the Loan Agreement or (b) the Indefeasible Payment and Performance of All Obligations, the security interests granted herein and the power of attorney and license granted pursuant to Sections 5.1, 5.2 and 5.3 shall automatically terminate with respect to (i) such Collateral (in the case of clause (a)) or (ii) all Collateral (in the case of clause (b)), without delivery of any instrument or performance of any act by any party. Upon any such Disposition or termination, the Collateral Agent will, at the Grantors' sole expense, deliver to the Grantors, without any representations, warranties or recourse of any kind whatsoever, all Collateral held by the Collateral Agent hereunder, and execute and deliver to the Grantors such documents as the Grantors shall reasonably request to evidence such termination. This Section 7.5 is in addition to and without limitation of Grantors rights as set forth in the final paragraph of Section 7.01 of the Loan Agreement.

SECTION 7.6. **No Waiver; Remedies.** No failure on the part of any Secured Party to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 7.7. **Headings.** The various headings of this Security Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Security Agreement or any provisions thereof.

SECTION 7.8. **Severability.** Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 7.9. **Governing Law, Entire Agreement, etc.** THIS SECURITY AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK). This Security Agreement and the other Loan Documents constitute the entire understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede any prior agreements, written or oral, with respect thereto.

SECTION 7.10. **Forum Selection and Consent to Jurisdiction.** ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, ANY LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE COLLATERAL AGENT, THE ADMINISTRATIVE AGENT, THE LENDERS OR ANY GRANTOR IN CONNECTION HERewith OR THEREWITH MAY BE BROUGHT AND MAINTAINED IN THE COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY PROPERTY MAY BE BROUGHT,

AT THE COLLATERAL AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH PROPERTY MAY BE FOUND. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. EACH GRANTOR IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK AT THE ADDRESS FOR NOTICES SPECIFIED FOR THE BORROWER IN SECTION 10.2 OF THE LOAN AGREEMENT. EACH GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT ANY GRANTOR HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, SUCH GRANTOR HEREBY IRREVOCABLY WAIVES TO THE FULLEST EXTENT PERMITTED BY LAW SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THE LOAN DOCUMENTS.

SECTION 7.11. Counterparts. This Security Agreement may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Security Agreement by facsimile or via other electronic means shall be effective as delivery of a manually executed counterpart of this Security Agreement.

SECTION 7.12. Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantor for liquidation or reorganization, should any Grantor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Grantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance has not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

*Remainder of page intentionally left blank.  
Signatures on following page.*



IN WITNESS WHEREOF, each of the parties hereto has caused this Security Agreement to be duly executed and delivered by its authorized officer as of the date first above written.

**CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation**

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

**NORTHWEST FINANCIAL CORPORATION, an Oklahoma corporation**

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

**CHEROKEE NITROGEN COMPANY, an Oklahoma corporation**

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

**DSN CORPORATION, an Oklahoma corporation**

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

SIGNATURE PAGES TO SECURITY AGRE

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

**By:** \_\_\_\_\_  
**Name:**  
**Title:**

**BANC OF AMERICA LEASING & CAPITAL LLC, as Collateral Agent**

**By:** \_\_\_\_\_  
**Name:**  
**Title:**

**SIGNATURE PAGES TO SECURITY AGREEMENT**



Part A – Cherokee Facility

The major personal property assets identified at this facility include a concrete dome prill storage facility with a storage capacity of 14,000 tons; a Kellogg 500 ton per day (“TPD”) rated capacity ammonia processing plant including six (6) compressors and sixteen (16) heat exchangers; Chemical Industrial Engineers 300 TPD nitric acid plant #1 which include two (2) air compressors and two (2) 38 ft high absorption towers; a D.M. Weatherly Company 500 TPD nitric acid plant #2 w/ 60 ft high absorption tower and steam turbine; two (2) Mississippi Chemical designed 830 TPD ammonium nitrate neutralizers including four (4) storage tanks and a truck load-out; a 430 TPD high density ammonium nitrate prilling operation consisting of a prill tower, a prill fattening operation, elevators, conveyors, sizing equipment, an environmental scrubber, bagging equipment, and climate control storage; a Technip designed 275 TPD UREA plant with an 83% ammonium nitrate mixing operation for urea ammonium nitrate (UAN) production and including a high pressure reactor; four (4) storage tanks, a barge, truck and rail load-out; other plant infrastructure and support equipment including a pollution control and irrigation system, cooling towers, a de-alkalizer; barge unloading equipment, storage tanks, forklift trucks, an auxiliary boiler, a de-aerator system, product storage tanks, air compressors, electrical power and distribution equipment including substations, transformers, and motor control centers, steam water facilities, process plant piping, various pumps, office furniture and equipment, and general plant equipment.

Part B – El Dorado Facility

The major personal property assets identified at this facility include a 285 ton per day (“TPD”) rated capacity UHDE direct strong nitric acid processing plant; a Chemical & Industrial Corporation (C&I Girdler/Chemico) East/West 750 TPD weak nitric acid plant with two (2) parallel trains (375 TPD each); a D.M. Weatherly 350 TPD nitric acid plant; a KT 600 TPD low density ammonium nitrate prill plant (capacity increased to 860 TPD); a Chemical & Industrial Corporation (C&I Girdler/Chemico) 1,100 TPD E2 high density ammonium nitrate prill plant with neutralizer; a Chemico 360 TPD sulfuric acid plant; a 100 TPD mixed acid plant; other plant infrastructure and support equipment includes a CB&I tank farm with ten (10) ammonia storage spheres, a refrigerated ammonia tank, and six (6) other ammonia nitrate solution storage tanks; a plant steam production system with two (2) Babcock & Wilcox processing boilers; a plant electrical power and distribution system including substations, transformers and motor control centers; maintenance machinery and equipment; a wastewater pH neutralization system; a pollution control and irrigation system; cooling towers; forklift trucks; air compressors; process plant piping, various pumps, office furniture and equipment, and general plant equipment.

Cherokee Site

The tract or lot of land lying in the County of Colbert, State of Alabama, known and described as follows, to wit:

PARCEL I:

Begin at the Northwest corner of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, and run thence South 0 degrees 36 minutes 44 seconds West 2621.36 feet with the westerly boundary line of said Section 7 to a point on said boundary line; thence run North 88 degrees 55 minutes 46 seconds West 990.00 feet to a point; thence run South 0 degrees 35 minutes 43 seconds West 2623.55 feet parallel with the westerly boundary line of said Section 7, to a point on the northerly boundary line of Section 13, Township 3 South, Range 14 West; thence run South 0 degrees 46 minutes 39 seconds West a distance of 5329.16 feet to a point on the southerly boundary of Section 13, Township 3 South, Range 14 West; thence run South 87 degrees 49 minutes 42 seconds East 1000.47 feet to the Southwest corner of Section 18, Township 3 South, Range 13 West; thence run South 89 degrees 14 minutes 26 seconds East 1397.26 feet to the Southwest corner of the Southeast quarter of the Southeast quarter of said Section 18, which section is a fractional section; thence run North 0 degrees 21 minutes 39 seconds East a distance of 46.5 feet to a concrete monument on the north right-of-way margin of Lile Academy Road; thence south 89 degrees 08 minutes 27 seconds east along said north right-of-way margin a distance of 1,281.76 feet to a concrete monument; thence south 88 degrees 50 minutes 29 seconds east a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 474.74 feet; thence north 12 degrees 06 minutes 31 seconds east a distance of 784.37 feet; thence north 12 degrees 02 minutes 41 seconds east a distance of 51.11 feet; thence south 89 degrees 59 minutes 07 seconds west a distance of 726.65 feet; thence north 00 degrees 00 minutes 42 seconds east a distance of 414.62 feet; thence north 84 degrees 05 minutes 23 seconds east a distance of 780.35 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 816.26 feet to the south right-of-way margin of a 200 foot railroad right-of-way; thence north 88 degrees 03 minutes 37 seconds west along said south right-of-way margin a distance of 1,193.19 feet; thence westerly along the curving south right-of-way margin a distance of 347.85 feet (said curve concave south, having a radius of 1,046.00 feet, a chord bearing of south 82 degrees 24 minutes 48 seconds west, a chord length of 346.25 feet); thence north 02 degrees 12 minutes 51 seconds west a distance of 205.80 feet to the north right-of-way margin of a 200 foot railroad right-of-way; thence easterly along the curving north right-of-way margin a distance of 361.43 feet (said curve concave south, having a radius of 1,246.00 feet, a chord bearing north 83 degrees 37 minutes 48 seconds east, a chord distance of 360.16 feet); thence south 88 degrees 03 minutes 37 seconds east a distance of 1,188.82 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 310.14 feet; thence south 89 degrees 24 minutes 33 seconds east a distance of 240.77 feet to U.S.-T.V.A. Monument No. 50 (being a concrete monument capped by a bronze tablet showing said monument number and also "T.3S.R.13W.", and all other references to U.S.-T.V.A. monuments herein shall refer to

monuments of like character); thence north 00 degrees 24 minutes 16 seconds east a distance of 420.42 feet to U.S.-T.V.A. Monument No. 51; thence run north 33 degrees 37 minutes west 2,733.00 feet to U.S.-T.V.A. Monument No. 52 in the north line of Section 17, which is in the south line of Section 8; thence north 37 degrees 38 minutes west 416.00 feet to U.S.-T.V.A. Monument No. 53 at the northwest corner of the Southwest Quarter of the Southwest Quarter of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 01 degree 35 minutes east 977.00 feet to U.S.-T.V.A. Monument No. 54 at the northwest corner of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 35 degrees 59 minutes west 1,633.00 feet to U.S.-T.V.A. Monument No. 55 at the southeast corner of the Southwest Quarter of the Southwest Quarter of the Southwest Quarter of the Northwest Quarter of Section 8; thence north 88 degrees 50 minutes west 332.00 feet to U.S.-T.V.A. Monument No. 56 at the southwest corner of the Northwest Quarter of Section 8; thence with the south line of the Northeast Quarter of Section 7 north 88 degrees 50 minutes west 330.00 feet to U.S.-T.V.A. Monument No. 57; thence leaving the said south line north 01 degree 23 minutes 15 seconds east 1,966.31 feet to U.S.-T.V.A. Monument No. 58; thence run north 88 degrees 35 minutes west 336.33 feet to U.S.-T.V.A. Monument No. 59; thence run south 68 degrees 55 minutes 24 seconds west 1,751.46 feet, more or less, to a point on the south line of the north half of the north half of Section 7, Township 3 South, Range 13 West, which point is to be found by finding the intersection of said south line of said north half of the north half of said Section 7 with a line run south 00 degrees 39 minutes 12 seconds west a distance of 45 feet from U.S.-T.V.A. Monument No. 60; thence run north 00 degrees 39 minutes 12 seconds east 659.42 feet; thence run north 56 degrees 58 minutes 57 seconds east 1,150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62 which is located in the north boundary of said Section 7 at a point 1,399.63 feet easterly from the northwest corner thereof; thence run north 88 degrees 39 minutes 30 seconds west with said section line 1,399.63 feet to the POINT OF BEGINNING.

LESS AND EXCEPT FROM THE FOLLOWING PARCELS: III, IV, V, VI, AND VII:

Parcel III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North 89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North 89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.00 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning of the tract herein described.

Parcel IV

Commence at the Southwest corner of the said Section 7, Township 3 South, Range 13 West, Colbert County, Alabama; thence North 0 degrees 36 minutes 44 seconds east along the west line of the said Section 7 a distance of 2621.68 feet to the northwest corner of the Southwest 1/4 of the said Section 7 and the point of beginning of the tract herein described; thence continuing north 0 degrees 36 minutes 44 seconds east a distance of 200.00 feet to a point; thence south 89 degrees 23 minutes 16 seconds east a distance of 1500.00 feet to a point; thence south 0 degrees 36 minutes 44 seconds west a distance of 600.0 feet to a point; thence north 89 degrees 23 minutes 16 seconds west a distance of 1500.0 feet to a point on the west line of said Section 7; thence north 0 degrees 36 minutes 44 seconds east a distance of 400.0 feet to the point of beginning of the tract herein described.

Parcel V

A parcel of land located in Section 18, Township 3-South, Range 13-West in Colbert County, State of Alabama, said parcel lying east of a right of way for a proposed road approximately 3 miles north of Cherokee, and being more particularly described as follows: Commencing at a point in the east line of Section 18, said point being 1276.0 feet south of the northeast corner of said section; thence due west, 620.9 feet to the POINT OF BEGINNING at the northeast corner of the parcel of land herein described; thence due south 600.0 feet to a point; thence due west, 500.0 feet to a point; thence with a line 132.0 feet east of and parallel to the east line of the right of way of a proposed road due north, 600.0 feet to a point; thence due east, 500.0 feet to the point of beginning.

Parcel VI

Also for the point of beginning, commence at the intersection of the South line of North half of North half of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, with a line run South 0 degrees 39 minutes 12 seconds West from U.S.-T.V.A. Monument No. 60; thence run North 0 degrees 39 minutes 12 seconds East 659.42 feet to the point of beginning; from said point of beginning run thence North 56 degrees 58 minutes 57 seconds E 1150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62, which is located in the North boundary of Section 7 at a point of 1399.63 feet easterly from the Northwest corner thereof; from said Monument No. 62 run thence South 58 degrees 53 minutes 18 seconds West 1126.17 feet to U.S.-T.V.A. Monument No. 61; thence run South 0 degrees 39 minutes 12 seconds West to the point of beginning.

Parcel VII:

Commence at the southwest corner of Section 18, Township 3 South, Range 13 West, Colbert County, Alabama; thence south 89 degrees 14 minutes 26 seconds east along the South boundary of said Section 18 a distance of 1,397.26 feet; thence run North 00 degrees 21 minutes 39 seconds East a distance of 825.71 feet to the POINT OF BEGINNING; continue thence North 00 degrees 21 minutes 39 seconds East a distance of 505.52 feet; thence South 89 degrees 22 minutes 51 seconds East

a distance of 1,116.70 feet; thence South 66 degrees 13 minutes 10 seconds West along said southeasterly right of way margin a distance of 1,223.71 feet to the POINT OF BEGINNING, containing 6.48 acres, more or less, and then being that same parcel of land described in Deed Book 264, Page 560 as recorded in the Probate Office of Colbert County, Alabama.

PARCEL II:

A tract of land lying in Colbert County, State of Alabama, in the East half of East half of Northeast quarter; Section 7, the West half of Northwest quarter and Southwest quarter of Section 8, and the Northeast quarter and East half of Northwest quarter of Section 17, Township 3 South, Range 13 West on the southwest shore of Pickwick Landing Lake opposite Kogor's Island and approximately 4 miles northeast of Cherokee, Alabama, and being more particularly described as follows:

Beginning at U.S.-T.V.A. Monument 51 in the Southwest quarter of Southwest quarter of Northeast quarter of Section 17 and in the boundary of true United States of America's land at a corner of the land of Mrs. F.W. Benson and S.W. Frierson & C.W. Watts' thence with the United States of America's boundary North 33 degrees 37' West 2733.00 feet to the U.S.-T.V.A. Monument 52 in the north line of Section 17, which is the south line of Section 8; thence North 37 degrees 38' West, 416.00 feet to U.S.-T.V.A. Monument 53 at the northwest corner of the Southwest quarter of the Southwest quarter of the Southeast quarter of Southwest quarter, Section 8; thence North 1 degree 35' East, 977.00 feet to U.S.-T.V.A. Monument 54 at the northwest corner of the Southeast quarter of the SW 1/4 Section 8, thence North 35 degrees 59' West, 1633.00 feet to U.S.-T.V.A. Monument 55 at the southeast corner of the Southwest quarter of the Southwest quarter of Southwest quarter of Northwest quarter, Section 8; thence North 88 degrees 50' West, 332.00 feet to U.S.-T.V.A. Monument 56 at the southwest corner of the Northwest quarter of Section 8; thence with the south line of the Northeast quarter, Section 7 North 88 degrees 50' West, 330.00 feet to U.S.-T.V.A. Monument 57; thence leaving the said South line, North 1 degree 23 minutes 15 seconds East, 1966.31 feet to U.S.-T.V.A. Monument 58; thence, leaving the United States of America's boundary South 89 degrees 59 minutes 29 seconds East, 410 feet, passing a metal marker at 385.00 feet, to a point in the 423-foot contour on the shore of Pickwick Landing Lake; thence with the 423-foot contour as it meanders in a southeasterly direction to a point; thence, leaving the contour, South 61 degrees 19 minutes 05 seconds West, 534.50 feet, passing a metal marker at 17 feet, to U.S.-T.V.A. Monument 49 in the south line of the Northeast quarter of Section 17 and in the boundary of the United States of America's land; thence with the United States of America's boundary and the south line of the Northeast quarter of Section 17, North 89 degrees 19 minutes West, 260.20 feet to U.S.-T.V.A. Monument 50; thence leaving the said south line, North 0 degrees 24 minutes 16 seconds East, 420.42 feet to the point of beginning.

PARCEL III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North

89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North 89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.0 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning at the tract herein described.

PARCEL VIII:

A parcel of land lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County road and the POINT OF BEGINNING; thence north 12 degrees 05 minutes 42 seconds east a distance of 761.78 feet; thence south 70 degrees 57 minutes 14 seconds east a distance of 233.95 feet to a Point of Curve; thence southeasterly along a curve concave north a distance of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord bearing of south 79 degrees 59 minutes 24 seconds east, a chord distance of 635.97 feet) to the Point of Tangency; thence south 89 degrees 01 minute 08 seconds east a distance of 517.34 feet to a Point of Curve; thence southeasterly along said curve concave southwesterly a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of south 71 degrees 56 minutes 27 seconds east, a chord distance of 557.98 feet) to a Point of Reverse Curve; thence southwesterly along a curve a distance of 108.67 feet (said curve concave northeasterly having a chord bearing of south 25 degrees 43 minutes 19 seconds east, a chord distance of 88.51 feet) to a point; thence south 00 degrees 41 minutes 33' west a distance of 360.35 feet; thence north 89 degrees 04 minutes 24 seconds west a distance of 1,995.46 feet; thence north 00 degrees 46 minutes 28 seconds east a distance of 30.00 feet; thence north 88 degrees 59 minutes 48 seconds west a distance of 94.09 feet to the POINT OF BEGINNING.

PARCEL IX:

A parcel of land lying in Section 17, Township 3 South, Range 13 West and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County Road; thence north 12 degrees 05 minutes 42 seconds east along said east right-of-way a distance of 812.15 feet to the POINT OF BEGINNING; thence north 12 degrees 05 minutes 22 seconds east along said right-of-way a distance of 204.63 feet; thence north 01 degree 53 minutes 39 seconds east along said right-of-way a distance of 310.69 feet; thence south 89 degrees 07 minutes 03 seconds east a distance of 1,802.58 feet to T.V.A. Monument #48; thence south 42 degrees 56 minutes 26 seconds east a distance of 310.99 feet; thence south 56 degrees 00 minutes 16 seconds west a distance of 808.14 feet to a point of curve; thence northwesterly along a curve concave

southwesterly a distance of 43.45 feet (said curve having a radius of 1,000.00 feet, a chord bearing of N 87 deg 46 min 18 sec West a arc length of 43.45 feet) to the point of tangency; thence north 89 degrees 01 minutes 16 seconds West a distance 516.26 feet to the Point of a Curve; thence northwesterly along a curve concave north a distance of 622.86 feet (said curve having a radius of 1,975 feet, a chord bearing of North 79 degrees 59 minutes 24 seconds West, a chord distance of 620.28 feet) to the Point of Tangency; thence North 70 degrees 57 minutes 14 seconds West a distance of 240.04 feet to the POINT OF BEGINNING.

All the foregoing being the same property conveyed by LaRoche Industries, Inc. to Cherokee Nitrogen Company, by deed dated October 31, 2000, filed for record in the Office of the Judge of Probate of Colbert County, Alabama, on November 7, 2000, at 1:37 p.m., and recorded on Microfiche 2000 25, Frames 133-141.

Less and except therefrom property conveyed by Cherokee Nitrogen, Inc., to National Telephone Company of Alabama, by corrective warranty deed dated April 2, 2001 and recorded on Fiche 2001 09 Frame 748, being more particularly described as follows, to-wit:

Commence at a cotton spindle on the SW corner of Section 18, T-3-S, R-12-W, Colbert County, Alabama; then run S 89 degrees 14' 26" E for 1397.26' to a spike found; then run N 0 degrees 21' 39" E for 46.4' to a 6" concrete monument, the point of beginning; then run N 0 degrees 21' 39" E for 50.0' to an iron pin; then run S 89 degrees 14' 26" E for 50.0' to an iron pin; then run S 0 degrees 21' 39" W for 50.0' to an iron pin; then run N 89 degrees 14' 26" W for 50.0' to the point of beginning.

#### NON-EXCLUSIVE EASEMENT FOR PRIVATE ROAD

A fifty (50) foot wide private road lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, thence North 00 degrees 44 minutes 27 seconds West a distance of 44.05 feet to a concrete monument on the northern right-of-way margin of Lile Academy road; thence South 88 degrees 50 minutes 29 seconds East along the northern right-of-way margin of a gravel road a distance of 2,191.21 feet; thence South 89 degrees 04 minutes 39 seconds East a distance of 535.74 feet to the east right-of-way margin of a County Road; thence North 12 degrees 05 minutes 42 seconds East a distance of 761.78 feet to the POINT OF BEGINNING; thence continue North 12 degrees 05 minutes 42 seconds East a distance of 50.37 feet; thence South 70 degrees 57 minutes 14 seconds East a distance of 240.04 feet to the P.C. of a curve; thence southeasterly a curve concave northerly a distance of 622.86 feet (said curve having a radius of 1,975.00 feet, a chord distance of 620.28 feet, a chord bearing of South 79 degrees 59 minutes 24 seconds East) to the P.T. of said curve; thence South 89 degrees 01 minute 16 seconds East a distance of 516.26 feet to the P.C. of a curve; thence southeasterly along a curve concave southwesterly a distance of 648.77 feet (said curve having a radius of 1,000.00 feet, a chord distance of 637.45 feet, a chord bearing of South 70 degrees 26 minutes 42 seconds East) to the P.T. of said curve and the P.C. of a cul-de-sac; thence easterly, southerly, northwesterly along a curve (having a radius of 50.00 feet; a chord bearing of South 82 degrees 09 minutes 16 seconds West, a chord distance of 70.63 feet) a distance of 234.31 feet to the P.T. of said curve; thence northwesterly along a curve

concave southwest a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of North 71 degrees 56 minutes 27 seconds West, a chord distance of 557.98 feet) to the P.T. of said curve; thence North 89 degrees 01 minute 08 seconds West a distance of 517.34 feet to the P.C. of a curve; thence northwesterly along a curve concave northerly of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord distance of 635.97 feet, a chord bearing of 79 degrees 59 minute 24 seconds west) to the P.T. of said curve, thence North 70 degrees 57 minutes 14 seconds West) to the P.T. of said curve; thence North 70 degrees 57 minutes 14 seconds West a distance of 233.95 feet to the POINT OF BEGINNING.



El Dorado Site

The land referred to herein below is all situated in Union County, Arkansas

Tract 1:

The South Half of Section 6, and the North Half of Section 7, and the Northwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, and the following described tract:

Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of Section 8 to the intersection with the South right-of-way line of the access road as now located, said right-of-way line being 50 feet perpendicular distance from the center line of said access road;  
thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom to the intersection with the South right-of-way line for the railroad spur herein above described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

LESS AND EXCEPT THE FOLLOWING TRACTS:

1. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, and  
thence run North 88 degrees 53 minutes 44 seconds West 1772.43 feet;  
thence North 01 degree 03 minutes 47 seconds East 576.89 feet for a POINT OF BEGINNING;  
thence North 88 degrees 56 minutes 13 seconds West 134.0 feet;  
thence North 01 degree 03 minutes 47 seconds East 40.00 feet;  
thence North 88 degrees 56 minutes 13 seconds West 16.00 feet;  
thence North 01 degree 03 minutes 47 seconds East 40.0 feet;  
thence South 88 degrees 56 minutes 13 seconds East 150.00 feet;

thence South 01 degree 03 minutes 47 seconds West 80.00 feet to the POINT OF BEGINNING.

AND

2. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, run  
thence North 88 degrees 53 minutes 44 seconds West 2341.68 feet;  
thence North 01 degree 05 minutes 46 seconds East 545.52 feet for a POINT OF BEGINNING;  
thence North 88 degrees 54 minutes 14 seconds West 240.00 feet;  
thence North 01 degree 05 minutes 46 seconds East 30.00 feet;  
thence North 88 degrees 54 minutes 14 seconds West 96.71 feet;  
thence North 01 degree 05 minutes 46 seconds East 118.10 feet;  
thence South 88 degrees 54 minutes 14 seconds East 336.71 feet;  
thence South 01 degree 05 minutes 46 seconds West 85.72 feet;  
thence South 88 degrees 54 minutes 14 seconds East 59.31 feet;  
thence South 01 degree 05 minutes 46 seconds West 40.58 feet;  
thence North 88 degrees 54 minutes 14 seconds West 59.31 feet;  
thence South 01 degree 05 minutes 46 seconds West 21.80 feet to the POINT OF BEGINNING.

Tract 2:

Commencing at the North Quarter Corner of Section 1, Township 17 South, Range 16 West,  
thence South 88 degrees 46 minutes East, 282.7 feet;  
thence South 01 degree 14 minutes West, 269.2 feet to the POINT OF BEGINNING;  
thence South 88 degrees 46 minutes East, 150.0 feet;  
thence South 01 degree 14 minutes West, 150.0 feet;  
thence North 88 degrees 46 minutes West, 150.0 feet;  
thence North 01 degree 14 minutes East, 150.0 feet to the POINT OF BEGINNING.

Tract 3:

Beginning at the Southwest Corner of the Northeast Quarter of Section 31, Township 16 South, Range 15 West;  
thence North 00 degrees 07 minutes East 150 feet to a stake;  
thence South 88 degrees 37 minutes East 150 feet to a stake;  
thence South 00 degrees 07 minutes West 150 feet to a stake on South line of the Northeast Quarter;  
thence North 88 degrees 37 minutes West 150 feet to POINT OF BEGINNING.

Tract 4:

Beginning at the Southeast Corner of the Southwest Quarter of Section 30, Township 16 South, Range 15 West, at a iron pipe Corner;  
thence North 88 degrees 38 minutes West 150 feet along the South line of said Section 30 to a stake;  
thence North 00 degrees 07 minutes East 150 feet to a stake;  
thence South 88 degrees 38 minutes East to a stake on the East line of said Southwest Quarter;  
thence South 00 degrees 07 minutes West 150 feet to POINT OF BEGINNING.

Tract 5:  
Commencing at the Northwest Corner of the South Half of the Northeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence South 00 degrees 04 minutes East, 469.0 feet;  
thence North 53 degrees 09 minutes East, 126.45 feet;  
thence North 61 degrees 26 minutes East, 239.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 118.7 feet;  
thence North 89 degrees 56 minutes East, 150.0 feet;  
thence South 00 degrees 04 minutes East, 150.0 feet;  
thence South 89 degrees 56 minutes West, 150.0 feet;  
thence North 00 degrees 04 minutes West, 31.3 feet to the POINT OF BEGINNING.

Tract 6:  
Beginning at a point which is South 00 degrees 18 minutes East 223.2 feet and North 89 degrees 42 minutes East 273.1 feet distance from the Northwest Corner of the Southwest Quarter of Section 9,  
Township 17 South, Range 15 West;  
thence North 00 degrees 18 minutes West 150 feet;  
thence North 89 degrees 42 minutes East 150 feet;  
thence South 00 degrees 18 minutes East 150 feet;  
thence South 89 degrees 42 minutes West 150 feet to the POINT OF BEGINNING.

Tract 7:  
Beginning at the Southwest Corner of the Southeast Quarter of Section 2, Township 17 South, Range 16 West;  
thence North 150 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake on South line of said Section 2;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

Tract 8:  
Beginning at the Southwest Corner, Section 2, Township 17 South, Range 16 West;  
thence North along Section line 150 feet to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

Tract 9:  
Commencing at the Southwest Corner of the Southeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence North 00 degrees 04 minutes West, 276.7 feet;  
thence North 89 degrees 56 minutes East, 271.8 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 150 feet;  
thence North 89 degrees 56 minutes East, 150 feet;  
thence South 00 degrees 04 minutes East, 150 feet;  
thence South 89 degrees 56 minutes West, 150 feet to the POINT OF BEGINNING.

**Tract 10:**

Commencing at the Southwest Corner of Southeast Quarter of Section 7, Township 17 South, Range 15 West;  
thence South 88 degrees 25 minutes East 155.4 feet;  
thence North 01 degree 35 minutes East 308.5 feet to the POINT OF BEGINNING;  
thence continuing North 01 degree 35 minutes East 150 feet;  
thence South 88 degrees 25 minutes East 150 feet;  
thence South 01 degree 35 minutes West 150 feet;  
thence North 88 degrees 25 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 11:**

Beginning at the Northwest Corner of the Southeast Quarter, Section 18, Township 17 South, Range 15 West;  
thence South 88 degrees 21 minutes East 150 feet along the North line of the said Southeast Quarter to a stake;  
thence South 00 degrees 11 minutes East 150 feet to a stake;  
thence North 88 degrees 21 minutes West 150 feet to a stake on the West line of the said Southeast Quarter;  
thence North 00 degrees 11 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 12:**

Beginning at a point on the West line of the Southeast Quarter of Section 18, Township 17 South, Range 15 West, located North 00 degrees 11 minutes West 150 feet from the Southwest Corner of said Southeast Quarter;  
thence North 00 degrees 11 minutes West 100 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 17 minutes East 150 feet to a stake;  
thence South 00 degrees 11 minutes East 100 feet to a stake;  
thence North 88 degrees 17 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 15:**

Beginning at the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence North 89 degrees 25 minutes West along the South line of said Section 1, 4830.14 feet to POINT OF BEGINNING;  
thence North 00 degrees 04 minutes East 150 feet;  
thence North 89 degrees 25 minutes West 150 feet;  
thence South 00 degrees 04 minutes West 150 feet to the intersection of South line of Section 1;  
thence South 89 degrees 25 minutes East along Section line 150 feet to POINT OF BEGINNING.

**Tract 16:**

**Beginning at a point 10.4 feet North of the Southwest Corner of Section 5, Township 17South, Range 15 West;  
thence East 29.5 feet;  
thence North 150.0 feet;  
thence West 29.5 feet;  
thence South 150.0 feet to the POINT OF BEGINNING.**

**Tract 17:**

**Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence West 25.00 feet;  
thence South approximately 134.83 feet;  
thence East 25.00 feet;  
thence North to the PLACE OF BEGINNING.**

**The exclusive right to produce water from any horizon lying under the following described Tract 18 in Union County, Arkansas, at and below a depth of 350 feet below the surface:**

**Tract 18:**

**The East Half of Section 1 and the East Half of Section 12, all in Township 17 South, Range 16 West,**

**ARTICLE VIII AND**

**The South Half of Section 7 and all of Section 8, all in Township 17 South, Range 15 West,**

**ARTICLE IX AND**

**All that part of the West Half of the West Half of Section 9, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all that part of the Southwest Quarter of the Southwest Quarter of Section 4, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all of Section 5 and the North Half of Section 6, all in Township 17 South, Range 15 West, EXCEPT the following described tracts, lettered (a) through (k), both inclusive, to-wit:**

- (a) The Northwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West.
- (b) Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of said Section 8 to the intersection with the South right-of-way line of the Access Road as now located, said right-of-way line being 50 feet perpendicular distance from the center line of said Access Road;

thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom, to the intersection with the South right-of-way line for the railroad spur hereinabove described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15 West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

- (c) Commencing at the Northwest Corner of Section 5, Township 17 South, Range 15 West;  
thence South 88 degrees 24 minutes East 4060.30 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 00 degrees 40 minutes West 1213.20 feet;  
thence South 88 degrees 10 minutes East 1200.33 feet to the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along said Highway to the North line of said Section 5;  
thence in a Westerly direction to the POINT OF BEGINNING.
- (d) Commencing at the Northeast Corner of Section 6, Township 17 South, Range 15 West;  
thence North 88 degrees 23 minutes West 1327 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 01 degree 37 minutes West 90 feet;  
thence North 88 degrees 23 minutes West 990 feet;  
thence North 01 degree 37 minutes East 90 feet;  
thence South 88 degrees 23 minutes East 990 feet to the POINT OF BEGINNING.
- (e) Tract 2 described above.
- (f) Tract 5 described above.
- (g) Tract 6 described above.
- (h) Tract 9 described above.
- (i) Tract 10 described above.
- (j) Tract 16 described above.
- (k) Tract 17 described above.

**TOGETHER WITH all of the rights of the United States of America as granted to Lion Oil Company in an instrument entitled "Quitclaim Deed, Assignment and Bill of Sale" which was filed March 5, 1948 in Record Book 511, Page 405 to maintain, repair, replace and operate each electrical transmission line, telephone line, water line gas line, sanitary sewer, drainage sewer, drainage ditch, road, trail or railroad upon any of the land which constitutes a part of Tract 18 described above or which leads from Tract 18 described above to Tracts 3, 4, 7, 8, 11, 12 and 15**

described above, and the right-of-way in connection therewith, all as is more fully set forth in said Quitclaim Deed, Assignment and Bill of Sale.

TOGETHER WITH such water rights as were reserved by Monsanto Company in a Quitclaim Deed in favor of J. L. Lee which was filed February 23, 1981 in Record Book 1459, Page 601, of the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 417.4 feet;  
thence East 417.4 feet;  
thence South 417.4 feet;  
thence West 417.4 feet to the POINT OF BEGINNING.

ALSO

Commencing at the Southeast Corner of the Southeast Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 01 degree 06 minutes East 274.0 feet to the POINT OF BEGINNING;  
thence North 88 degrees 54 minutes West 69.8 feet;  
thence North 01 degree 06 minutes East 150.0 feet;  
thence South 88 degrees 54 minutes East 69.8 feet;  
thence South 01 degree 06 minutes West 150.0 feet to the POINT OF BEGINNING.

TOGETHER WITH such water rights as were reserved in a Quitclaim Deed in favor of Louis Knox White et al which was filed September 10, 1982 in Record Book 1521, Page 257, in the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 9, Township 17 South, Range 15 West;

and run North 00 degrees 38 minutes East 1729.4 feet to the South right-of-way line of the Missouri-Pacific Railroad;

thence in a Southeasterly direction along said right-of-way for 547.8 feet to the West line of Highway No. 7B;  
thence South 08 degrees 29 minutes East along said line 21.8 feet;  
thence South 05 degrees 24 minutes East along said line 1444.0 feet;  
thence South 02 degrees 50 minutes East along said line 96.57 feet;  
thence North 88 degrees 14 minutes West 675.4 feet to the POINT OF BEGINNING.

Tract 41-1 (25):

The West Half of the Southeast Quarter of the Southeast Quarter and the Northeast Quarter of the Southeast Quarter of Section 7, and the Southwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, Union County, Arkansas, EXCEPTING THE FOLLOWING DESCRIBED TRACT:

Beginning at a point 600.0 feet North of the Northwest Corner of the Southwest Quarter of said Section 8;  
thence North 435.6 feet;

thence East 100.0 feet;  
thence South 435.6 feet;  
thence West 100.0 feet to the POINT OF BEGINNING.

Tract 41-2 (20):  
The North Three-Quarters of the North Half of the Northwest Quarter of the Southeast Quarter (N 3/4 N/2 NW/4 SE/4) of Section 7, Township 17 South, Range 15 West, LESS three (3) acres in the form of a square in the Northeast Corner thereof.

Tract 41-4 (22):  
Three acres in the form of a square out of the Northeast Corner of the Northwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

(Same Property as the exception in 41-2 (20) above)

Tract 41-4 (23):  
Beginning at a point 600 feet North of the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian;  
thence East 100.0 feet;  
thence North 435.6 feet;  
thence West 100.0 feet;  
thence South 435.6 feet to the PLACE OF BEGINNING.

(Same Property as the exception in 41-1 (25) above)

Tract 41-4 (24):  
A part of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian, described as follows:

Beginning at a point 417.4 feet North of the Southwest Corner of the said Southwest Quarter of the Southeast Quarter of Section 8 and running thence North 208.71 feet;  
thence East 208.71 feet;  
thence South 208.71 feet;  
thence West 208.71 feet to the PLACE OF BEGINNING,

EXCEPT that part of the Southwest Quarter of the Southeast Quarter of Section 8 contained within the following parcel of land, described as:

Commencing at the Southwest Corner of said Southwest Quarter of the Southeast Quarter of said Section 8;  
thence South 88 degrees 54 minutes East, 80.2 feet;  
thence North 01 degree 06 minutes East, 274.0 feet to the POINT OF BEGINNING of said parcel;  
thence North 88 degrees 54 minutes West, 150.0 feet;  
thence North 01 degree 06 minutes East, 150.0 feet;  
thence South 88 degrees 54 minutes East, 150.0 feet;  
thence South 01 degree 06 minutes West, 150.0 feet to the POINT OF BEGINNING.

Tract 41-5 (19):



The South Five-Eighths of the Northwest Quarter of the Southeast Quarter and the North Three-Eighths of the Southwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

Tract 41-7:

The Southwest Quarter of the Northeast Quarter and the Southeast Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas.

Tract 41-9:

The Northwest Quarter of the Southwest Quarter of Section 5, Township 17 South, Range 15 West,

AND

The East Half of the Northeast Quarter of Section 6, Township 17 South, Range 15 West.

Tract 41-10:

The Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, LESS AND EXCEPT the following tract:

Commencing at the Northeast Corner of the Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, and run thence South 90 feet;  
thence West 990 feet;  
thence North 90 feet;  
thence East 990 feet to the POINT OF BEGINNING.

Tract 41-11:

The Southeast Quarter of the Northeast Quarter of Section 1, Township 17 South, Range 16 West,

ALSO

The Southwest Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West,

**LESS AND EXCEPT THE FOLLOWING TRACTS:**

1. All that part of the Southeast Quarter of the Northeast Quarter (SE/4 NE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335,
2. All that part of the Southwest Quarter of the Northwest Quarter (SW/4 NW/4) of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335.

**Tract 41-12:**

**The East Quarter of the Southwest Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West**

**AND**

**the Southeast Quarter of the Southeast Quarter of Section 1 Township 17 South, Range 16 West of the Fifth Principal Meridian, LESS THE FOLLOWING TRACTS:**

**1. A tract described as:**

**Commencing 70 yards North of the Southeast Corner of the Southeast Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West, as a BEGINNING POINT;**  
**thence South 70 yards;**  
**thence West 330 yards;**  
**thence North 61.5 yards;**  
**thence in a straight line to a POINT OF BEGINNING.**

**2. A tract described as:**

**Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;**  
**thence North 15.17 feet;**  
**thence West 25.00 feet;**  
**thence South 15.17 feet;**  
**thence East to the POINT OF BEGINNING.**

**3. A tract described as:**

**Commencing at the Southeast Corner (SECor) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 24 minutes 22 seconds West along the South line of said Section 1 a distance of 1172.08 feet, more or less, to the center line of a county road for the point of beginning;**  
**thence run North 33 degrees 28 minutes 58 seconds East 432.00 feet;**  
**thence North 89 degrees 21 minutes 48 seconds West 715.87 feet;**  
**thence South 00 degrees 16 minutes 35 seconds West 363.30 feet to the South line of Section 1;**  
**thence South 89 degrees 24 minutes 22 seconds East 479.28 feet to the point of beginning.**

4. (Monsanto to Gardner)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 199.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 15 minutes East 150.9 feet;  
thence North 89 degrees 25 minutes West 543.7 feet to the center of State Highway No. 335;  
thence South 33 degrees 55 minutes West along said Highway for 422.4 feet;  
thence South 89 degrees 25 minutes East 184.0 feet;  
thence North 00 degrees 15 minutes East 184.5 feet;  
thence North 89 degrees 00 minutes East 593.5 feet to the POINT OF BEGINNING.

5. (Monsanto to Haney)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence run North 00 degrees 15 minutes East 350.6 feet to the POINT OF BEGINNING;  
thence run North 00 degrees 15 minutes East 819.7 feet to the center of State Highway No. 335;  
thence run South 33 degrees 55 minutes West along said Highway for 979.8 feet;  
thence run South 89 degrees 25 minutes East 543.7 feet to the POINT OF BEGINNING.

6. (NWF to Cole Timber)

The East Quarter of the Southwest Quarter of the Southeast Quarter (E/4 SW/4 SE/4) and all that part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying West of Arkansas State Highway #335.

Tract 41-12A:

1. (Gardner to Monsanto)

Beginning at the Northeast Corner (NECor) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run South 00 degrees 15 minutes West 330.0 feet;  
thence North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 529.7 feet;  
thence North 89 degrees 00 minutes East 375.0 feet;  
thence South 00 degrees 15 minutes West 134.85 feet;  
thence South 89 degrees 25 minutes East 25.0 feet;  
thence South 00 degrees 15 minutes West 75.05 feet to the POINT OF BEGINNING, and being part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, and part of the Northeast Quarter of the Northeast Quarter (NE/4 NE/4) of Section 12, all in Township 17 South, Range 16 West.

2. (Haney to Monsanto)

Beginning at the Southeast Corner of the Northeast Quarter of the Northeast Quarter (SECor NE/4 NE/4) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 990.0 feet;  
thence South 89 degrees 25 minutes East 400.0 feet;  
thence South 00 degrees 15 minutes West 990.0 feet to the POINT OF BEGINNING.

Tract 41-16:  
The North Half of the Southwest Quarter of Section 7, Township 17 South, Range 15 West, Union County, Arkansas.

Tract 41-17:  
The Northwest Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West, Union County, Arkansas.

Tract 41-18:  
The Southwest Quarter of the Southwest Quarter (SW1/4 SW 1/4) and the West Half of the Southeast Quarter of the Southwest Quarter (W1/2 SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas

ARTICLE X AND

Beginning at the Northeast Corner of the Southeast Quarter of the Southwest Quarter (SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas, and run North 88 degrees 53 minutes West 695.0 feet;  
thence South 00 degrees 11 minutes West 1326.0 feet to the South line of said forty;  
thence South 88 degrees 53 minutes East along said South line 347.5 feet;  
thence North 00 degrees 11 minutes East 1290.4 feet;  
thence South 88 degrees 53 minutes East 347.5 feet;  
thence North 00 degrees 11 minutes East 26.0 feet to the POINT OF BEGINNING.

Railroad Right-of-Way:

Railroad right-of-way extending 50 feet on each side of the centerline of the railroad track as the same is now located, on, over and across the North Half of Section 8, the North Half of Section 9, and the North Half of Section 10, all in Township 17 South, Range 15 West.

**SCHEDULE 3.1  
to Security Agreement**

**Part A. Location of Each Grantor.**

<b>Name of Grantor</b>	<b>Location for purposes of UCC</b>
Cherokee Nitrogen Holdings, Inc.	Oklahoma
Northwest Financial Corporation	Oklahoma
Cherokee Nitrogen Company	Oklahoma
DSN Corporation	Oklahoma
El Dorado Chemical Company	Oklahoma

**Part B. Filing Locations Last Five Years.**

<b>Name of Grantor</b>	<b>Filing locations last five years</b>
Cherokee Nitrogen Holdings, Inc.	Oklahoma County (Central Filing), OK; Colbert County, AL
Northwest Financial Corporation	Oklahoma County (Central Filing), OK; Union County, AR
Cherokee Nitrogen Company	Oklahoma County (Central Filing), OK; Colbert County, AL
DSN Corporation	Oklahoma County (Central Filing), OK; Union County, AR
El Dorado Chemical Company	Oklahoma County (Central Filing), OK; Union County, AR

**Part C. Trade Names.**

<b>Name of Grantor</b>	<b>Trade Names</b>
Cherokee Nitrogen Holdings, Inc.	None
Northwest Financial Corporation	None
Cherokee Nitrogen Company	None
DSN Corporation	None
El Dorado Chemical Company	None

**Part D. Merger or Other Corporate Reorganization.**

<b>Name of Grantor</b>	<b>Merger or other corporate reorganization</b>
Cherokee Nitrogen Holdings, Inc.	None
Northwest Financial Corporation	None
Cherokee Nitrogen Company	None
DSN Corporation	None
El Dorado Chemical Company	None

**Part E. Taxpayer ID Numbers.**

<b>Name of Grantor</b>	<b>Taxpayer ID Numbers</b>
Cherokee Nitrogen Holdings, Inc.	73-1597454
Northwest Financial Corporation	73-1131584
Cherokee Nitrogen Company	41-2115998
DSN Corporation	73-1456545
El Dorado Chemical Company	73-1183488

SCHEDULE 3.4  
to Security Agreement

**Part A. Patents and Patent Licenses**

NONE

**Part B. Trademarks**

<u>Country</u>	<u>Trademark</u>	<u>Registered Trademarks</u>	<u>Registration No.</u>	<u>Registration Date</u>
United States	El Dorado (& Design)		1,427,064	02/03/87
United States	E-2		833,891	08/22/67

**Pending Trademark Applications**

NONE

**Trademark Applications In Preparation**

NONE

**Trademark Licenses**

NONE

STATE OF ALABAMA )  
COUNTY OF COLBERT )

This instrument was prepared by and  
after recording return to:  
Sonnenschein Nath & Rosenthal LLP  
1221 Avenue of the Americas  
New York, New York 10020-1089  
Attention: Rachel Abarbanel

**MORTGAGE, ASSIGNMENT OF RENTS AND  
SECURITY AGREEMENT, AND FIXTURE FILING**  
[ALABAMA]

THIS MORTGAGE, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT, AND FIXTURE FILING (this "Mortgage"), made as of October \_\_, 2007, between CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation (hereinafter called the "Mortgagor"), Mortgagor, whose address is 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107, and Banc of America Leasing & Capital LLC, as collateral agent for the Lenders (hereinafter called the "Mortgagee" or the "Collateral Agent"), Mortgagee, whose address is c/o Annemarie L. Warren, VP; Group Operations Manager, Bank of America, MA5-100-32-01, 100 Federal St., Boston, MA 02110.

WITNESSETH:

WHEREAS, upon the terms and conditions of a certain Term Loan Agreement, dated as of the date hereof (collectively, such agreement, as amended, restated, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Loan Agreement"), by and among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), Northwest Financial Corporation, an Oklahoma corporation, Mortgagor; Chemex I Corp., an Oklahoma corporation, Chemex II Corp, an Oklahoma corporation, Cherokee Nitrogen Company, an Oklahoma corporation, ClimaCool Corp., an Oklahoma corporation, ClimateCraft, Inc., an Oklahoma corporation, Climate Master, Inc., a Delaware corporation, DSN Corporation, an Oklahoma corporation, El Dorado Chemical Company, an Oklahoma corporation, International Environmental Corporation, an Oklahoma corporation, Koax Corp., an Oklahoma corporation, LSB Chemical Corp., an Oklahoma corporation, The Climate Control Group, Inc., an Oklahoma corporation, Trison Construction, Inc., an Oklahoma corporation, ThermaClime Technologies, Inc., an Oklahoma corporation, and XpediAir, Inc., an Oklahoma corporation, as borrowers (individually and collectively, jointly and severally, "Borrower" or "Borrowers"), LSB Industries, Inc., as guarantor, Banc of America Leasing & Capital, LLC, as administrative agent (the "Administrative Agent"), the Collateral Agent and the Lenders from time to time party thereto (the "Lenders"); collectively with the Administrative Agent and the Collateral Agent, the "Secured Parties"), Secured Parties have agreed to provide certain financial accommodations to

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Borrowers, upon the terms and conditions set forth in the Loan Agreement and the other Loan Documents. Capitalized terms used but not defined herein shall have the same meanings as such terms have in the Loan Agreement or, in the case of capitalized terms used in the definition of "Mortgaged Property" below and not defined in this Mortgage, the meanings ascribed to them in the Uniform Commercial Code in effect in the State of Alabama (the "UCC"). The terms "Cherokee Collateral" and/or "Cherokee Facility Collateral" as defined in the Loan Agreement shall mean and refer to all Mortgaged Property and Collateral (as defined in Section 3.05 below) described in this Mortgage;

WHEREAS, Mortgagor is an affiliate of ThermaCline and the other Borrowers and will receive substantial direct and indirect benefits from the making of the Term Loans under the Loan Agreement; and

WHEREAS, it is a condition precedent to Lenders' making the Term Loans that Mortgagor shall have executed and delivered to Mortgagee this Mortgage and, as an accommodation to the Borrowers and in consideration for, and in recognition of, the substantial direct and indirect benefits Mortgagor will receive from the making of the Term Loans under the Loan Agreement, Mortgagor has agreed to grant this Mortgage to secure the full and punctual payment or performance when due (after applicable grace periods), whether at stated maturity or earlier, including by reason of acceleration, mandatory prepayment or otherwise in accordance with the Loan Agreement or any other Loan Document, of the Term Loans and all of the Obligations under the Loan Documents, and any amendments or modifications to the same (collectively, the "Secured Obligations"), whether or not from time to time reduced or extinguished or hereafter increased or incurred and whether enforceable or unenforceable as against the Borrowers, or any one or more of them, now or hereafter existing, or due or to become due, including principal, interest (including interest at the contract rate applicable upon default accrued or accruing after the commencement of any proceeding under the Bankruptcy Code, whether or not such interest is an allowed claim in such proceeding), fees and costs of collection.

NOW, THEREFORE, the undersigned, in consideration of all matters as set forth above and as more particularly described in the Loan Agreement and the other Loan Documents, and to secure the prompt payment and performance of all Secured Obligations, and any extensions or renewals of same, and further to secure all other indebtedness, fees, premiums (if any), charges, and expenses from time to time owing to Mortgagee pursuant to this Mortgage, the Loan Agreement and the other Loan Documents, and further to secure the performance of the covenants, conditions, and agreements as set forth in any other documents executed in connection herewith and as hereinafter set forth, has bargained and sold and does hereby mortgage, grant, bargain, sell, assign, and convey unto the Mortgagee, WITH POWER OF SALE, for the ratable benefit of the Secured Parties, their successors and assigns, and hereby grants to the Mortgagee for the ratable benefit of the Secured Parties, their successors and assigns, subject to the Permitted Encumbrances defined in Section 1.02 herein below, a security interest in all of Mortgagor's present and future right, title and interest in, to and under the following described Land and Improvements and any and all right, title or interest in any other real property interests or improvements comprised in such real property, whether such right, title or interest is acquired by Mortgagor after the date of this Mortgage, the Equipment, and all right, title and interest of Mortgagor, if any, in and to all personal property, and intangible personal

property described below owned by Mortgagor and used in connection with the operation of the business of Mortgagor conducted on the Land (as defined below) (which together with any additional such property hereafter acquired by the Mortgagor and subject to the lien of this Mortgage, as the same may be from time to time constituted is hereinafter sometimes referred to as the "Mortgaged Property") to-wit:

(a) All the tract(s) or parcel(s) of land particularly described in Exhibit A attached hereto and made a part hereof (the "Land").

(b) All buildings, structures, and improvements of every nature whatsoever now or hereafter situated on the Land (the "Improvements"), and all fixtures, machinery, equipment and personal property of every nature whatsoever now or hereafter owned by the Mortgagor and attached to, located in or on, or used in connection with the operation of said Improvements (but excluding rolling stock and titled vehicles), including all extensions, additions, improvements, betterments, renewals and replacements to any of the foregoing.

(c) All tangible personal property of every kind or character now owned or hereafter acquired by the Mortgagor used in connection with the leasing, development, use or operation of the Land and Improvements, whether or not subsequently removed from the Land and the Improvements but excluding rolling stock and titled vehicles (collectively, the "Equipment").

(d) All building materials, equipment, fixtures, fittings, timber to be cut, minerals as extracted (as such terms are used in the Alabama Uniform Commercial Code), and any other personal property of every kind or character now owned or hereafter acquired by the Mortgagor and used in connection with the operation of the Improvements located or to be located on the Land, whether such materials, equipment, fixtures, fittings, and personal property are actually located on or adjacent to said property or not, and whether in storage or otherwise, wheresoever the same may be located, including, but without limitation, all lumber and lumber products, bricks, building stones, and building blocks, sand and cement, roofing material, paint, doors, windows, hardware, nails, wires and wiring, plumbing and plumbing fixtures, heating and air conditioning equipment and appliances, electrical and gas equipment and appliances, pipes and piping and in general all building materials and equipment of every kind and character used in connection with the operation of said Improvements.

(e) All goodwill, trademarks, trade names, option rights, purchase contracts, books and records, insurance return premiums and General Intangibles now owned or hereafter acquired by Mortgagor relating to the Land, the Improvements or the Equipment.

(f) All agreements, ground leases, grants of easements or rights-of-way, permits, declarations of covenants, conditions and restrictions, disposition and development agreements, planned unit development agreements, cooperative, condominium or similar ownership or conversion plans, management, leasing, brokerage or parking agreements or other material documents affecting the Land (the "Property Documents");

(g) all proceeds of and all unearned premiums on an insurance policies relating to the Mortgaged Property (the "Insurance Proceeds");

(h) all rights under all agreements with any provider of goods or services of or in connection with any construction undertaken or to be undertaken on, or services performed or to be performed in connection with, and all licenses, certificates of occupancy, permits, warranty agreements and other agreements (including supply, processing, terminalling or warehousing agreements and any environmental remediation agreements) used in or necessary to the use or operation of, the Land or the Improvements and conduct of the Facility Business (as defined in the Loan Agreement) thereon, therein and therefrom, including without limitation all Material Contracts (all of the foregoing are collectively referred to herein as the "Operating Contracts");

(i) all books, records and other information, wherever located, which are in Mortgagor's possession, custody or control or to which Mortgagor is entitled at law or in equity and which are related to the Mortgaged Property, including all Software and all computer hardware or other equipment used to record, store, manage, manipulate or access the information; and

(j) all after-acquired title or remainder or reversion in any of the property described in this Section; all proceeds, replacements, substitutions, products, accessions and increases of or for the Mortgaged Property, all additions, accessions and extensions to, improvements of or for the Mortgaged Property; and all additional lands, estates, interests, rights or other property described above acquired by Mortgagor after the date of this Mortgage for use in connection with the operation of the Land or the Improvements, all without the need for any additional mortgage, assignment, pledge or conveyance to Mortgagee but Mortgagor will execute and deliver to Mortgagee, upon Mortgagee's request, any documents reasonably requested by Mortgagee to further evidence the foregoing.

(k) Proceeds and products of all of the foregoing real and personal property, tangible and intangible.

To the fullest extent permitted by applicable law, all of the foregoing shall be deemed a part of the real property and, at the option of Mortgagee, may be foreclosed upon and sold upon an Event of Default in accordance with the laws relating to mortgages of real estate.

TOGETHER with all easements, rights of way, including any rights of ingress and egress, gores of land, streets, sidewalks, ways, alleys, passages, sewer rights, waters, water courses, water rights and powers, air rights and development rights, oil and mineral rights (excepting only those rights previously conveyed or excluded as shown in the Permitted Encumbrances) and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, and appurtenances whatsoever, in any way belonging, relating or appertaining to any of the property hereinabove described, or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by the Mortgagor, and the reversion and reversions, remainder and remainders, rents, issues, and profits thereof, and all the estate, right, title, interest, property, possession, claim, and demand whatsoever at law, as well as in equity, of the Mortgagor of, in and to the same, including but not limited to:

(a) All rents, profits, issues, and revenues of the Mortgaged Property (collectively, the "Rents") from time to time accruing, whether under leases or tenancies now

existing or hereafter created, reserving to Mortgagor, however, so long as Mortgagor is not in default hereunder, the right to receive and retain the rents, issues, and profits thereof; and

(b) All judgments, awards of damages, and settlements hereafter made resulting from condemnation proceedings or the taking of the Mortgaged Property or any part thereof under the power of eminent domain, or for any damage (whether caused by such taking) to the Mortgaged Property or any part thereof, or to any rights appurtenant thereto, including any award for change of grade or streets. Mortgagee hereby is authorized on behalf and in the name of Mortgagor to execute and deliver valid acquittances for, and appeal from, any such judgments or awards. Such sums or any part thereof so received shall be applied in accordance with the provisions of Section 1.06 hereof.

The Mortgaged Property does not include the Excluded Assets (as defined in the Loan Agreement), notwithstanding any provision set forth above seemingly to the contrary.

TO HAVE AND TO HOLD the Mortgaged Property and all parts thereof unto the Mortgagee, its successors and assigns forever, subject however to the terms and conditions herein:

TO SECURE unto Mortgagee: (a) the payment and performance of all Secured Obligations, payable according to the terms stated therein; (b) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Mortgage; (c) the faithful payment and performance of the covenants and agreements of Mortgagor contained herein and the faithful payment and performance of the covenants and agreements of the Borrowers in the Loan Agreement and the other Loan Documents;

PROVIDED, HOWEVER, that these presents are upon the condition that, if full payment and performance of all Secured Obligations, including the Term Notes and the full payment and performance of the Loan Agreement and the other Loan Documents is achieved, at the times and in the manner stipulated therein and herein, all without any deduction or credit for taxes or other similar charges paid by the Mortgagor, and the Borrowers shall keep, perform, and observe all and singular the covenants and promises in the Loan Agreement and the other Loan Documents and Mortgagor shall keep, perform, and observe all and singular the covenants and promises in this Mortgage expressed to be kept, performed, and observed by and on the part of the Mortgagor, all without fraud or delay (but within any applicable cure period), and there shall be no other uncured Event of Default under any of the Loan Agreement and the other Loan Documents, then this Mortgage, and all the properties, interest, and rights hereby granted, bargained, and sold shall cease, determine, and be void.

AND the Mortgagor covenants and agrees with the Mortgagee as follows:

#### ARTICLE I

1.01 Performance of Mortgage, Loan Agreement and other Loan Documents. The Mortgagor will perform, observe and comply with all provisions hereof, and the Borrowers will perform, observe and comply with all provisions of the Loan Agreement and the other Loan Documents and duly and punctually will pay and perform all Secured Obligations with interest thereon and all other sums required to be paid by them pursuant to the Loan Agreement and the

other Loan Documents executed in connection herewith, all without any deductions or credit for taxes or other similar charges paid by the Mortgagor or the Borrowers.

1.02 Warranty of Title. The Mortgagor is lawfully seized of an indefeasible estate in fee simple in the Land, Improvements and other real property hereby mortgaged and has good and marketable title to all existing personal property hereby mortgaged and has good right, full power and lawful authority to sell, convey and mortgage the same in the manner and form aforesaid, and that, except for the permitted liens described in Exhibit B attached hereto and as described in Section 7.01 of the Loan Agreement (the "Permitted Encumbrances"), the same is free and clear of all liens, charges, and encumbrances whatsoever, including, as to the personal property and fixtures, conditional sales contracts, chattel mortgages, security agreements, financing statements, and anything of a similar nature, and that Mortgagor shall and will warrant and forever defend the title thereto unto the Mortgagee, its successors and assigns, against the lawful claims of all persons whomsoever.

1.03 Other Taxes, Utilities and Liens.

(a) The Mortgagor will pay promptly, before the same becomes delinquent and after giving effect to any extensions validly existing under applicable law, and promptly after request therefor by Mortgagee, will exhibit promptly to the Mortgagee receipts for the payment of, all taxes, assessments, water rates, dues, charges, fines and impositions of every nature whatsoever imposed, levied or assessed or to be imposed, levied or assessed upon or against the Mortgaged Property or any part thereof, or upon the interest of the Mortgagee in the Mortgaged Property, this Mortgage, the Loan Agreement or the other Loan Documents, as well as all income taxes, assessments and other governmental charges lawfully levied and imposed by the United States of America or any state, county, municipality, borough or other taxing authority upon the Mortgagor or in respect of the Mortgaged Property or any part thereof, or any charge which, if unpaid, would become a lien or charge upon the Mortgaged Property; provided, however, that Mortgagor will not be required to pay any tax fee, assessment, governmental charge or any other obligations that is being contested in good faith by appropriate actions or proceedings diligently pursued and for which adequate reserves with respect thereto have been established in conformity with the provisions of the Loan Agreement.

(b) The Mortgagor will pay promptly all charges by utility companies, whether public or private, for electricity, gas, water, sewer, or other utilities.

(c) The Mortgagor shall pay promptly all charges for labor and materials and will not suffer any mechanic's, laborer's, statutory, or other lien to be filed against any of the Mortgaged Property, unless arrangements satisfactory to Mortgagee are made with respect thereto or unless contested in good faith by appropriate actions or proceedings diligently pursued and for which adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.

1.04 Insurance Requirements.

(a) To keep the Mortgaged Property and all other property, now or hereafter owned by Mortgagor and located on the Mortgaged Property, constantly insured the amounts,

with the coverages and under such policies and other terms and conditions as are set forth in the Loan Agreement. All such insurance shall be carried by companies authorized to insure in Alabama which are reasonably acceptable to Mortgagee, and all such policies shall include a standard mortgagee's endorsement and loss payable clause in favor of and in form reasonably acceptable to Mortgagee as required by the Loan Agreement. In the event of loss in the amount of \$500,000 or more, Mortgagor shall give prompt notice thereof to the Mortgagee, who is hereby authorized and empowered to make proof of loss, if not made promptly by Mortgagor. Each insurance company is hereby authorized and directed to make payments for such loss directly to the Mortgagee instead of to the Mortgagor and Mortgagee jointly, and the insurance proceeds, or any part thereof, shall be advanced and applied in a manner consistent with the Loan Agreement. Until the sums hereby secured are fully paid and satisfied, Mortgagor shall not permit any insurance to expire, lapse or be canceled unless in each instance Mortgagor acquires and delivers to the Mortgagee new or replacement policies in accordance with the terms of the Loan Agreement. In the event of a sale or foreclosure by the Mortgagee, all title and interest of Mortgagor in and to such policies shall pass to the purchaser at such sale.

(b) To maintain general liability insurance against liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the condition of the Mortgaged Property or any part thereof, in accordance with the terms of the Loan Agreement, for death or personal injury to any one person, for all personal injuries and deaths resulting from any one accident, and for property damage in any one accident, provided that the requirements of this paragraph with respect to the amount of insurance may be satisfied by an excess coverage policy.

(c) To maintain insurance against such other casualties and contingencies as Mortgagee required pursuant to Section 6.07 of the Loan Agreement.

1.05 Insurance Policies. All insurance required hereunder shall be effective under a valid and enforceable policy or policies issued by an insurer of recognized responsibility approved by Mortgagee. All policies of insurance required in Section 1.04 shall be written or endorsed in accordance with the provisions of the Loan Agreement. These policies shall provide that all proceeds of such insurance (except as provided in the following sentence) shall be payable to Mortgagee pursuant to a standard mortgagee clause to be attached to each such policy, but subject to the provisions of Section 1.04 above. So long as no uncured Event of Default then shall exist, the proceeds of insurance covering the interruption of Mortgagor's business, and the revenues from operation of the business conducted from the Mortgaged Property damaged by an insured casualty, may be paid directly to Mortgagor. Mortgagor shall deposit with Mortgagee copies of policies evidencing all such insurance if so requested by Mortgagee, or a certificate or certificates of the respective insurers stating that such insurance is in force and effect. Mortgagor shall keep all policies of insurance constantly assigned, pledged and delivered to the Mortgagee. Mortgagor shall pay or cause to be paid all premiums due with respect to the same and, if so requested by Mortgagee, furnish to Mortgagee satisfactory proof of the timely making of such payments in accordance with the provisions of the Loan Agreement. Each policy of insurance herein required shall contain a provision that the insurer shall not cancel, refuse to renew or materially modify it without giving written notice to Mortgagee at least thirty (30) days (or, in the case of cancellation due to non-payment, such shorter period as mandated by state law, but in no event less than ten (10) days) before the cancellation, non-renewal or modification becomes

effective. At least ten (10) Business Days before the expiration date of each expiring policy promptly, Mortgagor shall furnish Mortgagee with evidence satisfactory to Mortgagee that the policy has been renewed or replaced by another policy conforming to the provisions of this Section or that there is no necessity therefor under the terms hereof. In lieu of separate policies, Mortgagor may maintain blanket policies having the coverage required herein, in which event it shall deposit with Mortgagee a certificate or certificates of the respective insurance as to the amount of coverage.

Notwithstanding Mortgagee's rights under Sections 1.04 and 1.05, Mortgagee will not be liable for any loss, damage or injury resulting from the inadequacy or lack of any insurance coverage.

If an insured casualty occurs where (i) the loss is in an aggregate amount less than the 20% of the outstanding principal balance of the Term Loan; (ii) in the reasonable judgment of Mortgagee the Mortgaged Property can be restored within one year, and prior to one year before the Maturity Date and prior to the expiration of the rental or business interruption insurance with respect thereto, to the Mortgaged Property's pre-existing condition and utility as existed immediately prior to such insured casualty and to an economic unit not less valuable and not less useful than the same was immediately prior to the insured casualty; and (iii) no Default or Event of Default shall have occurred and be then continuing, then the insurance proceeds (after reimbursement to Mortgagee of any expenses incurred by Mortgagee in collecting such proceeds), shall be applied to reimburse Mortgagor for the cost of restoring, repairing, replacing or rebuilding the Mortgaged Property (the "Restoration"), in the manner set forth herein. Mortgagor shall commence and diligently prosecute such Restoration. Notwithstanding the foregoing, in no event shall Mortgagee be obligated to apply the proceeds to reimburse Mortgagor for the cost of Restoration unless, in addition to satisfaction of the foregoing conditions, Mortgagor shall pay (and if required by Mortgagee, Mortgagor shall deposit with Mortgagee in advance) all costs of such Restoration in excess of the net amount of the proceeds made available pursuant to the terms hereof.

Except as provided in the immediately preceding paragraph, after deducting the costs incurred by Mortgagee in collecting the proceeds of any insurance, Mortgagee may, in its sole discretion, (i) apply such proceeds as a credit against any portion of the Secured Obligations selected by Mortgagee in its sole discretion; (ii) apply the proceeds to restore the Improvements, provided that Mortgagee will not be obligated to see to the proper application of the proceeds and provided, further, that any amounts released for restoration will not be deemed a payment on the Secured Obligations; or (iii) deliver the proceeds to Mortgagor.

If Mortgagor is entitled to insurance proceeds held by Mortgagee, such proceeds shall be disbursed upon Mortgagee being furnished with (i) evidence satisfactory to Mortgagee of the estimated cost of completion of the Restoration, (ii) evidence reasonably satisfactory to Mortgagee of the availability of all funds in addition to the proceeds that in Mortgagee's judgment are required to complete the proposed Restoration (which availability may be evidenced by the deposit of such additional funds with Mortgagee, a letter of credit in the amount of such additional required funds, or other evidence reasonably satisfactory to Mortgagee as agreed with mortgagor at the time of such event); and (iii) if appropriate in connection with the nature of the casualty, plans and specifications or other reasonably detailed description of

Mortgagor's plans to accomplish such Restoration (the "Plans"), such Plans to be approved by Mortgagee for casualties where the loss is in an aggregate amount of \$2,000,000.00 or more, prior to disbursement of any proceeds, which approval shall not unreasonably be withheld or delayed. In the event that the Restoration is for a loss in an aggregate amount less than \$2,000,000, Mortgagor may proceed with such Restoration without prior approval of Plans therefor so long as Mortgagor shall certify to Mortgagee prior to disbursement of any proceeds that such Restoration complies with the other requirements of this Section 1.05 concerning Restoration, and if requested by Mortgagee provides to Mortgagee the Plans for such Restoration. Mortgagee shall review Plans for a Restoration as promptly as commercially practicable after receipt of such Plans from Mortgagor. At all times, the insurance proceeds (or, after application of a portion of such proceeds, the undisbursed balance of such proceeds remaining in the hands of Mortgagee), together with funds to be made available by Mortgagor for that purpose to the satisfaction of Mortgagee, shall be at least sufficient in the reasonable judgment of Mortgagee to pay for the cost of completion of the Restoration, free and clear of all Liens or claims for Lien. Provided no Event of Default then exists, any surplus that remains out of the Proceeds held by Mortgagee after payment of such costs of Restoration shall be paid to Mortgagor. Any surplus that remains out of the Award received by Mortgagee after payment of such costs of Restoration shall, in the discretion of Mortgagee, be retained by Mortgagee and applied to payment of the Debt or returned to Mortgagor. Notwithstanding anything set forth in this Section 1.05 to the contrary, the conditions set forth in this Section 1.05 relate solely to the application of proceeds of insurance covering an insured casualty, and shall not prevent, and Mortgagor may, proceed with Restoration immediately after any casualty without prior consent or approval by Mortgagee, subject to compliance with the requirements for restoration and maintenance of the Mortgaged Property set forth in Section 1.07 ("Care of the Property") of this Mortgage and Section 6.06 ("Maintenance of Properties; Collateral") of the Loan Agreement.

1.06 Condemnation. If all or any part of the Mortgaged Property shall be damaged or taken through condemnation (which term when used in this Mortgage shall include any damage or taking by any governmental authority, and any transfer by private sale in lieu thereof), either temporarily or permanently, the Secured Obligations shall continue until satisfied in full or earlier terminated in accordance with the Loan Agreement. The Mortgagee shall be entitled to all compensation, awards, and other payments or relief therefor and is hereby authorized, at its option, to commence, appear in and prosecute, in its own or the Mortgagor's name, any action or proceedings relating to any condemnation, and to settle or compromise any claim in connection therewith. All such compensation, awards, damages, claims, rights of action and proceeds and the right thereto are hereby assigned by the Mortgagor to the Mortgagee, and Mortgagor shall, upon request of Mortgagee, make, execute, acknowledge and deliver any and all additional assignments and documents as may be necessary from time to time to enable Mortgagee to collect and receipt for any such sums. Mortgagee shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums. Any sums so collected shall be applied by Mortgagee, first, to the expenses, if any, of collection, and then in accordance with Section 2.06 hereof. Notwithstanding the foregoing, if, after such condemnation or private sale in lieu thereof, the taking will not have a Material Adverse Effect upon the continued operation of the Mortgaged Property and no Event of Default has occurred and is continuing, upon request of Mortgagor, said sums so held by Mortgagee shall be made available for such restoration and disbursed by Mortgagee during the course of such restoration under



safeguards reasonably satisfactory to Mortgagee. Any sums remaining after completion of restoration shall be applied in accordance with Section 2.06.

1.07 Care of the Property.

- (a) The Mortgagor will preserve and maintain the Mortgaged Property in such condition and repair as is provided in the Loan Agreement, and will not commit or suffer any waste and will not do or suffer to be done anything which will increase the risk of fire or other hazard to the Mortgaged Property or any part thereof and which is materially inconsistent with the manner Mortgagee currently operates the Mortgaged Property.
- (b) Except as otherwise provided herein or in the Loan Agreement or other Loan Documents, no buildings, fixtures, personal property, or other part of the Mortgaged Property shall be removed, demolished or substantially altered without the prior written consent of the Mortgagee (which consent shall not be unreasonably withheld), except for improvements to, replacements of, additions to, substitutions of, and removal or demolition of obsolete or unused facilities ("Permitted Alterations") provided such Permitted Alterations do not interfere with the normal operation of the Mortgaged Property and do not cause any diminution in its value.
- (c) If the Mortgaged Property or any material part thereof is substantially damaged by fire or any other cause, the Mortgagor will give prompt written notice of the same to the Mortgagee.
- (d) The Mortgagee is hereby authorized to reasonable access to enter upon and inspect the Mortgaged Property at any time during normal business hours upon reasonable written notice.
- (e) The Mortgagor will comply with all present and future laws, ordinances, judgments, decrees, injunctions, writs and orders of any court, arbitrator or governmental agency or authority, and all rules, regulations, orders, interpretations, directives, licenses and permits, applicable to the Mortgaged Property, and all covenants, restrictions and conditions now or later of record which may be applicable to any of the Mortgaged Property, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or reconstruction of any of the Mortgaged Property, except where failure to do so could not reasonably be expected to have a Material Adverse Effect (considered both individually and together with other such failures) on (i) the current business, operations or condition (financial or otherwise) of the Borrowers and their Subsidiaries taken as a whole, (ii) the current use of the Mortgaged Property, or (iii) the value of the Mortgaged Property (assuming its current use); provided, however, that Mortgagor may contest or dispute any of the same by appropriate action or proceedings diligently pursued, if adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.
- (f) If all or any part of the Mortgaged Property shall be damaged by fire or other casualty, the Mortgagor will restore promptly the Mortgaged Property to the equivalent of its original condition, regardless of whether or not there shall be any insurance proceeds therefor; provided, however, if insurance proceeds are paid in connection with such fire or other casualty, such obligation to restore the Mortgaged Property is conditioned on Mortgagee's receipt of

insurance proceeds and making such available to the Mortgagor in accordance with this Mortgage or the Loan Agreement. If a part of the Mortgaged Property shall be physically damaged through condemnation, the Mortgagor will restore promptly, repair or alter the remaining property in a manner reasonably satisfactory to the Mortgagee; provided, however such obligation to restore, repair or alter the remaining properties is conditioned on Mortgagor's receipt of any related proceeds and making such available to the Mortgagor as set forth in Section 1.06 above.

(g) Except as expressly permitted in the Loan Agreement or other Loan Documents, the Mortgagor shall not sell, transfer, convey or assign all or any portion of, or any interest in, the Mortgaged Property, except for easements and other similar grants or interests which do not materially adversely affect the value, use or operation of the Land and the Improvements for the purposes then currently used or contemplated, except as otherwise allowed by the Loan Agreement.

1.08 Further Assurances, After Acquired Property. At any time, and from time to time, upon request by the Mortgagee, the Mortgagor will make, execute and deliver or cause to be made, executed and delivered, to the Mortgagee and, where appropriate, to cause to be recorded and/or filed and from time to time thereafter to be re-recorded and/or refiled at such time and in such offices and places as shall be deemed reasonably desirable by the Mortgagee any and all such other and further mortgages, instruments of further assurance, certificates, financing statements and other documents as may, in the opinion of the Mortgagee, be reasonably necessary or desirable in order to effectuate, complete, or perfect, or to continue and preserve the obligation of the Mortgagor under this Mortgage, and the lien and security interest of this Mortgage as a first and prior lien and security interest upon all of the Mortgaged Property, whether now owned or hereafter acquired by the Mortgagor. Upon any failure by the Mortgagor so to do, the Mortgagee may make, execute, and record any and all such mortgages, instruments, certificates, financing statements and documents for and in the name of the Mortgagor and, the Mortgagor hereby irrevocably appoints the Mortgagee the agent and attorney-in-fact of the Mortgagor so to do. The lien hereof will automatically attach, without further act, to all after acquired property attached to and/or used in the operation of the Mortgaged Property or any part thereof.

1.09 Leases Affecting Mortgaged Property. The Mortgagor will comply with and observe its material obligations as landlord under all leases affecting the Mortgaged Property or any part thereof. If requested by Mortgagee, Mortgagor will furnish Mortgagee with executed copies of all leases now or hereafter created with respect to all or any part of the Mortgaged Property; and all leases now or hereafter entered into must be approved by Mortgagee in advance of Mortgagor becoming obligated upon any such leases. Mortgagee hereby acknowledges that Mortgagee has approved those leases in effect with respect to the Mortgaged Property as of the date of execution of this Mortgage which have been previously provided or made available by Mortgagor to Mortgagee for review. If requested by the Mortgagee, the Mortgagor will execute one or more separate assignments to the Mortgagee of any and all such leases, whether now existing or hereafter created, and all rents, royalties, issues, and profits of the Mortgaged Property from time to time accruing. Except as provided in the Loan Agreement, Mortgagor will not cancel, surrender, or modify any lease without the written consent of the Mortgagee.

1.10 **Appraisals.** At the Mortgagee's request, Mortgagor will permit the Mortgagee, or its agents, employees or independent contractors, to reasonably enter upon and appraise the Mortgaged Property at any time and from time to time, upon written notice to Mortgagee, and Mortgagor will cooperate with and provide any information requested in connection with such appraisals.

1.11 **Expenses.** In accordance with the provisions of the Loan Agreement, the Mortgagor will pay or reimburse the Mortgagee for all reasonable attorney's fees, costs, and expenses incurred by the Mortgagee in any proceeding involving the estate of a decedent or an insolvent, or in any action, proceeding, or dispute of any kind in which the Mortgagee is made a party, or appears as party plaintiff or defendant, affecting the Loan Agreement, the other Loan Documents, this Mortgage, Mortgagor, or the Mortgaged Property, including but not limited to the foreclosure of this Mortgage, any condemnation action involving the Mortgaged Property, or any action to protect the security hereof; and any such amounts paid by the Mortgagee shall bear interest at the rate provided for in the Loan Agreement, shall be payable upon demand, and shall be secured by the lien of this Mortgage.

1.12 **Performance by Mortgagee of Defaults by Mortgagor.** If the Mortgagor shall default in the payment of any tax, lien, assessment, or charge levied or assessed against the Mortgaged Property (other than if such is subject to a Permitted Protest); in the payment of any utility charge, whether public or private; in the payment of insurance premium; in the procurement of insurance coverage and the delivery of the insurance policies required hereunder, or in the performance or observance of any covenant, condition, or term of this Mortgage, then the Mortgagee, at its option, may reasonably perform or observe the same, and all payments made for costs or incurred by the Mortgagee in connection therewith, shall be secured hereby and shall be, without demand, immediately repaid by the Mortgagor to the Mortgagee with thereon at the rate provided for in the Loan Agreement. The Mortgagee shall be the sole judge of the legality, validity and priority of any such tax, lien, assessment, charge, claim and premium; of the necessity for any such actions and of the amount necessary to be paid in satisfaction thereof. The Mortgagee is hereby empowered to enter and to authorize others to enter upon the Mortgaged Property or any part thereof for the purpose of performing or observing any such defaulted covenant, condition or term, without thereby becoming liable to the Mortgagor or any person in possession holding under the Mortgagor.

1.13 **Books and Records.** The Mortgagor shall keep and maintain at all times full, true and accurate books of accounts and records, adequate to reflect correctly the results of the operation of the Mortgaged Property. The Mortgagor will furnish to the Mortgagee with such financial information and reports as and when provided in the Loan Agreement.

## ARTICLE II

2.01 **Event of Default.** The term "**Event of Default**," wherever used in the Mortgage, shall mean any one or more of the following events:

- (a) The occurrence of an uncured Event of Default under the Loan Agreement.

(b) If Mortgagor shall be in default under any other deed of trust, mortgage or security agreement covering any material part of the Mortgaged Property, whether it be superior or junior in lien to this Mortgage, following expiration of any grace periods therein; provided, however, that Mortgagor may contest: or dispute any of the same by appropriate action or proceeding diligently pursued, if permitted in the Loan Agreement and adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.

(c) Except as permitted in this Mortgage or the Loan Agreement, the material alteration, improvement, demolition or removal of any of the Improvements located on the Mortgaged Property without the prior consent of Mortgagee.

(d) Except as permitted in this Mortgage or the Loan Agreement, the Mortgaged Property or any material part thereof shall be taken on execution or other process of law in any action against Mortgagor and there shall be a period of thirty (30) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

(e) Except as permitted in this Mortgage or the Loan Agreement, the Mortgagor abandons all or a portion of the Mortgaged Property.

(f) Except as permitted in this Mortgage or the Loan Agreement, the Mortgaged Property, or any part thereof, is subjected to waste or to removal, demolition or material alteration so that the value of the Mortgaged Property is materially diminished thereby and Mortgagee determines (in its subjective determination) that it is not adequately protected from any loss, damage or risk associated therewith.

(g) Notwithstanding anything herein, any requirement of notice specified above shall be deemed deleted if Mortgagee is prevented from giving notice by bankruptcy or other applicable law, and the cure period shall be measured from the date of the event or failure rather than from the date of notice. Nothing herein shall require notice except where expressly set forth in this Mortgage or the Loan Agreement.

2.02 Acceleration of Maturity. If an Event of Default shall have occurred and is continuing, then the Secured Obligations and performance hereunder secured hereby with interest accrued thereon shall, at the option of the Mortgagee, become immediately due and payable without notice or demand, time being of the essence; and any omission on the part of the Mortgagee to exercise such option when entitled to do so shall not be considered as a waiver of such right.

2.03 Right of Mortgagee to Enter and Take Possession.

(a) If an Event of Default shall have occurred and be continuing, the Mortgagor, upon demand of the Mortgagee, shall forthwith surrender to the Mortgagee the actual possession, and if and to the extent permitted by law, the Mortgagee may enter and take possession, of all the Mortgaged Property, and may exclude the Mortgagor and its agents and employees wholly therefrom.

(b) Upon every such entering upon or taking of possession, the Mortgagee may hold, store, use, operate, manage, and control the Mortgaged Property and conduct the business thereof, and, from time to time (i) make all necessary and proper maintenance, repairs, renewals, replacements, additions, betterments, and improvements thereto and thereon and purchase or otherwise acquire additional fixtures, personalty, and other property; (ii) insure or keep the Mortgaged Property insured; (iii) manage and operate the Mortgaged Property and exercise all the rights and powers of the Mortgagor in Mortgagor's name or otherwise, with respect to the same; (iv) enter into any and all agreements with respect to the exercise by others of any of the powers herein granted the Mortgagee, all as the Mortgagee from time to time may determine to be to its best advantage; and the Mortgagee may collect and receive all the income, revenues, rents, issues and profits of the same including those past due as well as those accruing thereafter, and, after deducting (A) all expenses of taking, holding, managing, and operating the Mortgaged Property (including compensation for the services of all persons employed for such purposes); (B) the cost of all such maintenance, repairs, renewals, replacements, additions, betterments, improvements, purchases, and acquisitions; (C) the cost of such insurance; (D) such taxes, assessments, and other charges prior to the lien of this Mortgage as the Mortgagee may determine to pay; (E) other proper charges upon the Mortgaged Property or any part thereof; and (F) the reasonable compensation, expenses, and disbursements of the attorneys and agents of the Mortgagee; shall apply the remainder of the moneys so received by the Mortgagee to the payment of accrued interest, to the payment of tax and insurance deposits required to pay for the taxes and insurance policies described in Sections 1.03 and 1.04 hereof, and to the sums hereby secured, or otherwise in payment of a portion of the Secured Obligations, all in such order and priority as expressly set forth in the Loan Agreement or, if not so provided in the Loan Agreement, as the Mortgagee may determine.

(c) Whenever all such Events of Default have been cured and satisfied, the Mortgagee shall surrender possession of the Mortgaged Property to the Mortgagor, its successors or assigns. The same right of taking possession, however, shall exist if any subsequent Event of Default shall occur and be continuing.

#### 2.04 Receiver.

(a) If an Event of Default shall have occurred and is continuing, the Mortgagee, upon application to a court of competent jurisdiction, shall be entitled, without notice and without regard to the adequacy of any security for the Secured Obligations hereby secured or the solvency of any party bound for its payment, to the appointment of a receiver to take possession of and to operate the Mortgaged Property and to collect the rents, profits, issues, and revenues thereof.

(b) The Mortgagor will pay to the Mortgagee upon demand all expenses, including receiver's fees, attorney's fees and costs, and agent's compensation, incurred pursuant to the provisions contained in this Section; and all such expenses shall be secured by this Mortgage.

2.05 Mortgagee's Power of Enforcement. If an Event of Default shall have occurred and is continuing, the Mortgagee may, either with or without entry or taking possession as hereinabove provided or otherwise, proceed by suit or suits at law or in equity or any other

appropriate proceeding or remedy (a) to enforce payment and performance of all Secured Obligations (b) to foreclose this Mortgage and to sell, as an entirety or, at the option of the Mortgagee, in separate lots or parcels, the Mortgaged Property, and (c) to pursue any other remedy available to it, all as the Mortgagee shall deem most effectual for such purposes. The Mortgagee shall take action either by such proceedings or by the exercise of its powers with respect to entry or taking possession, as the Mortgagee may determine.

2.06 Power of Sale. If an Event of Default shall have occurred and is continuing, Mortgagee may, under the power of sale herein granted to Mortgagee, sell the Mortgaged Property to the highest bidder for cash at public auction in front of the courthouse door in the county or counties, as may be required, where the Mortgaged Property is located, either in person or by auctioneer, after having first given notice of the time, place and terms of sale, together with a description of the Mortgaged Property to be sold, by publication once a week for three (3) successive weeks prior to said sale in some newspaper published in said county or counties, as may be required, and, upon payment of the purchase money, Mortgagee or any person conducting the sale for Mortgagee is authorized to execute to the purchaser at said sale a deed to the Mortgaged Property so purchased, and all statements of fact in such deed relating to the nonpayment of the indebtedness hereby secured, the existence of the indebtedness, notices of advertisement, sale, receipt of money and appointment of substituted Mortgagee shall be prima facie evidence of the truth of such statements. Mortgagee may bid at said sale and purchase the Mortgaged Property, or any part thereof, if the highest bidder therefor. At the foreclosure sale, the Mortgaged Property may be offered for sale and sold as a whole without first offering it in any other manner or may be offered for sale and sold in any other manner as Mortgagee may elect. The foregoing power of sale shall in no way impair or limit any remedies otherwise available to Mortgagee.

2.07 Waiver. Mortgagor hereby waives any and all rights of dower, courtesy, appraisement, sale, redemption and homestead under the laws of the State of Alabama.

2.08 Application of Foreclosure Proceeds. The proceeds of any foreclosure sale pursuant to Section 2.06 shall be applied as follows:

- (a) First, to the expenses of making the sale, including a reasonable attorney's fee for such services as may be necessary in the enforcement of the Loan Agreement and the other Loan Documents or the foreclosure of this Mortgage;
- (b) Second, to the repayment of any money, with interest thereon at the rate provided for in the Loan Agreement, which Mortgagee may have paid, or become liable to pay, or which it may then be necessary to pay for taxes, insurance, assessments or other charges, liens, or debts as hereinabove provided;
- (c) Third, to the payment and satisfaction of the Secured Obligations, including interest to date of sale; and
- (d) Fourth, the balance, if any, shall be paid to the persons or entities entitled to such balance under applicable law after deducting any expense of ascertaining who is so entitled to such balance.

2.09 **Mortgagee's Option on Foreclosure.** If any Event of Default shall have occurred and is continuing, at the option of the Mortgagee, this Mortgage may be foreclosed as provided by law or in equity, in which event a reasonable attorney's fee shall, among other costs and expenses, be allowed and paid out of the proceeds of the sale. In the event Mortgagee exercises its option to foreclose this Mortgage in equity, Mortgagee may, at its option, and subject to any Permitted Encumbrances, foreclose this Mortgage subject to the rights of any tenants of the Mortgaged Property, and the failure to make any such tenants parties defendants to any such foreclosure proceeding and to foreclose its rights will not be, nor be asserted to be by the Mortgagor, a defense to any proceedings instituted by the Mortgagee to collect the sum secured hereby, or any deficiency remaining unpaid after the foreclosure sale of the Mortgaged Property.

2.10 **Waiver of Exemption.** Mortgagor waives all rights of exemption pertaining to real or personal property as to any indebtedness secured by or that may be secured by this Mortgage, and Mortgagor waives the benefit of any statute regulating the obtaining of a deficiency judgment or requiring that the value of the Mortgaged Property be set off against any part of the sums secured hereby.

2.11 **Suits to Protect the Mortgaged Property.** If an Event of Default shall have occurred and is continuing, the Mortgagee shall have power (a) to institute and maintain such suits and proceedings as it may deem expedient to prevent any impairment of the Mortgaged Property by any acts which may be unlawful or any violation of this Mortgage, (b) to preserve or protect its interest in the Mortgaged Property and in the income, revenues, rents, and profits arising therefrom, and (c) to restrain the enforcement of or compliance with any legislation or other governmental enactment, rule, or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security hereunder or be prejudicial to the interest of the Mortgagee.

2.12 **Mortgagor to Pay and Perform all Secured Obligations on Any Event of Default; Application of Moneys by Mortgagee.** If an Event of Default occurs and is continuing then, upon demand of the Mortgagee, the Mortgagor will pay to the Mortgagee the whole amount of the Secured Obligations; and in case the Mortgagor shall fail to pay the same forthwith upon such demand, the Mortgagee shall be entitled to sue for and to recover judgment for the whole amount so due and unpaid together with costs, which shall include the reasonable compensation, expenses, and disbursements of the Mortgagee's agents and attorneys.

2.13 **Delay or Omission No Waiver.** No delay or omission of the Mortgagee or of any holder of the Term Notes to exercise any right, power, or remedy accruing upon any default or Event of Default shall exhaust or impair any such right, power, or remedy or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every right, power, and remedy given by this Mortgage to the Mortgagee may be exercised from time to time and as often as may be deemed expedient by the Mortgagee.

2.14 **No Waiver of One Default to Affect Another, etc.** No waiver of any default or Event of Default hereunder shall extend to or shall affect any subsequent or any other then existing default or Event of Default of shall impair any rights, powers, or remedies consequent thereon.

If the Mortgagee (a) grants forbearance or an extension of time for the payment of or performance of the Secured Obligations secured hereby; (b) takes other or additional security for the payment thereof; (c) waives or does not exercise any right granted herein or in the Loan Documents; (d) releases any part of the Mortgaged Property from the lien of this Mortgage or otherwise changes any of the terms of the Loan Agreement or the other Loan Documents or this Mortgage; (e) consents to the filing of any map, plat, or replat thereof; (f) consents to the granting of any easement thereon; or (g) makes or consents to any agreement subordinating the lien or charge hereof, any such act or omission shall not release, discharge, modify, change, or affect the original liability of the Borrowers under the Loan Agreement or the other Loan Documents, or of the Mortgagor under this Mortgage or otherwise or any subsequent purchaser of the Mortgaged Property or any part thereof, or any maker, co-signer, endorser, surety, or guarantor; nor shall any such act or omission preclude the Mortgagee from exercising any right, power, or privilege herein granted or intended to be granted in the event of any other default then made or of any subsequent default, nor, except as otherwise expressly provided in an instrument or instruments executed by the Mortgagee, shall the lien of this Mortgage be altered thereby. In the event of the sale or transfer by operation of law or otherwise of all or any part of the Mortgaged Property, the Mortgagee, at its option, without notice to any person or corporation hereby is authorized and empowered to deal with any such vendee or transferee with reference to the Mortgaged Property or the Secured Obligations secured hereby, or with reference to any of the terms or conditions hereof, as fully and to the same extent as it might deal with the original parties hereto and without in any way releasing or discharging any of the liabilities or undertakings hereunder.

2.15 Discontinuance of Proceedings—Position of Parties, Restored. In case the Mortgagee shall have proceeded to enforce any right or remedy under this Mortgage by foreclosure, entry, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Mortgagee, then and in every such case the Mortgagor and the Mortgagee shall be restored to their former positions and rights hereunder, and all rights, powers, and remedies of the Mortgagee shall continue as if no such proceeding has been taken.

2.16 Remedies Cumulative. No right, power, or remedy conferred upon or reserved to the Mortgagee by this Mortgage is intended to be exclusive of any right, power, or remedy, but each and every such right, power, and remedy shall be cumulative and concurrent and shall be in addition to any other right, power, and remedy given hereunder or now or hereafter existing at law or in equity or by statute.

2.17 Rights of a Secured Party. Upon the occurrence of an Event of Default that is continuing, the Mortgagee, in addition to any and all remedies it may have or exercise under this Mortgage, the Loan Agreement, the other Loan Documents or under applicable law, may immediately and without demand, exercise any and all of the rights of a secured party upon default under the UCC, all of which shall be cumulative. Such rights shall include, without limitation:

(a) The right to take possession of the Collateral (as hereinafter defined in Section 3.05 hereof) without judicial process and to enter upon any premises where the Collateral may be located for the purposes of taking possession of, securing, removing, and/or



disposing of the Collateral without interference from Mortgagor or any Borrower and without any liability for rent, storage, utilities or other sums;

(b) The right to sell, lease, or otherwise dispose of any or all of the Collateral, whether in its then condition or after further processing or preparation, at public or private sale, and unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Mortgagee shall give to Mortgagor at least ten (10) days' prior notice of the time and place of any public sale of the Collateral or of the time after which any private sale or other intended disposition of the Collateral is to be made, all of which Mortgagor agrees shall be reasonable notice of any sale or disposition of the Collateral;

(c) The right to require Mortgagor, upon request of Mortgagee, to assemble and make the Collateral available to Mortgagee at a place reasonably convenient to Mortgagor and Mortgagee; and

(d) The right to notify account debtors for obligations in which Mortgagee has an interest as set forth in this Mortgage, and demand and receive payment therefrom.

To effectuate the rights and remedies of Mortgagee upon and during the continuance of an Event of Default, Mortgagor does hereby irrevocably appoint Mortgagee attorney-in-fact for Mortgagor, with full power of substitution following the occurrence and during the continuance of an Event of Default to sign, execute, and deliver any and all instruments and documents and do all acts and things to the same extent as Mortgagor could do, and to sell, assign, and transfer any Collateral to Mortgagee or any other party.

### ARTICLE III

3.01 Successors and Assigns Included in Parties. Whenever in this Mortgage one of the parties hereto is named or referred to, the heirs, administrators, executors, successors, and assigns of such party shall be included, and all covenants and agreements contained in this Mortgage by or on behalf of the Mortgagor or by or on behalf of Mortgagee shall bind and inure to the benefit of its respective heirs, administrators, executors, successors, and assigns, whether so expressed or not.

3.02 Sale of Mortgaged Property/Termination of Mortgage. If the Mortgagor is permitted to sell the Mortgaged Property pursuant to the Loan Agreement, then, upon such sale in accordance with the terms and conditions of the Loan Agreement and upon Mortgagee's satisfaction that all of the conditions for the sale of the Mortgaged Property under the Loan Agreement have been satisfied, Mortgagee shall release this Mortgage of record, and this Mortgage shall be terminated.

3.03 Headings, etc. The headings of the articles, sections, paragraphs, and subdivisions of this Mortgage are for convenience of reference only, are not to be considered a part hereof, and shall not limit or otherwise affect any of the terms hereof.

3.04 Invalid Provisions to Affect No Others. In case any one or more of the covenants, agreements, terms, or provisions contained in this Mortgage or in the Loan Agreement or the other Loan Documents shall be invalid, illegal, or unenforceable in any respect, the validity of the

remaining covenants, agreements, terms, and provisions contained herein and in the Loan Agreement or the other Loan Documents shall in no way be affected, prejudiced, or disturbed thereby.

3.05 Security Agreement; Collateral; Fixture Filing. In addition to the foregoing grant of mortgage, by executing and delivering this Mortgage the Mortgagor hereby grants a continuing security interest to the Mortgagee for the benefit of the Lenders in that portion of the Mortgaged Property in which a security interest can be created and perfected under the UCC (said personal property, tangible and intangible, being collectively referred to in this Mortgage as the "Collateral"). This instrument shall constitute a "security agreement", "fixture filing" and "financing statement" under the UCC or other law applicable to the creation of liens upon and security interests in personal property. Mortgagor authorizes and consents to the Mortgagee filing financing statements covering the Collateral with the Office of the Secretary of State for Alabama and the real estate records of the Office of the Judge of Probate of Colbert County, Alabama and covenants and agrees to execute, file, and refile such financing statements, continuation statements or other documents as Mortgagee shall require from time to time with respect to such Collateral. If an Event of Default occurs and is continuing, the Mortgagee shall have all rights and remedies of a secured party under the UCC or other law applicable to liens upon and security interests in personal property. In addition, the Mortgagee may file a financing statement in any office or jurisdiction where filing is deemed necessary or desirable by Mortgagee without the consent of Mortgagor, and if requested to do so, Mortgagor will join in the execution of same as requested by Mortgagee and will pay all costs of any filing.

To the extent permitted by law, certain of the Mortgaged Property is or will become "fixtures" (as that term is defined in the UCC) on the Land, and this instrument, upon recording or registration in the real estate records of the county wherein such fixtures are situated, shall operate also as a financing statement filed as a fixture filing in accordance with the applicable provisions of said UCC upon such of the Mortgaged Property that is or may become fixtures. To that end, for such purpose, Mortgagor acknowledges that: (i) this Mortgage covers goods which are or are to become fixtures on the Land, (ii) this financing statement is to be recorded in the real estate records of the Office of the Judge of Probate of Colbert County, Alabama, (iii) Mortgagor is the record owner of the fee interest in the Land, and (iv) products of such goods are also covered by this financing statement. Mortgagor, as "debtor", for purposes of the UCC, also represents to Mortgagee, as of the date hereof, that the following information set forth in clauses (i), (v) and (vi) below, is true and correct:

- (i) The "Debtor" is the Mortgagor and the "Secured Party" is the Collateral Agent for the benefit of the Secure Parties. The exact legal name and address of the Debtor are:

Cherokee Nitrogen Holdings, Inc.  
16 South Pennsylvania  
Oklahoma City, Oklahoma 73107

- (ii) Name and address of Secured Party:

Banc of America Leasing & Capital LLC  
c/o Annemarie L. Warren, VP; Group Operations Manager

Bank of America  
MA5-100-32-01  
100 Federal St.  
Boston, MA 02110

- (iii) Description of the types (or items) of property covered by this financing statement: all of the property comprising the Mortgaged Property other than the Land.
- (iv) Description of real estate to which collateral is attached or upon which it is located: Described in Exhibit A.
- (v) Debtor's Organizational and Tax Identification Numbers:

Org No.	N/A
Tax ID	73-1597254
- (vi) The debtor's chief executive office is located in the State of Oklahoma, and the debtor's state of formation is the State of Oklahoma.

Information concerning the security interest herein granted may be obtained from the parties at the addresses of the parties set forth in the first paragraph of this Mortgage. Any reproduction of this Mortgage or of any other security agreement or financing statement is sufficient as a financing statement.

3.06 Covenant Regarding Compliance. Mortgagor shall keep and maintain the Mortgaged Property in compliance with, and shall not cause, permit or suffer the Mortgaged Property to be in violation of any Environmental Law (as defined below), except for noncompliance that could not reasonably be expected to have a Material Adverse Effect.

3.07 Notice. Mortgagor represents and warrants to Mortgagee as of the date of the Loan Agreement, the date of the Borrowing Notice and the date of the Borrowing Date (as each such term is defined in the Loan Agreement) that Mortgagor has not received any notice of a violation of any Environmental Law, nor incurred any previous liability therefor, except as disclosed in writing to Mortgagee in connection with the Loan Agreement. To the extent that such could reasonably be expected to (i) have a Material Adverse Effect (as defined in the Loan Agreement) or (ii) cause the Mortgaged Property to be subject to any restrictions on ownership, occupancy, liability, use or transferability under any Environmental Law, Mortgagor shall give prompt written notice to Mortgagee of:

- (a) becoming aware of any violation of Environmental Law on the Mortgaged Property, or any use, generation, manufacture, production, storage, release, discharge or disposal of any Hazardous Materials on, under, from or about the Mortgaged Property or the migration thereof to or from the Mortgaged Property in each case in violation of any Environmental Law;
- (b) the commencement or institution of any proceeding, inquiry or action by or notice from any governmental authority with respect to the use or presence of any Hazardous Materials on the Mortgaged Property or the migration thereof from or to other property;

(c) all claims made by any third party against Mortgagor or the Mortgaged Property relating to any damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials;

(d) Mortgagor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Mortgaged Property that could cause the Mortgaged Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law, or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law.

3.08 **Indemnity.** Mortgagor shall protect, indemnify and hold harmless Mortgagee, its directors, officers, employees, agents, successors and assigns (each, an "Indemnitee") from and against any and all claims, loss, damage, cost, expense, liability, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial action requirements, enforcement actions of any kind (including, without limitation, attorneys' fees and costs), or any other Environmental Liability, directly or indirectly arising out of or attributable to, in whole or in part, the breach of any Environmental Laws, the covenants, representations and warranties of this Section or the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal, or presence of a Hazardous Materials on, under, from or about the Mortgaged Property, whenever the same shall have occurred, whether before or after the date of this Mortgage, or any other activity carried on or undertaken on or off the Mortgaged Property, whenever the same shall have occurred, whether before or after the date of this Mortgage, whether by Mortgagor or any employees, agents, contractors or subcontractors of Mortgagor, or any third persons occupying or present on the Mortgaged Property, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Materials located or present on, under, from or about the Mortgaged Property, including, without limitation: (i) all consequential damages; (ii) the costs of any required or necessary repair, cleanup or detoxification of the Mortgaged Property and the preparation and implementation of any closure, remedial or other required plans including, without limitation: (A) the costs of removal or remedial action incurred by the United States Government or the State, or response costs incurred by any other person, or damages from injury to, destruction of, or loss of natural resources, including the costs of assessing such injury, destruction or loss, incurred pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601 *et seq.* as amended; and (B) the costs and expenses of abatement, correction or clean-up, fines, damages, response costs or penalties which arise from the provisions of any other statute, state or federal; or any other Environmental Laws; and (iii) liability for personal injury or property damage arising under any statutory or common-law tort theory, including damages assessed for the maintenance of the public or private nuisance, response costs or for the carrying on of an abnormally dangerous activity or any other Environmental Liability, IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY OR SOLE NEGLIGENCE OF THE INDEMNITEE; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by Mortgagor or any other Loan Party against an Indemnitee for breach in bad faith of such

Indemnitee's obligations hereunder or under any other Loan Document, if such Mortgagor or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

The foregoing indemnity shall further apply to any residual contamination on, under, from or about the Mortgaged Property, or affecting any natural resources arising in connection with the use, generation, manufacturing, production, handling, storage, transport, discharge or disposal of any such Hazardous Materials whenever the same shall have occurred, whether before or after the date of this Mortgage, and irrespective of whether any of such activities were or will be undertaken in accordance with Environmental Law or other applicable laws, regulations, codes and ordinances. This indemnity is intended to be operable under 42 U.S.C. Section 9607(e)(1), and any successor Section thereof and shall survive the reconveyance of the lien of this Mortgage, the extinguishment of the lien by foreclosure or action in lieu thereof, and any transfer of the Mortgaged Property by Mortgagor.

The foregoing indemnity shall in no manner be construed to limit or adversely affect Mortgagee's rights under this Section, including, without limitation, Mortgagee's rights to approve any remedial work or the contractors and consulting engineers retained in connection therewith.

3.09 **Inspection.** In the event that (i) an Event of Default has occurred or (ii) Mortgagee reasonably believes that there may be a violation or threatened violation by Mortgagor of any Environmental Law or a violation or threatened violation by Mortgagor of any covenant under this Section, Mortgagee is authorized, upon reasonable advance notice to Mortgagor, but not obligated, by itself, its agents, employees or workmen to enter at any reasonable time upon any part of the Mortgaged Property for the purposes of inspecting the same for Hazardous Materials and Mortgagor's compliance with this Section, and such inspections may include, without limitation, soil borings. Mortgagor agrees to pay to Mortgagee, upon Mortgagee's demand, all reasonable third party expenses, costs or other amounts incurred by Mortgagee in performing any inspection for the purposes set forth in this Subparagraph 3.09.

3.10 **Costs and Expenses of Mortgagee.** All reasonable third party costs and expenses incurred by Mortgagee under Section 3 and all subparagraphs thereof shall be immediately due and payable upon demand and shall become part of the indebtedness secured hereby and shall bear interest at the rate set forth in the Loan Agreement from the date of payment by Mortgagee until repaid.

3.11 **Definitions.** The following terms shall have the following meanings for purposes of this Section 3 and all subparagraphs thereof:

(a) "**Environmental Laws**" means any and all present and future Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, directives, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution, industrial hygiene, environmental conditions, the protection of human health or the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions, soil and ground water contamination, discharges to waste or public systems, or the assessment, monitoring or

remediation of the same, as may be amended from time to time, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (“CERCLA”) as amended, 42 U.S.C. Sections 9601 *et seq.*, and the Resource Conservation and Recovery Act of 1976 (“RCRA”), 42 U.S.C. Sections 6901 *et seq.*

(b) “Environmental Liability” means any claim, demand, order, suit, obligation, cost, liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, monitoring, fines, penalties or indemnity obligations), loss or expense (including attorneys’ and consultants’ fees and expenses), whenever the same shall have occurred, whether before or after the date of the Loan, of Mortgagor, any other Loan Party (other than Parent) or any of their respective Subsidiaries (other than the Excluded Subsidiaries) directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, processing, labeling, recycling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment, (e) alleged personal injury or property damage arising under any statutory or common-law tort theory, including damages assessed for the maintenance of a public or private nuisance, response costs or for the carrying on of an abnormally dangerous activity, or (f) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

(i) “Hazardous Materials” shall mean all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

(c) “Requirement of Law” shall mean the common law and all federal, state, local and foreign laws, rules and regulations, orders, judgments, decrees and other determinations of any Governmental Authority or arbitrator, applicable to or binding to the person or property in question.

3.12 Representations and Warranties. Mortgagor represents and warrants to Mortgagee and the Lenders as of the date of the Loan Agreement, the date of the Borrowing Notice and the date of the Borrowing Date (as each such term is defined in Section 3.07 above), knowing that the Lenders will rely on such representations and warranties as incentive to make the Term Loans to the Borrowers, that, except as otherwise provided in, or disclosed as a schedule to, the Loan Agreement.

(a) Mortgagor is a duly organized and existing corporation having full corporate power and authority to consummate the transactions contemplated by this Mortgage, and the execution, delivery and performance of this Mortgage, and the documents executed in connection herewith have been duly authorized by all necessary corporate action.

(b) All utility and sanitary sewage services necessary for the current use of the Mortgaged Property and all roads necessary for the current use of the Mortgaged Property are

available pursuant to permanent private or public easements which are not subject to the exclusive rights of any other persons which could interfere with Mortgagor's use thereof.

(c) There are no proceedings pending, or, to the best of Mortgagor's knowledge, threatened, to acquire any power of condemnation or eminent domain with respect to the Mortgaged Property, or any interest therein, or to enjoin or similarly prevent the use of any of the Mortgaged Property as presently used.

(d) The Mortgaged Property complies with all applicable laws, ordinances, rules and regulations, and all laws, ordinances, rules and regulations relating to zoning, building codes, set back requirements and environmental matters except where as such violation in the aggregate will not result in a Material Adverse Effect, or such violation is subject to a Permitted Protest or is disclosed in Section 5.09 of the Loan Agreement.

(e) Except as set forth on Exhibit B hereto, there are no leases affecting the Mortgaged Property. Each lease, if any, is in full force and effect, and no rents have been discounted, released, waived, compromised or otherwise discharged except for prepayment of rent of not more than one month prior to the accrual thereof. There are no material defaults now existing under any of the leases by the landlord or tenant, and there exists no state of facts which, with the giving of notice or lapse of time or both, would constitute a default under any of the leases by the landlord or tenant. Each lease is subject and subordinate to the Mortgage. Each lease is subject to no lien, charge or encumbrance other than this Mortgage, except Permitted Encumbrances. No tenant under a lease or any other person has an option or right of first refusal to purchase any portion of the Mortgaged Property. No tenant under any lease has, as of the date hereof, paid rent more than thirty (30) days in advance, and the rents under such leases have not been waived, released, or otherwise discharged or compromised.

(f) All easement agreements, covenants or restrictive agreements, supplemental agreements and any other instruments mortgaged hereby are and will remain valid, subsisting and in full force and effect in accordance with their terms, unless the failure to remain valid, subsisting and in full force and effect, could not, individually or in the aggregate, have or result in a Material Adverse Effect, and Mortgagor is not in default thereunder and has fully performed the material terms thereof required to be performed through the date hereof, and has no knowledge of any default thereunder or failure to fully perform the terms thereof by any other party, nor of the occurrence of any event which after notice or the passage of time or both will constitute a default thereunder which, in each such instance, could, individually or in the aggregate, have or result in a Material Adverse Effect.

(g) This Mortgage, when duly recorded in the appropriate public records and when financing statements are duly filed in the appropriate public records, will create a valid, perfected and enforceable first priority lien upon and security interest in all the Mortgaged Property free and clear of all Liens other than the Permitted Encumbrances and there are no defenses or offsets to this Mortgage or to any of the Secured Obligations secured hereby.

(h) The Mortgaged Property is not part of a larger tract of land owned by Mortgagor or its Affiliates, nor is it otherwise included under any unity of title or similar covenant with other real property not encumbered by this Mortgage.

(i) The Mortgaged Property is covered by a title insurance policy (the "Title Insurance Policy"), insuring Mortgagor, its successors and assigns, as to its fee simple title to the Mortgaged Property free of all Liens except Permitted Encumbrances. No claims have been made under such Title Insurance Policy and Mortgagor has not, by act or omission, done anything which would impair the coverage of such title insurance policy.

(j) The Mortgaged Property, including without limitation the location, existence, use, occupancy and operation of the Mortgaged Property, is in compliance in all material respects with all applicable Laws including without limitation the building and zoning laws of the jurisdiction in which the Mortgaged Property is situated and all easements, declarations, covenants and restrictions affecting the Mortgaged Property, except where such violation is subject to a Permitted Protest or would not have a Material Adverse Effect. All material licenses and permits which may be required with respect to the use, occupancy, operation and maintenance of the Mortgaged Property have been obtained and are in full force and effect and each improvement located on the Mortgaged Property complies therewith. Except as disclosed in Section 5.09 of the Loan Agreement, no notice of any violation of any Requirement of Law has been entered or received by Mortgagor and to Mortgagor's knowledge there is no basis for the entering of any such notice.

(k) All streets, roads, highways, bridges and waterways necessary for access to and full use, occupancy, operation and disposition of the Mortgaged Property have been completed, have been dedicated to and accepted by the appropriate municipal authority and are open and available to the Mortgaged Property without further condition or cost to Mortgagor.

(l) The Mortgaged Property is free and clear of any mechanics' or materialmen's liens or liens in the nature thereof, and no rights are outstanding that under law would give rise to any such liens, any of which liens are or may be prior to, or equal with, the lien of this Mortgage, except those which are insured against by the Mortgagee's title insurance policy.

(m) No lease or contract or easement, right of way, permit or declaration relating to the Mortgaged Property (collectively, "Property Agreements") provides any party with the right to obtain a lien or encumbrance upon the Mortgaged Property superior to the lien of this Mortgage.

(n) Mortgagor has delivered to Mortgagee true, correct and complete copies of all Property Agreements that provides to any party the right to obtain a lien or encumbrance upon the Mortgaged Property and no default exists or which the passing of time or the giving of notice or both would exist under any Property Agreement which would, in the aggregate, have a Material Adverse Effect.

(o) The Mortgaged Property forms no part of any property owned, used or claimed by Mortgagor as a residence or business homestead and is not exempt from forced sale under the laws of the state in which the Mortgaged Property is located. Mortgagor hereby disclaims and renounces each and every claim to all or any portion of the Mortgaged Property as a homestead and the Term Notes evidenced by the Loan Agreement and the other Loan Documents are issued solely for business, investment, commercial or other similar purposes.



(p) There are no outstanding options or rights of first offer or refusal to purchase all or any portion of the Mortgaged Property or Mortgagor's interest therein or ownership thereof

3.13 Notices. Any and all notices, elections or demands permitted or required to be made under this Mortgage, the Loan Agreement and the other Loan Documents, or any other agreement executed in connection with or relating to the Loan Agreement and the other Loan Documents or this Mortgage, or by applicable law, shall be given and be deemed effective (a) on the date delivered in person, (b) three (3) days following the date deposited with the U.S. Mail, certified or registered, postage prepaid, return receipt requested, or (c) one (1) business day following the date sent by Federal Express or overnight U.S. Mail or other national overnight carrier, and addressed in each such case to the parties at their respective addresses set forth in the heading of this instrument or such other single address as either party may designate in a written notice given as herein provided (except that a change of address notice shall not be effective until actual receipt).

3.14 Controlling Law. THE VALIDITY, INTERPRETATION, ENFORCEMENT AND EFFECT OF THIS MORTGAGE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ALABAMA.

3.15 Waiver of Jury Trial. MORTGAGOR HEREBY WAIVES ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM, SETOFF, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING OUT OF OR IN ANY WAY RELATED TO THIS MORTGAGE, THE LOAN AGREEMENT OR THE OTHER AGREEMENTS, OR (B) IN ANY WAY CONNECTED WITH OR PERTAINING OR RELATED TO OR INCIDENTAL TO ANY DEALINGS OF MORTGAGEE AND/OR MORTGAGOR WITH RESPECT TO THE LOAN AGREEMENT OR THE OTHER AGREEMENTS OR IN CONNECTION WITH THIS MORTGAGE OR THE EXERCISE OF EITHER PARTY'S RIGHTS AND REMEDIES UNDER THIS MORTGAGE, THE LOAN AGREEMENT OR THE OTHER AGREEMENTS OR OTHERWISE, OR THE CONDUCT OR THE RELATIONSHIP OF THE PARTIES HERETO, IN ALL OF THE FOREGOING CASES WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. MORTGAGOR AGREES THAT MORTGAGEE MAY FILE A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY, AND BARGAINED AGREEMENT OF MORTGAGOR IRREVOCABLY TO WAIVE ITS RIGHTS TO TRIAL BY JURY AS AN INDUCEMENT OF LENDERS TO PURCHASE THE NOTES FROM BORROWERS, AND THAT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY DISPUTE OR CONTROVERSY WHATSOEVER BETWEEN MORTGAGOR AND MORTGAGEE SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

3.16 Date of Mortgage. The date of this Mortgage is intended as a date for the convenient identification of this Mortgage and is not intended to indicate that this Mortgage was executed and delivered on that date.

3.17 Assignment of Leases and Rents; Collection of Rents, Issues and Profits; Approval of Leases.

(a) Assignment of Leases and Rents. Mortgagor assigns all leases, licenses and other occupancy agreements (“Leases”) and all rents, issues and profits to Mortgagee absolutely and unconditionally and not merely as additional collateral or security for the payment and performance of the Secured Obligations, but subject to a license back to Mortgagor as set forth below. Mortgagor appoints Mortgagee as Mortgagor’s attorney-in-fact to execute unilaterally and record, at Mortgagee’s election, a document subordinating this Mortgage to the Leases, provided that the subordination will not affect (i) the priority of Mortgagee’s entitlement to any insurance or condemnation proceeds or (ii) the priority of this Mortgage over intervening liens or liens arising under or with respect to the Leases.

(b) Mortgagor’s Authority to Collect and Retain Rents. Mortgagee confers upon Mortgagor a license to collect and retain the rents, issues and profits of the Mortgaged Property as they become due and payable, subject, however, to the right of Mortgagee to revoke such license at any time following the occurrence of an Event of Default in its sole discretion and without notice to Mortgagor. If an Event of Default shall have occurred and is continuing, Mortgagee shall have the absolute right to revoke such authority and collect and retain the rents, issues and profits assigned herein, without taking possession of all or any part of the Mortgaged Property. The right to collect rents, issues and profits herein provided shall not grant to Mortgagee the right to possession, except as expressly herein provided; nor shall such right impose upon Mortgagee the duty to produce rents, issues or profits or maintain the Property in whole or in part. Possession of the Mortgaged Property by a receiver appointed by a court of competent jurisdiction shall not be considered possession of the Mortgaged Property by Mortgagee for purposes hereof. Following the occurrence of an Event of Default that is continuing, Mortgagee may in its sole discretion determine the order of priority for application of any rents, issues and profits collected against the costs of collection and any indebtedness secured by or obligations of Mortgagor arising under the Loan Agreement and the other Loan Documents in accordance with the terms of the Loan Agreement. Collection of any rents, issues and profits by Mortgagee shall not cure or waive any Event of Default or notice of Event of Default, or invalidate any acts done pursuant to such notice.

(c) Mortgagor’s Authority to Enter into Leases. Mortgagor shall not enter into any lease of the Mortgaged Property, or any portion thereof, or modify or amend or supplement any such lease, or extend any existing lease, without the prior written consent of Mortgagee (which consent shall not be unreasonably withheld), except as otherwise permitted in the Loan Agreement. Mortgagor shall, on demand, execute such further assignments to Mortgagee of any or all leases, agreements, rents, issues or profits of the Mortgaged Property as Mortgagee may require in accordance with the terms of the Loan Agreement. Upon request of Mortgagee, Mortgagor shall promptly deliver to Mortgagee a copy of the fully executed original of any or all leases or agreements entered into hereunder. All leases of the Mortgaged Property shall be subordinate to this Mortgage unless Mortgagee elects in writing, at its sole option, to subordinate this Mortgage to a particular lease or leases.

3.18 Impound Account. Upon the happening of an Event of Default, and so long as the Event of Default shall continue, at the request of Mortgagee, Mortgagor shall pay to Mortgagee

each month on the first day thereof an amount reasonably estimated by Mortgagee to be equal to (a) the taxes and assessments payable under Section 1.03 and (b) premiums next due for all insurance carried under Section 1.04, each such estimate divided by the number of months to lapse preceding the month in which it will become due and Mortgagor irrevocably grants and assigns to Mortgagee a security interest in and to the amounts, if any, so paid by Mortgagor. Such funds shall not be claimed to be held in trust and no sums so paid shall bear interest, except to the extent of the minimum amount of interest, if any, required by law; and Mortgagee shall, at its option, either apply such funds to, or release such funds to Mortgagor for, payment of such taxes and assessments and premiums. If the total amount retained in the impound account exceeds the amount of payments actually applied by Mortgagee as set forth above, such excess may be credited by Mortgagee on subsequent payments to be made by Mortgagor hereunder or, at the option of Mortgagee, refunded to Mortgagor; but if the security account shall not be sufficient to pay the sums required at least thirty (30) days before the same are due and payable, Mortgagor shall, within three (3) business days of receipt of written demand therefore from Mortgagee, deposit with Mortgagee the full amount of any such deficiency. Upon repayment of the amounts evidenced by the Term Notes and the satisfaction of all other Secured Obligations of Mortgagor secured hereby, any remaining funds held under this paragraph shall be released to Mortgagor.

3.19 Conflicts. If any provision hereof conflicts with the terms of the Loan Agreement, the terms of the Loan Agreement shall be controlling.

3.20 Accommodation Provisions. To the extent this Mortgage secures Obligations of a party other than Mortgagor (an "Obligor"), Mortgagor has executed and delivered this Mortgage as an accommodation instrument with the intent of subjecting its interests in the Mortgaged Property to the lien of this Mortgage as security for the Secured Obligations. Mortgagor hereby agrees, to the fullest extent permitted by law, not to assert or take advantage of:

(a) Any right to require Mortgagee to proceed against any other Obligor, including as maker of the Term Notes, or any other person or to proceed against or exhaust any other security held by Mortgagee at any time or to pursue any other remedy in Mortgagee's power before exercising any right or remedy under this Mortgage.

(b) Any defense that may arise by reason of:

(i) Mortgagee's failure to proceed against any other Obligor's property, or any other party against whom Mortgagee might assert a claim, before proceeding against Mortgagor under this Mortgage; or

(ii) The release, suspension, discharge or impairment of any of Mortgagee's rights against any other Obligor or any other party against whom Mortgagee might assert a claim, whether such release, suspension, discharge or impairment is explicit, tacit or inadvertent; or

(iii) Mortgagee's failure to pursue any other remedies available to Mortgagee that would reduce the burden of the indebtedness secured hereby on Mortgagor's interests in the Mortgaged Property; or

Documents; or

(iv) Any extension of the time for the payment or performance of any of any other Obligor's obligations under the Term Notes, or any of the other Loan Documents; or

(v) Any amendment of this Mortgage, the Term Notes or any of the other Loan Documents, whether or not such amendment materially affects the risk that Mortgagor has assumed by executing this Mortgage; or

(vi) The incapacity or lack of authority of any other Obligor or any person or persons; or

(vii) The failure of Mortgagee to file or enforce a claim against the estate (in either administration, bankruptcy or any other proceedings) of any partner of any other Obligor or any other person or persons.

(c) Demand, protest and notice of any kind, including, without limitation, the following notices:

(i) Notice of the evidence, creation or incurring of any new or additional indebtedness or obligation (provided that such indebtedness or obligation is not secured by this Mortgage); or

(ii) Notice of any action or non-action on the part of any other Obligor or Mortgagee in connection with any obligation or evidence of indebtedness held by Mortgagee as collateral; or

(iii) Notice of payment or non-payment by any other Obligor of the indebtedness secured by this Mortgage.

(d) Any right to assert against Mortgagee any defense arising by reason of any claim or defense based upon an election of remedies by Mortgagee to foreclose, either by judicial foreclosure or by exercise of the power of sale, this Mortgage, which in any manner impairs, reduces, releases, destroys or extinguishes Mortgagor's subrogation rights, rights to proceed against any other Obligor for reimbursement, or any other rights of Mortgagor to proceed against any other person or security. Mortgagor waives all rights and defenses to enforcement of all or any part of the indebtedness secured hereby which defenses are based on an election of remedies by Mortgagee, even though the election of remedies, such as nonjudicial foreclosure with respect to this Mortgage, may destroy Mortgagor's rights of subrogation and reimbursement against any other Obligor. Mortgagor makes this waiver with full knowledge that if Mortgagee (i) waives a deficiency judgment in a judicial foreclosure, or (ii) exercises the power of sale under this Mortgage, any action by Mortgagor against any other Obligor to obtain reimbursement of any amount paid by Mortgagor hereunder may be barred by reason of (x) Mortgagee's waiver of such deficiency in a judicial foreclosure or (y) Mortgagee's exercise of such power of sale. Mortgagor understands that absent the waiver set forth herein, Mortgagor may have a defense to its obligations hereunder with respect to a deficiency following a nonjudicial foreclosure or a judicial foreclosure in which the Mortgagee waived its right to a deficiency judgment against any other Obligor and that by granting this waiver, Mortgagor is waiving this defense which Mortgagor would have against Mortgagee.

(e) Any rights arising because of Mortgagor's payment or satisfaction of the indebtedness secured hereby (i) against any other Obligor, by way of subrogation to the rights of Mortgagee or otherwise, or (ii) against any other guarantor or any other party obligated to pay any of the indebtedness secured hereby, by way of contribution or reimbursement or otherwise, but only until the indebtedness secured hereby is paid in full.

(f) Any duty on the part of Mortgagee to disclose to Mortgagor any default under the Term Notes or any other Loan Document.

(g) Any duty on the part of Mortgagee to disclose to Mortgagor any facts Mortgagee may now know or may hereafter know about any other Obligor or any successors in interest (if any) regardless of whether Mortgagee (i) has reason to believe that any such facts materially increase the risk beyond the risk which Mortgagor intends to assume by executing this Mortgage, (ii) has reason to believe that these facts are unknown to Mortgagor, or (iii) has a reasonable opportunity to communicate such facts to Mortgagor, it being understood and agreed that Mortgagor is fully responsible for being and keeping informed of the financial condition of any other Obligor or any successor in interest of any other Obligor and of all circumstances bearing on the risk of non-payment of any indebtedness of any other Obligor to Mortgagee that is secured hereby.

(h) Any right to object to the release of any portions of the Mortgaged Property from the lien of this Mortgage notwithstanding the fact that such releases may be made without Mortgagee having received any or adequate consideration therefor.

Mortgagor further agrees that with respect to any obligation secured hereby Mortgagee may, in such manner and upon such terms and at such times as Mortgagee deems best and without demand or notice to or consent of Mortgagor (i) release any party now or hereafter liable for the performance of any such obligation, (ii) extend the time for the performance of any such obligation, (iii) accept additional security therefor, and (iv) alter, substitute or release any property securing such performance.

Before executing this Mortgage, Mortgagor has made such independent legal and factual inquiries and investigations as Mortgagor deemed necessary or desirable with respect to the ability of any other Obligor to honor all of any other Obligor's covenants and agreements with Mortgagee, and Mortgagor has relied solely on said independent inquiries and investigations preparatory to entering into this Mortgage.

Mortgagor agrees that Mortgagee may enforce this Mortgage without the necessity of resorting to or exhausting any security or collateral securing the Secured Obligations, without the necessity of proceeding against any guarantor, and without the necessity of proceeding against any other Obligor. Mortgagor hereby waives the right to require Mortgagee to proceed against any other Obligor, to foreclose any lien on any real or personal property securing the Secured Obligations, to exercise any right or remedy under the Loan Documents, to pursue any other remedy or to enforce any other right.

Notwithstanding any modification, discharge or extension of the Secured Obligations or any amendment, modification, stay or cure of Mortgagee's rights which may occur in any

bankruptcy or reorganization case or proceeding concerning any other Obligor, whether permanent or temporary, and whether assented to by Mortgagee, Mortgagor hereby agrees that it shall be obligated hereunder to pay and perform its obligations in accordance with the terms of this Mortgage and the other Loan Documents in effect on the date hereof. Mortgagor understands and acknowledges that by virtue of this Mortgage, it has specifically assumed any and all risks of a bankruptcy or reorganization case or proceeding with respect to any other Obligor. Without in any way limiting the generality of the foregoing, any subsequent modification of the Secured Obligations in any reorganization case concerning any other Obligor shall not affect the obligation of Mortgagor to perform its obligations hereunder and under the other Loan Documents.

[No Further Text on this Page; Signature Page Follows]

IN WITNESS WHEREOF, the Mortgagor has caused this Mortgage to be executed by its duly authorized \_\_\_\_\_ on the date of the acknowledgement of the Mortgagor's signature below.

CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation

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

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

I, the undersigned authority, a Notary Public in and for said County in said State, hereby certify that \_\_\_\_\_, whose name as \_\_\_\_\_ of CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation, is signed to the foregoing instrument, and who is known to me, acknowledged before me on this day that, being informed of the contents of said instrument, he/she, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Notary Public \_\_\_\_\_

My Commission Expires

\_\_\_\_\_

**EXHIBIT A**

**LEGAL DESCRIPTION**



**EXHIBIT B**

**PERMITTED ENCUMBRANCES**

As defined in the Loan Agreement including without limitation the following:

[attach pages showing permitted encumbrances under Alabama Title Policy]

This instrument was prepared by:  
Sonnenschein Nath & Rosenthal LLP  
1221 Avenue of the Americas  
New York, New York 10020-1089  
After recording please return to the above address, marked  
to the attention of: Rachel Abarbanel

**MORTGAGE, ASSIGNMENT  
OF RENTS AND SECURITY AGREEMENT AND FIXTURE FILING STATEMENT  
[ARKANSAS]**

THIS MORTGAGE, ASSIGNMENT OF RENTS AND SECURITY AGREEMENT AND FIXTURE FILING STATEMENT (this "Mortgage"), made as of October \_\_, 2007, between NORTHWEST FINANCIAL CORPORATION, an Oklahoma corporation (hereinafter called the "Mortgagor"), whose address is 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107, and Banc of America Leasing & Capital LLC, as collateral agent for the Lenders (hereinafter called the "Mortgagee" or the "Collateral Agent"), whose address is c/o Annemarie L. Warren, VP; Group Operations Manager, Bank of America, MA5-100-32-01, 100 Federal St., Boston, MA 02110.

WITNESSETH:

WHEREAS, upon the terms and conditions of a certain Term Loan Agreement, dated as of the date hereof (collectively, such agreement, as amended, restated, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Loan Agreement"), by and among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), Cherokee Nitrogen Holdings, Inc., an Oklahoma corporation, Mortgagor, Chemex I Corp., an Oklahoma corporation, Chemex II Corp, an Oklahoma corporation, Cherokee Nitrogen Company, an Oklahoma corporation, ClimaCool Corp., an Oklahoma corporation, ClimateCraft, Inc., an Oklahoma corporation, Climate Master, Inc., a Delaware corporation, DSN Corporation, an Oklahoma corporation, El Dorado Chemical Company, an Oklahoma corporation, International Environmental Corporation, an Oklahoma corporation, Koax Corp., an Oklahoma corporation, LSB Chemical Corp., an Oklahoma corporation, The Climate Control Group, Inc., an Oklahoma corporation, Trison Construction, Inc., an Oklahoma corporation, ThermaClime Technologies, Inc., an Oklahoma corporation, and XpediAir, Inc., an Oklahoma corporation, as borrowers (individually and collectively, jointly and severally, "Borrower" or "Borrowers"), LSB Industries, Inc., as guarantor, Banc of America Leasing & Capital, LLC, as administrative agent (the "Administrative Agent"), the Collateral Agent and the Lenders from time to time party thereto (the "Lenders"; collectively with the Administrative Agent and the Collateral Agent, the "Secured Parties"), Secured Parties have agreed to provide certain financial accommodations to Borrowers, upon the terms and conditions set forth in the Loan Agreement and the other Loan Documents. Capitalized terms used but not defined herein shall have the same meanings as such terms have in the Loan Agreement or, in the case of capitalized terms used in the definition of "Mortgaged Property" below and not defined in this Mortgage, the meanings ascribed to them in the Uniform Commercial Code in effect in the State of Arkansas (the "UCC"). The terms "El Dorado Collateral" and/or "El Dorado Facility Collateral" as defined in the Loan Agreement

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shall mean and refer to all Mortgaged Property and Collateral (as defined in Section 3.05 below) described in this Mortgage.

WHEREAS, Mortgagor is an affiliate of ThermaCline and the other Borrowers and will receive substantial direct and indirect benefits from the making of the Term Loans under the Loan Agreement; and

WHEREAS, it is a condition precedent to Lenders' making the Term Loans that Mortgagor shall have executed and delivered to Mortgagee this Mortgage and, as an accommodation to the Borrowers and in consideration for, and in recognition of, the substantial direct and indirect benefits Mortgagor will receive from the making of the Term Loans under the Loan Agreement, Mortgagor has agreed to grant this Mortgage to secure the full and punctual payment or performance when due (after applicable grace periods), whether at stated maturity or earlier, including by reason of acceleration, mandatory prepayment or otherwise in accordance with the Loan Agreement or any other Loan Document, of the Term Loans and all the Obligations under the Loan Documents, and any amendments or modifications to the same (collectively, the "Secured Obligations"), whether or not from time to time reduced or extinguished or hereafter increased or incurred and whether enforceable or unenforceable as against the Borrowers, or any one or more of them, now or hereafter existing, or due or to become due, including principal, interest (including interest at the contract rate applicable upon default accrued or accruing after the commencement of any proceeding under the Bankruptcy Code, whether or not such interest is an allowed claim in such proceeding), fees and costs of collection.

NOW, THEREFORE, the undersigned, in consideration of all matters as set forth above and as more particularly described in the Loan Agreement and the other Loan Documents, and to secure the prompt payment and performance of all Secured Obligations, and any extensions or renewals of same, and further to secure all other indebtedness, fees, premiums (if any), charges, and expenses from time to time owing to Mortgagee pursuant to this Mortgage, the Loan Agreement and the other Loan Documents, and further to secure the performance of the covenants, conditions, and agreements as set forth in any other documents executed in connection herewith and as hereinafter set forth, has bargained and sold and does hereby mortgage, grant, bargain, sell, assign, and convey unto the Mortgagee for the ratable benefit of the Secured Parties, their successors and assigns, and hereby grants to the Mortgagee for the ratable benefit of the Secured Parties, their successors and assigns, subject to the Permitted Encumbrances defined in Section 1.02 herein below, a security interest in all of Mortgagor's present and future right, title and interest in, to and under the following described Land and Improvements and any and all right, title or interest in any other real property interests or improvements comprised in such real property, whether such right, title or interest is acquired by Mortgagor after the date of this Mortgage, the Equipment, and all right, title and interest of Mortgagor, if any, in and to all personal property, and intangible personal property described below owned by Mortgagor and used in connection with the operation of the business of Mortgagor conducted on the Land (as defined below) (which together with any additional such property hereafter acquired by the Mortgagor and subject to the lien of this Mortgage, as the same may be from time to time constituted (and subject to the limitations set forth in clause (c) below) is hereinafter sometimes referred to as the "Mortgaged Property") to-wit:

(a) All the tract(s) or parcel(s) of land particularly described in Exhibit A attached hereto and made a part hereof (the "Land").

(b) All buildings, structures, and improvements of every nature whatsoever now or hereafter situated on the Land (the "Improvements"), and all fixtures, machinery, equipment and personal property of every nature whatsoever now or hereafter owned by the Mortgagor and attached to, located in or on, or used in connection with the operation of said Improvements, the Chemico east/west weak nitric plant, the Chemico sulfuric acid plant, the Chemico E2 high-density ammonium nitrate prill plant, the K-T lo-density ammonium nitrate prill plant, a 100 TPD mixed acids plant, the D.M. Weatherly nitric acid plant, the UHDE 285 TPD direct strong nitric acid processing plant, the CB&I tank farm including ammonia storage spheres, a refrigerated ammonia tank and ammonia storage tanks, a plant steam generation system including Babcock & Wilcox processing boilers, a plant electrical generation system including substations and transformers, a wastewater ph neutralization system, a pollution control and irrigation system, cooling towers, air compressors, transformers, substations, storage tanks, office furniture, computers and software, vehicles and forklift trucks (other than rolling stock or titled vehicles), process plant piping, pumps and wiring, and including all extensions, additions, improvements, betterments, renewals and replacements to any of the foregoing.

(c) All tangible personal property of every kind or character now owned or hereafter acquired by the Mortgagor used in connection with the leasing, development, use or operation of the Land and Improvements, whether or not subsequently removed from the Land and the Improvements (collectively, the "Equipment"), including, without limitation, chemical processing equipment, office equipment, maintenance and machine shop equipment and laboratory equipment, but excluding rolling stock and titled vehicles.

(d) All building materials, equipment, fixtures, fittings, timber to be cut, minerals as extracted (as such term is used in the Arkansas Uniform Commercial Code) and personal property of every kind or character now owned or hereafter acquired by the Mortgagor used in connection with the operation of the Improvements located or to be located on the Land, whether such materials, equipment, fixtures, fittings, and personal property are actually located on or adjacent to said property or not, and whether in storage or otherwise, wheresoever the same may be located, including, but without limitation, all lumber and lumber products, bricks, building stones, and building blocks, sand and cement, roofing material, paint, doors, windows, hardware, nails, wires and wiring, plumbing and plumbing fixtures, heating and air conditioning equipment and appliances, electrical and gas equipment and appliances, pipes and piping and in general all building materials and equipment of every kind and character used in connection with the operation of said Improvements.

(e) All goodwill, trademarks, trade names, option rights, purchase contracts, books and records, insurance return premiums and General Intangibles now owned or hereafter acquired by Mortgagor relating to the Land, the Improvements or the Equipment.

(f) All agreements, ground leases, grants of easements or rights-of-way, permits, declarations of covenants, conditions and restrictions, disposition and development agreements, planned unit development agreements, cooperative, condominium or similar

ownership or conversion plans, management, leasing, brokerage or parking agreements or other material documents affecting the Land (the "Property Documents");

(g) all proceeds of and all unearned premiums on an insurance policies relating to the Mortgaged Property (the "Insurance Proceeds");

(h) all rights under all agreements with any provider of goods or services of or in connection with any construction undertaken or to be undertaken on, or services performed or to be performed in connection with, and all licenses, certificates of occupancy, permits, warranty agreements and other agreements (including supply, processing, terminalling or warehousing agreements and any environmental remediation agreements) used in or necessary to the use or operation of, the Land or the Improvements and conduct of the Facility Business (as defined in the Loan Agreement) thereon, therein and therefrom, including without limitation all Material Contracts (all of the foregoing are collectively referred to herein as the "Operating Contracts");

(i) all books, records and other information, wherever located, which are in Mortgagor's possession, custody or control or to which Mortgagor is entitled at law or in equity and which are related to the Mortgaged Property, including all Software and all computer hardware or other equipment used to record, store, manage, manipulate or access the information; and

(j) all after-acquired title to or remainder or reversion in any of the property described in this Section; all proceeds, replacements, substitutions, products, accessions and increases of or for the Mortgaged Property, all additions, accessions and extensions to, improvements of or for the Mortgaged Property; and all additional lands, estates, interests, rights or other property described above acquired by Mortgagor after the date of this Mortgage for use in connection with the operation of the Land or the Improvements, all without the need for any additional mortgage, assignment, pledge or conveyance to Mortgagee but Mortgagor will execute and deliver to Mortgagee, upon Mortgagee's request, any documents reasonably requested by Mortgagee to further evidence the foregoing.

(k) Proceeds and products of all of the foregoing real and personal property, tangible and intangible.

To the fullest extent permitted by applicable law, all of the foregoing shall be deemed a part of the real property and at the option of Mortgagee, may be foreclosed upon and sold upon an Event of Default in accordance with the laws relating to mortgages of real estate.

TOGETHER with all easements, rights of way, including any rights of ingress and egress, gores of land, streets, sidewalks, ways, alleys, passages, sewer rights, waters, water courses, water rights and powers, air rights and development rights, oil and mineral rights (excepting only those rights previously conveyed or excluded as shown in the Permitted Encumbrances) and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, and appurtenances whatsoever, in any way belonging, relating or appertaining to any of the property hereinabove described, or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by the Mortgagor, and the reversion and reversions, remainder and remainders, rents, issues, and profits thereof, and all the

estate, right, title, interest, property, possession, claim, and demand whatsoever at law, as well as in equity, of the Mortgagor of, in and to the same, including but not limited to:

(a) All rents, profits, issues, and revenues of the Mortgaged Property (collectively, the "Rents") from time to time accruing, whether under leases or tenancies now existing or hereafter created, reserving to Mortgagor, however, so long as Mortgagor is not in default hereunder, the right to receive and retain the rents, issues, and profits thereof; and

(b) All judgments, awards of damages, and settlements hereafter made resulting from condemnation proceedings or the taking of the Mortgaged Property or any part thereof under the power of eminent domain, or for any damage (whether caused by such taking) to the Mortgaged Property or any part thereof, or to any rights appurtenant thereto, including any award for change of grade or streets. Mortgagee hereby is authorized on behalf and in the name of Mortgagor to execute and deliver valid acquittances for, and appeal from, any such judgments or awards. Such sums or any part thereof so received shall be applied in accordance with the provisions of Section 1.06 hereof.

The Mortgaged Property does not include the Excluded Assets (as defined in the Loan Agreement), notwithstanding any provision set forth above seemingly to the contrary.

TO HAVE AND TO HOLD the Mortgaged Property and all parts thereof unto the Mortgagee, its successors and assigns forever, subject however to the terms and conditions herein:

TO SECURE unto Mortgagee: (a) the payment and performance of all Secured Obligations, payable according to the terms stated therein; (b) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Mortgage; (c) the faithful payment and performance of the covenants and agreements of Mortgagor contained herein and the faithful payment and performance of the covenants and agreements of the Borrowers in the Loan Agreement and the other Loan Documents;

PROVIDED, HOWEVER, that these presents are upon the condition that, if full payment and performance of all Secured Obligations, including the Term Notes and the full payment and performance of the Loan Agreement and the other Loan Documents is achieved, at the times and in the manner stipulated therein and herein, all without any deduction or credit for taxes or other similar charges paid by the Mortgagor, and the Borrowers shall keep, perform, and observe all and singular the covenants and promises in the Loan Agreement and the other Loan Documents and Mortgagor shall keep, perform, and observe all and singular the covenants and promises in this Mortgage expressed to be kept, performed, and observed by and on the part of the Mortgagor, all without fraud or delay (but within any applicable cure period), and there shall be no other uncured Event of Default under any of the Loan Agreement and the other Loan Documents, then this Mortgage, and all the properties, interest, and rights hereby granted, bargained, and sold shall cease, determine, and be void.

AND the Mortgagor covenants and agrees with the Mortgagee as follows:

ARTICLE I

1.01 Performance of Mortgage, Loan Agreement and other Loan Documents. The Mortgagor will perform, observe and comply with all provisions hereof, and the Borrowers will perform, observe and comply with all provisions of the Loan Agreement and the other Loan Documents and duly and punctually will pay and perform all Secured Obligations with interest thereon and all other sums required to be paid by them pursuant to the Loan Agreement and the other Loan Documents executed in connection herewith, all without any deductions or credit for taxes or other similar charges paid by the Mortgagor or the Borrowers.

1.02 Warranty of Title. The Mortgagor is lawfully seized of an indefeasible estate in fee simple in the Land, Improvements and other real property hereby mortgaged and has good and marketable title to all existing personal property hereby mortgaged and has good right, full power and lawful authority to sell, convey and mortgage the same in the manner and form aforesaid, and that, except for the permitted liens described in Exhibit B attached hereto and as described in Section 7.01 of the Loan Agreement (the "Permitted Encumbrances"), the same is free and clear of all liens, charges, and encumbrances whatsoever, including, as to the personal property and fixtures, conditional sales contracts, chattel mortgages, security agreements, financing statements, and anything of a similar nature, and that Mortgagor shall and will warrant and forever defend the title thereto unto the Mortgagee, its successors and assigns, against the lawful claims of all persons whomsoever.

1.03 Other Taxes, Utilities and Liens.

(a) The Mortgagor will pay promptly, before the same becomes delinquent and after giving effect to any extensions validly existing under applicable law, and, promptly after request therefor by Mortgagee, will exhibit promptly to the Mortgagee receipts for the payment of, all taxes, assessments, water rates, dues, charges, fines and impositions of every nature whatsoever imposed, levied or assessed or to be imposed, levied or assessed upon or against the Mortgaged Property or any part thereof, or upon the interest of the Mortgagee in the Mortgaged Property, this Mortgage, the Loan Agreement or the other Loan Documents, as well as all income taxes, assessments and other governmental charges lawfully levied and imposed by the United States of America or any state, county, municipality, borough or other taxing authority upon the Mortgagor or in respect of the Mortgaged Property or any part thereof, or any charge which, if unpaid, would become a lien or charge upon the Mortgaged Property; provided, however, that Mortgagor will not be required to pay any tax fee, assessment, governmental charge or any other obligations that is being contested in good faith by appropriate actions or proceedings diligently pursued and for which adequate reserves with respect thereto have been established in conformity with the provisions of the Loan Agreement.

(b) The Mortgagor will pay promptly all charges by utility companies, whether public or private, for electricity, gas, water, sewer, or other utilities.

(c) The Mortgagor shall pay promptly all charges for labor and materials and will not suffer any mechanic's, laborer's, statutory, or other lien to be filed against any of the Mortgaged Property, unless arrangements satisfactory to Mortgagee are made with respect thereto or unless contested in good faith by appropriate actions or proceedings diligently pursued

and for which adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.

**1.04 Insurance Requirements.**

(a) To keep the Mortgaged Property and all other property, now or hereafter owned by Mortgagor and located on the Mortgaged Property, constantly insured in the amounts, with the coverages and under such policies and other terms and conditions as are set forth in the Loan Agreement. All such insurance shall be carried by companies authorized to insure in Arkansas which are reasonably acceptable to Mortgagee, and all such policies shall include a standard mortgagee's endorsement and loss payable clause in favor of and in form reasonably acceptable to Mortgagee as required by the Loan Agreement. In the event of loss in the amount of \$500,000 or more, Mortgagor shall give prompt notice thereof to the Mortgagee, who is hereby authorized and empowered to make proof of loss, if not made promptly by Mortgagor. Each insurance company is hereby authorized and directed to make payments for such loss directly to the Mortgagee instead of to the Mortgagor and Mortgagee jointly, and the insurance proceeds, or any part thereof, shall be advanced and applied in a manner consistent with the Loan Agreement. Until the sums hereby secured are fully paid and satisfied, Mortgagor shall not permit any insurance to expire, lapse or be canceled unless in each instance Mortgagor acquires and delivers to the Mortgagee new or replacement policies in accordance with the terms of the Loan Agreement. In the event of a sale or foreclosure by the Mortgagee, all title and interest of Mortgagor in and to such policies shall pass to the purchaser at such sale.

(b) To maintain general liability insurance against liability for injuries to or death of any person or damage to or loss of property arising out of or in any way relating to the condition of the Mortgaged Property or any part thereof, in accordance with the terms of the Loan Agreement, for death or personal injury to any one person, for all personal injuries and deaths resulting from any one accident, and for property damage in any one accident, provided that the requirements of this paragraph with respect to the amount of insurance may be satisfied by an excess coverage policy.

(c) To maintain insurance against such other casualties and contingencies as Mortgagee required pursuant to Section 6.07 of the Loan Agreement.

**1.05 Insurance Policies.** All insurance required hereunder shall be effective under a valid and enforceable policy or policies issued by an insurer of recognized responsibility approved by Mortgagee. All policies of insurance required in Section 1.04 shall be written or endorsed in accordance with the provisions of the Loan Agreement. These policies shall provide that all proceeds of such insurance (except as provided in the following sentence) shall be payable to Mortgagee pursuant to a standard mortgagee clause to be attached to each such policy, but subject to the provisions of Section 1.04 above. So long as no uncured Event of Default then shall exist, the proceeds of insurance covering the interruption of Mortgagor's business, and the revenues from operation of the business conducted from the Mortgaged Property damaged by an insured casualty, may be paid directly to Mortgagor. Mortgagor shall deposit with Mortgagee copies of policies evidencing all such insurance, if so requested by Mortgagee, or a certificate or certificates of the respective insurers stating that such insurance is in force and effect. Mortgagor shall keep all policies of insurance constantly assigned, pledged and delivered to the Mortgagee.



Mortgagor shall pay or cause to be paid all premiums due with respect to the same and, if so requested by Mortgagee, shall furnish to Mortgagee satisfactory proof of the timely making of such payments in accordance with the provisions of the Loan Agreement. Each policy of insurance herein required shall contain a provision that the insurer shall not cancel, refuse to renew or materially modify it without giving written notice to Mortgagee at least thirty (30) days (or, in the case of cancellation due to non-payment, such shorter period as mandated by state law, but in no event less than ten (10) days) before the cancellation, non-renewal or modification becomes effective. At least ten (10) Business Days before the expiration date of each expiring policy promptly, Mortgagor shall furnish Mortgagee with evidence satisfactory to Mortgagee that the policy has been renewed or replaced by another policy conforming to the provisions of this Section or that there is no necessity therefor under the terms hereof. In lieu of separate policies, Mortgagor may maintain blanket policies having the coverage required herein, in which event it shall deposit with Mortgagee a certificate or certificates of the respective insurance as to the amount of coverage.

Notwithstanding Mortgagee's rights under Sections 1.04 and 1.05, Mortgagee will not be liable for any loss, damage or injury resulting from the inadequacy or lack of any insurance coverage.

If an insured casualty occurs where (i) the loss is in an aggregate amount less than the 20% of the outstanding principal balance of the Term Loan; (ii) in the reasonable judgment of Mortgagee the Mortgaged Property can be restored within one year, and prior to one year before the Maturity Date and prior to the expiration of the rental or business interruption insurance with respect thereto, to the Mortgaged Property's pre-existing condition and utility as existed immediately prior to such insured casualty and to an economic unit not less valuable and not less useful than the same was immediately prior to the insured casualty; and (iii) no Default or Event of Default shall have occurred and be then continuing, then the insurance proceeds (after reimbursement to Mortgagee of any expenses incurred by Mortgagee in collecting such proceeds), shall be applied to reimburse Mortgagor for the cost of restoring, repairing, replacing or rebuilding the Mortgaged Property (the "Restoration"), in the manner set forth herein. Mortgagor shall commence and diligently prosecute such Restoration. Notwithstanding the foregoing, in no event shall Mortgagee be obligated to apply the proceeds to reimburse Mortgagor for the cost of Restoration unless, in addition to satisfaction of the foregoing conditions, Mortgagor shall pay (and if required by Mortgagee, Mortgagor shall deposit with Mortgagee in advance) all costs of such Restoration in excess of the net amount of the proceeds made available pursuant to the terms hereof.

Except as provided in the immediately preceding paragraph, after deducting the costs incurred by Mortgagee in collecting the proceeds of any insurance, Mortgagee may, in its sole discretion, (i) apply such proceeds as a credit against any portion of the Secured Obligations selected by Mortgagee in its sole discretion; (ii) apply the proceeds to restore the Improvements, provided that Mortgagee will not be obligated to see to the proper application of the proceeds and provided, further, that any amounts released for restoration will not be deemed a payment on the Secured Obligations; or (iii) deliver the proceeds to Mortgagor.

If Mortgagor is entitled to insurance proceeds held by Mortgagee, such proceeds shall be disbursed upon Mortgagee being furnished with (i) evidence satisfactory to Mortgagee of the

estimated cost of completion of the Restoration, (ii) evidence reasonably satisfactory to Mortgagee of the availability of all funds in addition to the proceeds that in Mortgagee's judgment are required to complete the proposed Restoration (which availability may be evidenced by the deposit of such additional funds with Mortgagee, a letter of credit in the amount of such additional required funds, or other evidence reasonably satisfactory to Mortgagee as agreed with Mortgagor at the time of such event); and (iii) if appropriate in connection with the nature of the casualty, plans and specifications or other reasonably detailed description of Mortgagor's plans to accomplish such Restoration (the "Plans"), such Plans to be approved by Mortgagee for casualties where the loss is in an aggregate amount of \$2,000,000.00 or more, prior to disbursement of any proceeds, which approval shall not unreasonably be withheld or delayed. In the event that the Restoration is for a loss in an aggregate amount less than \$2,000,000, Mortgagor may proceed with such Restoration without prior approval of Plans therefor so long as Mortgagor shall certify to Mortgagee prior to disbursement of any proceeds that such Restoration complies with the other requirements of this Section 1.05 concerning Restoration, and if requested by Mortgagee provides to Mortgagee the Plans for such Restoration. Mortgagee shall review Plans for a Restoration as promptly as commercially practicable after receipt of such Plans from Mortgagor. At all times, the insurance proceeds (or, after application of a portion of such proceeds, the undisbursed balance of such proceeds remaining in the hands of Mortgagee), together with funds to be made available by Mortgagor for that purpose to the satisfaction of Mortgagee, shall be at least sufficient in the reasonable judgment of Mortgagee to pay for the cost of completion of the Restoration, free and clear of all Liens or claims for Lien. Provided no Event of Default then exists, any surplus that remains out of the Proceeds held by Mortgagee after payment of such costs of Restoration shall be paid to Mortgagor. Any surplus that remains out of the Award received by Mortgagee after payment of such costs of Restoration shall, in the discretion of Mortgagee, be retained by Mortgagee and applied to payment of the Debt or returned to Mortgagor. Notwithstanding anything set forth in this Section 1.05 to the contrary, the conditions set forth in this Section 1.05 relate solely to the application of proceeds of insurance covering an insured casualty, and shall not prevent, and Mortgagor may, proceed with Restoration immediately after any casualty without prior consent or approval by Mortgagee, subject to compliance with the requirements for restoration and maintenance of the Mortgaged Property set forth in Section 1.07 ("Care of the Property") of this Mortgage and Section 6.06 ("Maintenance of Properties; Collateral") of the Loan Agreement.

1.06 Condemnation. If all or any part of the Mortgaged Property shall be damaged or taken through condemnation (which term when used in this Mortgage shall include any damage or taking by any governmental authority, and any transfer by private sale in lieu thereof), either temporarily or permanently, the Secured Obligations shall continue until satisfied in full or earlier terminated in accordance with the Loan Agreement. The Mortgagee shall be entitled to all compensation, awards, and other payments or relief therefor and is hereby authorized, at its option, to commence, appear in and prosecute, in its own or the Mortgagor's name, any action or proceedings relating to any condemnation, and to settle or compromise any claim in connection therewith. All such compensation, awards, damages, claims, rights of action and proceeds and the right thereto are hereby assigned by the Mortgagor to the Mortgagee, and Mortgagor shall, upon request of Mortgagee, make, execute, acknowledge and deliver any and all additional assignments and documents as may be necessary from time to time to enable Mortgagee to collect and receipt for any such sums. Mortgagee shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums.

Any sums so collected shall be applied by Mortgagee, first, to the expenses, if any, of collection, and then in accordance with Section 2.06 hereof. Notwithstanding the foregoing, if, after such condemnation or private sale in lieu thereof, the taking will not have a Material Adverse Effect upon the continued operation of the Mortgaged Property and no Event of Default has occurred and is continuing, upon request of Mortgagor, said sums so held by Mortgagee shall be made available for such restoration and disbursed by Mortgagee during the course of such restoration under safeguards reasonably satisfactory to Mortgagee. Any sums remaining after completion of restoration shall be applied in accordance with Section 2.06.

1.07 Care of the Property.

(a) The Mortgagor will preserve and maintain the Mortgaged Property in such condition and repair as is provided in the Loan Agreement, and will not commit or suffer any waste and will not do or suffer to be done anything which will increase the risk of fire or other hazard to the Mortgaged Property or any part thereof, and which is materially inconsistent with the manner Mortgagor currently operates the Mortgaged Property.

(b) Except as otherwise provided herein or in the Loan Agreement or other Loan Documents, no buildings, fixtures, personal property, or other part of the Mortgaged Property shall be removed, demolished or substantially altered without the prior written consent of the Mortgagee, (which consent shall not be unreasonably withheld), except for improvements to, replacements of, additions to, substitutions of, and removal or demolition of obsolete or unused facilities ("Permitted Alterations") provided such Permitted Alterations do not interfere with the normal operation of the Mortgaged Property and do not cause any diminution in its value.

(c) If the Mortgaged Property or any material part thereof is substantially damaged by fire or any other cause, the Mortgagor will give prompt written notice of the same to the Mortgagee.

(d) The Mortgagee is hereby authorized to reasonable access to enter upon and inspect the Mortgaged Property at any time during normal business hours upon reasonable written notice.

(e) The Mortgagor will comply with all present and future laws, ordinances, judgments, decrees, injunctions, writs and orders of any court, arbitrator or governmental agency or authority, and all rules, regulations, orders, interpretations, directives, licenses and permits, applicable to the Mortgaged Property, and all covenants, restrictions and conditions now or later of record which may be applicable to any of the Mortgaged Property, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or reconstruction of any of the Mortgaged Property, except where failure to do so could not reasonably be expected to have a Material Adverse Effect (considered both individually and together with other such failures) on (i) the current business, operations or condition (financial or otherwise) of the Borrowers and their Subsidiaries taken as a whole, (ii) the current use of the Mortgaged Property, or (iii) the value of the Mortgaged Property (assuming its current use); provided, however, that Mortgagor may contest or dispute any of the same by appropriate action or proceedings diligently pursued,

if adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.

(f) If all or any part of the Mortgaged Property shall be damaged by fire or other casualty, the Mortgagor will restore promptly the Mortgaged Property to the equivalent of its original condition, regardless of whether or not there shall be any insurance proceeds therefor; provided, however, if insurance proceeds are paid in connection with such fire or other casualty, such obligation to restore the Mortgaged Property is conditioned on Mortgagor's receipt of insurance proceeds and making such available to the Mortgagor in accordance with this Mortgage or the Loan Agreement. If a part of the Mortgaged Property shall be physically damaged through condemnation, the Mortgagor will restore promptly, repair or alter the remaining property in a manner reasonably satisfactory to the Mortgagee; provided, however such obligation to restore, repair or alter the remaining properties is conditioned on Mortgagor's receipt of any related proceeds and making such available to the Mortgagor as set forth in Section 1.06, above.

(g) Except as expressly permitted in the Loan Agreement or other Loan Documents, the Mortgagor shall not sell, transfer, convey or assign all or any portion of, or any interest in, the Mortgaged Property, except for easements and other similar grants or interests which do not materially adversely affect the value, use or operation of the Land and the Improvements for the purposes then currently used or contemplated, except as otherwise allowed by the Loan Agreement.

1.08 Further Assurances: After Acquired Property. At any time, and from time to time, upon request by the Mortgagee, the Mortgagor will make, execute and deliver or cause to be made, executed and delivered, to the Mortgagee and, where appropriate, to cause to be recorded and/or filed and from time to time thereafter to be re-recorded and/or refiled at such time and in such offices and places as shall be deemed reasonably desirable by the Mortgagee any and all such other and further mortgages, instruments of further assurance, certificates, financing statements and other documents as may, in the opinion of the Mortgagee, be reasonably necessary or desirable in order to effectuate, complete, or perfect, or to continue and preserve the obligation of the Mortgagor under this Mortgage, and the lien and security interest of this Mortgage as a first and prior lien and security interest upon all of the Mortgaged Property, whether now owned or hereafter acquired by the Mortgagor. Upon any failure by the Mortgagor so to do, the Mortgagee may make, execute, and record any and all such mortgages, instruments, certificates, financing statements and documents for and in the name of the Mortgagor and, the Mortgagor hereby irrevocably appoints the Mortgagee the agent and attorney-in-fact of the Mortgagor so to do. The lien hereof will automatically attach, without further act, to all after acquired property attached to and/or used in the operation of the Mortgaged Property or any part thereof.

1.09 Leases Affecting Mortgaged Property. The Mortgagor will comply with and observe its material obligations as landlord under all leases affecting the Mortgaged Property or any part thereof. If requested by Mortgagee, Mortgagor will furnish Mortgagee with executed copies of all leases now or hereafter created with respect to all or any part of the Mortgaged Property; and all leases now or hereafter entered into must be approved by Mortgagee in advance of Mortgagor becoming obligated upon any such leases. Mortgagee hereby acknowledges that

Mortgagee has approved those leases in effect with respect to the Mortgaged Property as of the date of execution of this Mortgage which have been previously provided or made available by Mortgagor to Mortgagee for review. If requested by the Mortgagee, the Mortgagor will execute one or more separate assignments to the Mortgagee of any and all such leases, whether now existing or hereafter created, and all rents, royalties, issues, and profits of the Mortgaged Property from time to time accruing. Except as provided in the Loan Agreement, Mortgagor will not cancel, surrender, or modify any lease without the written consent of the Mortgagee.

1.10 Appraisals. At the Mortgagee's request, Mortgagor will permit the Mortgagee, or its agents, employees or independent contractors, to reasonably enter upon and appraise the Mortgaged Property at any time and from time to time, upon written notice to Mortgagee, and Mortgagor will cooperate with and provide any information requested in connection with such appraisals.

1.11 Expenses. In accordance with the provisions of the Loan Agreement, the Mortgagor will pay or reimburse the Mortgagee for all reasonable attorney's fees, costs, and expenses incurred by the Mortgagee in any proceeding involving the estate of a decedent or an insolvent, or in any action, proceeding, or dispute of any kind in which the Mortgagee is made a party, or appears as party plaintiff or defendant, affecting the Loan Agreement, the other Loan Documents, this Mortgage, Mortgagor, or the Mortgaged Property, including but not limited to the foreclosure of this Mortgage, any condemnation action involving the Mortgaged Property, or any action to protect the security hereof; and any such amounts paid by the Mortgagee shall bear interest at the rate provided for in the Loan Agreement, shall be payable upon demand, and shall be secured by the lien of this Mortgage.

1.12 Performance by Mortgagee of Defaults by Mortgagor. If the Mortgagor shall default in the payment of any tax, lien, assessment, or charge levied or assessed against the Mortgaged Property (other than if such is subject to a Permitted Protest); in the payment of any utility charge, whether public or private; in the payment of insurance premium; in the procurement of insurance coverage and the delivery of the insurance policies required hereunder, or in the performance or observance of any covenant, condition, or term of this Mortgage, then the Mortgagee, at its option, may reasonably perform or observe the same, and all payments made for costs or incurred by the Mortgagee in connection therewith, shall be secured hereby and shall be, without demand, immediately repaid by the Mortgagor to the Mortgagee with thereon at the rate provided for in the Loan Agreement. The Mortgagee shall be the sole judge of the legality, validity and priority of any such tax, lien, assessment, charge, claim and premium; of the necessity for any such actions and of the amount necessary to be paid in satisfaction thereof. The Mortgagee is hereby empowered to enter and to authorize others to enter upon the Mortgaged Property or any part thereof for the purpose of performing or observing any such defaulted covenant, condition or term, without thereby becoming liable to the Mortgagor or any person in possession holding under the Mortgagor.

1.13 Books and Records. The Mortgagor shall keep and maintain at all times full, true and accurate books of accounts and records, adequate to reflect correctly the results of the operation of the Mortgaged Property. The Mortgagor will furnish to the Mortgagee with such financial information and reports as and when provided in the Loan Agreement.

ARTICLE II

2.01 Event of Default. The term “Event of Default,” wherever used in the Mortgage, shall mean any one or more of the following events:

(a) The occurrence of an uncured Event of Default under the Loan Agreement..

(b) If Mortgagor shall be in default under any other deed of trust, mortgage or security agreement covering any material part of the Mortgaged Property, whether it be superior or junior in lien to this Mortgage, following expiration of any grace periods therein; provided, however, that Mortgagor may contest or dispute any of the same by appropriate action or proceeding diligently pursued, if permitted in the Loan Agreement and adequate reserves with respect thereto have been established in accordance with the provisions of the Loan Agreement.

(c) Except as permitted in this Mortgage or the Loan Agreement, the material alteration, improvement, demolition or removal of any of the Improvements located on the Mortgaged Property without the prior consent of Mortgagee.

(d) Except as permitted in this Mortgage or the Loan Agreement, the Mortgaged Property or any material part thereof shall be taken on execution or other process of law in any action against Mortgagor and there shall be a period of thirty (30) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

(e) Except as permitted in this Mortgage or the Loan Agreement, the Mortgagor abandons all or a portion of the Mortgaged Property.

(f) Except as permitted in this Mortgage or the Loan Agreement, the Mortgaged Property, or any part thereof, is subjected to waste or to removal, demolition or material alteration so that the value of the Mortgaged Property is materially diminished thereby and Mortgagee determines (in its subjective determination) that it is not adequately protected from any loss, damage or risk associated therewith.

(g) Notwithstanding anything herein, any requirement of notice specified above shall be deemed deleted if Mortgagee is prevented from giving notice by bankruptcy or other applicable law, and the cure period shall be measured from the date of the event or failure rather than from the date of notice. Nothing herein shall require notice except where expressly set forth in this Mortgage or the Loan Agreement.

2.02 Acceleration of Maturity. If an Event of Default shall have occurred and is continuing, then the Secured Obligations and performance thereunder, secured hereby with interest accrued thereon shall, at the option of the Mortgagee, become immediately due and payable without notice or demand, time being of the essence; and any omission on the part of the Mortgagee to exercise such option when entitled to do so shall not be considered as a waiver of such right.

2.03 Right of Mortgagee to Enter and Take Possession.

(a) If an Event of Default shall have occurred and be continuing, the Mortgagor, upon demand of the Mortgagee, shall forthwith surrender to the Mortgagee the actual possession, and if and to the extent permitted by law, the Mortgagee may enter and take possession, of all the Mortgaged Property, and may exclude the Mortgagor and its agents and employees wholly therefrom.

(b) Upon every such entering upon or taking of possession, the Mortgagee may hold, store, use, operate, manage, and control the Mortgaged Property and conduct the business thereof, and, from time to time (i) make all necessary and proper maintenance, repairs, renewals, replacements, additions, betterments, and improvements thereto and thereon and purchase or otherwise acquire additional fixtures, personalty, and other property; (ii) insure or keep the Mortgaged Property insured; (iii) manage and operate the Mortgaged Property and exercise all the rights and powers of the Mortgagor in Mortgagor's name or otherwise, with respect to the same; (iv) enter into any and all agreements with respect to the exercise by others of any of the powers herein granted the Mortgagee, all as the Mortgagee from time to time may determine to be to its best advantage; and the Mortgagee may collect and receive all the income, revenues, rents, issues and profits of the same including those past due as well as those accruing thereafter, and, after deducting (A) all expenses of taking, holding, managing, and operating the Mortgaged Property (including compensation for the services of all persons employed for such purposes); (B) the cost of all such maintenance, repairs, renewals, replacements, additions, betterments, improvements, purchases, and acquisitions; (C) the cost of such insurance; (D) such taxes, assessments, and other charges prior to the lien of this Mortgage as the Mortgagee may determine to pay; (E) other proper charges upon the Mortgaged Property or any part thereof; and (F) the reasonable compensation, expenses, and disbursements of the attorneys and agents of the Mortgagee; shall apply the remainder of the moneys so received by the Mortgagee to the payment of accrued interest, to the payment of tax and insurance deposits required to pay for the taxes and insurance policies described in Sections 1.03 and 1.04 hereof, and to the sums hereby secured, or otherwise in payment of a portion of the Secured Obligations, all in such order and priority as expressly set forth in the Loan Agreement or, if not so provided, as the Mortgagee may determine.

(c) Whenever all such Events of Default have been cured and satisfied, the Mortgagee shall surrender possession of the Mortgaged Property to the Mortgagor, its successors or assigns. The same right of taking possession, however, shall exist if any subsequent Event of Default shall occur and be continuing.

#### 2.04 Receiver.

(a) If an Event of Default shall have occurred and is continuing, the Mortgagee, upon application to a court of competent jurisdiction, shall be entitled, without notice and without regard to the adequacy of any security for the Secured Obligations hereby secured or the solvency of any party bound for its payment, to the appointment of a receiver to take possession of and to operate the Mortgaged Property and to collect the rents, profits, issues, and revenues thereof.

(b) The Mortgagor will pay to the Mortgagee upon demand all expenses, including receiver's fees, attorney's fees and costs, and agent's compensation, incurred pursuant

to the provisions contained in this Section; and all such expenses shall be secured by this Mortgage.

2.05 Mortgagee's Power of Enforcement. If an Event of Default shall have occurred and is continuing, the Mortgagee may, either with or without entry or taking possession as hereinabove provided or otherwise, proceed by suit or suits at law or in equity or any other appropriate proceeding or remedy (a) to enforce payment and performance of all Secured Obligations (b) to foreclose this Mortgage and to sell, as an entirety or, at the option of Mortgagee, in separate lots or parcels, the Mortgaged Property, and (c) to pursue any other remedy available to it, all as the Mortgagee shall deem most effectual for such purposes. The Mortgagee shall take action either by such proceedings or by the exercise of its powers with respect to entry or taking possession, as the Mortgagee may determine.

2.06 Power of Sale. If an Event of Default shall have occurred and is continuing, Mortgagee may, under the power of sale herein granted to Mortgagee, take possession of the Mortgaged Property and sell all or part of the Mortgaged Property, at public auction, to the highest bidder for cash, free from equity of redemption, any statutory or common law right of redemption, homestead, dower, and all other rights and exemptions of every kind, all of which are hereby expressly waived, at the front door of any courthouse or other building in the county where any of the Mortgaged Property is situated, according to the laws of the State of Arkansas. The owners of any part of the indebtedness hereby secured may become the purchaser at any sale under this conveyance. The Mortgagee shall execute and deliver a deed of conveyance to the purchaser, and all statements of fact in such deed relating to the nonpayment of the indebtedness hereby secured, the existence of the indebtedness, notices of advertisement, sale, receipt of money and appointment of substituted Mortgagee shall be prima facie evidence of the truth of such statements. Mortgagee making such sale shall receive the proceeds thereof and shall apply the same as follows: (i) first, to the payment of the expenses of making, maintaining and executing this Mortgage, protection of the Mortgaged Property, including the expense of any litigation and reasonable attorneys' fees; (ii) second, to any advancements made by the Mortgagee pursuant hereto, with interest thereon; (iii) third, to the payment of the Secured Obligations herein secured or intended so to be, in such order as Mortgagee shall elect, and any balance of said Secured Obligations may be the subject of immediate suit; (iv) and, fourth, should there be any surplus, Mortgagee will pay it to the Mortgagor, or to such person as may be legally entitled thereto.

2.07 Waiver. Mortgagor hereby waives any and all rights of dower, courtesy, appraisement, sale, redemption and homestead under the laws of the State of Arkansas and especially under Act 153 of May 8, 1899, and acts amendatory thereof.

2.08 Mortgagee's Option on Foreclosure. If an Event of Default shall have occurred and is continuing, at the option of the Mortgagee, this Mortgage may be foreclosed as provided by law or in equity, in which event a reasonable attorney's fee shall, among other costs and expenses, be allowed and paid out of the proceeds of the sale. In the event Mortgagee exercises its option to foreclose this Mortgage in equity, Mortgagee may, at its option, and subject to any Permitted Encumbrances, foreclose this Mortgage subject to the rights of any tenants of the Mortgaged Property, and the failure to make any such tenants parties defendants to any such foreclosure proceeding and to foreclose its rights will not be, nor be asserted to be by the



Mortgagor, a defense to any proceedings instituted by the Mortgagee to collect the sum secured hereby, or any deficiency remaining unpaid after the foreclosure sale of the Mortgaged Property.

2.09 Waiver of Exemption. Mortgagor waives all rights of exemption pertaining to real or personal property as to any indebtedness secured by or that may be secured by this Mortgage, and Mortgagor waives the benefit of any statute regulating the obtaining of a deficiency judgment or requiring that the value of the Mortgaged Property be set off against any part of the sums secured hereby.

2.10 Suits to Protect the Mortgaged Property. If an Event of Default shall have occurred and is continuing, the Mortgagee shall have power (a) to institute and maintain such suits and proceedings as it may deem expedient to prevent any impairment of the Mortgaged Property by any acts which may be unlawful or any violation of this Mortgage, (b) to preserve or protect its interest in the Mortgaged Property and in the income, revenues, rents, and profits arising therefrom, and (c) to restrain the enforcement of or compliance with any legislation or other governmental enactment, rule, or order that may be unconstitutional or otherwise invalid, if the enforcement of or compliance with such enactment, rule or order would impair the security hereunder or be prejudicial to the interest of the Mortgagee.

2.11 Mortgagor to Pay and Perform all Secured Obligations on Any Event of Default; Application of Moneys by Mortgagee. If an Event of Default occurs and is continuing, then, upon demand of the Mortgagee, the Mortgagor will pay to the Mortgagee the whole amount of the Secured Obligations; and in case the Mortgagor shall fail to pay the same forthwith upon such demand, the Mortgagee shall be entitled to sue for and to recover judgment for the whole amount so due and unpaid together with costs, which shall include the reasonable compensation, expenses, and disbursements of the Mortgagee's agents and attorneys.

2.12 Delay or Omission No Waiver. No delay or omission of the Mortgagee or of any holder of the Term Notes to exercise any right, power, or remedy accruing upon any default or Event of Default shall exhaust or impair any such right, power, or remedy or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every right, power, and remedy given by this Mortgage to the Mortgagee may be exercised from time to time and as often as may be deemed expedient by the Mortgagee.

2.13 No Waiver of One Default to Affect Another, etc. No waiver of any default or Event of Default hereunder shall extend to or shall affect any subsequent or any other then existing default or Event of Default or shall impair any rights, powers, or remedies consequent thereon.

If the Mortgagee (a) grants forbearance or an extension of time for the payment of or performance of the Secured Obligations secured hereby; (b) takes other or additional security for the payment thereof; (c) waives or does not exercise any right granted herein or in the Loan Documents; (d) releases any part of the Mortgaged Property from the lien of this Mortgage or otherwise changes any of the terms, of the Loan Agreement or the other Loan Documents or this Mortgage; (e) consents to the filing of any map, plat, or replat thereof; (f) consents to the granting of any easement thereon; or (g) makes or consents to any agreement subordinating the lien or charge hereof, any such act or omission shall not release, discharge, modify, change, or

affect the original liability of the Borrowers under the Loan Agreement or the other Loan Documents, or of the Mortgagor under this Mortgage or otherwise or any subsequent purchaser of the Mortgaged Property or any part thereof, or any maker, co-signer, endorser, surety, or guarantor; nor shall any such act or omission preclude the Mortgagee from exercising any right, power, or privilege herein granted or intended to be granted in the event of any other default then made or of any subsequent default, nor, except as otherwise expressly provided in an instrument or instruments executed by the Mortgagee, shall the lien of this Mortgage be altered thereby. In the event of the sale or transfer by operation of law or otherwise of all or any part of the Mortgaged Property, the Mortgagee, at its option, without notice to any person or corporation hereby is authorized and empowered to deal with any such vendee or transferee with reference to the Mortgaged Property or the Secured Obligations secured hereby, or with reference to any of the terms or conditions hereof, as fully and to the same extent as it might deal with the original parties hereto and without in any way releasing or discharging any of the liabilities or undertakings hereunder.

2.14 Discontinuance of Proceedings—Position of Parties, Restored. In case the Mortgagee shall have proceeded to enforce any right or remedy under this Mortgage by foreclosure, entry, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Mortgagee, then and in every such case the Mortgagor and the Mortgagee shall be restored to their former positions and rights hereunder, and all rights, powers, and remedies of the Mortgagee shall continue as if no such proceeding has been taken.

2.15 Remedies Cumulative. No right, power, or remedy conferred upon or reserved to the Mortgagee by this Mortgage is intended to be exclusive of any right, power, or remedy, but each and every such right, power, and remedy shall be cumulative and concurrent and shall be in addition to any other right, power, and remedy given hereunder or now or hereafter existing at law or in equity or by statute.

2.16 Rights of a Secured Party. Upon the occurrence of an Event of Default that is continuing, the Mortgagee, in addition to any and all remedies it may have or exercise under this Mortgage, the Loan Agreement, the other Loan Documents or under applicable law, may immediately and without demand, exercise any and all of the rights of a secured party upon default under the UCC, all of which shall be cumulative. Such rights shall include, without limitation:

(a) The right to take possession of the Collateral (as hereinafter defined in Section 3.05 hereof) without judicial process and to enter upon any premises where the Collateral may be located for the purposes of taking possession of, securing, removing, and/or disposing of the Collateral without interference from Mortgagor or any Borrower and without any liability for rent, storage, utilities or other sums;

(b) The right to sell, lease, or otherwise dispose of any or all of the Collateral, whether in its then condition or after further processing or preparation, at public or private sale, and unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Mortgagee shall give to Mortgagor at least ten (10) days' prior notice of the time and place of any public sale of the Collateral or of the time after

which any private sale or other intended disposition of the Collateral is to be made, all of which Mortgagor agrees shall be reasonable notice of any sale or disposition of the Collateral;

(c) The right to require Mortgagor, upon request of Mortgagee, to assemble and make the Collateral available to Mortgagee at a place reasonably convenient to Mortgagor and Mortgagee; and

(d) The right to notify account debtors for obligations in which Mortgagee has an interest as set forth in this Mortgage, and demand and receive payment therefrom.

To effectuate the rights and remedies of Mortgagee upon and during the continuance of an Event of Default, Mortgagor does hereby irrevocably appoint Mortgagee attorney-in-fact for Mortgagor, with full power of substitution following the occurrence and during the continuance of an Event of Default to sign, execute, and deliver any and all instruments and documents and do all acts and things to the same extent as Mortgagor could do, and to sell, assign, and transfer any Collateral to Mortgagee or any other party.

#### ARTICLE III

3.01 Successors and Assigns Included in Parties. Whenever in this Mortgage one of the parties hereto is named or referred to, the heirs, administrators, executors, successors, and assigns of such party shall be included, and all covenants and agreements contained in this Mortgage by or on behalf of the Mortgagor or by or on behalf of Mortgagee shall bind and inure to the benefit of its respective heirs, administrators, executors, successors, and assigns, whether so expressed or not.

3.02 Sale of Mortgaged Property/Termination of Mortgage. If the Mortgagor is permitted to sell the Mortgaged Property pursuant to the Loan Agreement, then, upon such sale in accordance with the terms and conditions of the Loan Agreement and upon Mortgagee's satisfaction that all of the conditions for the sale of the Mortgaged Property under the Loan Agreement have been satisfied, Mortgagee shall release this Mortgage of record, and this Mortgage shall be terminated.

3.03 Headings, etc. The headings of the articles, sections, paragraphs, and subdivisions of this Mortgage are for convenience of reference only, are not to be considered a part hereof, and shall not limit or otherwise affect any of the terms hereof.

3.04 Invalid Provisions to Affect No Others. In case any one or more of the covenants, agreements, terms, or provisions contained in this Mortgage or in the Loan Agreement or the other Loan Documents shall be invalid, illegal, or unenforceable in any respect, the validity of the remaining covenants, agreements, terms, and provisions contained herein and in the Loan Agreement or the other Loan Documents shall in no way be affected, prejudiced, or disturbed thereby.

3.05 Collateral; Fixture Filing. Mortgagor grants a security interest to Mortgagee in the Mortgaged Property to the extent any part thereof constitutes personal property of the Mortgagor under the UCC or other applicable law (said personal property, tangible and intangible, being collectively referred to in this Mortgage as the "Collateral"), and this Mortgage

shall constitute a security agreement under the UCC or other law applicable to the creation of liens upon and security interests in personal property. Mortgagor authorizes and consents to the Mortgagee filing financing statements with the Office of the Circuit Clerk and Ex-Officio Recorder of Union County, Arkansas, and covenants and agrees to execute, file, and refile such financing statements, continuation statements or other documents as Mortgagee shall require from time to time with respect to such Collateral. If an Event of Default occurs and is continuing, the Mortgagee shall have all rights and remedies of a secured party under the UCC or other law applicable to liens upon and security interests in personal property. In addition, the Mortgagee may file a financing statement in any office or jurisdiction where filing is deemed necessary or desirable by Mortgagee without the consent of Mortgagor, and if requested to do so, Mortgagor will join in the execution of same as requested by Mortgagee and will pay all costs of any filing.

This Mortgage constitutes a "fixture filing" (as defined in Section 9102(a)(40) of the UCC) and, to that end, Mortgagor acknowledges that (i) this Mortgage covers goods which are or are to become fixtures on the Land, (ii) this financing statement is to be recorded in the Office of the Circuit Clerk and Ex-Officio Recorder of Union County, Arkansas, (iii) Mortgagor is the record owner of the fee interest in the Land, and (iv) products of such goods are also covered by this financing statement. Mortgagor, as "debtor", for purposes of the UCC, also represents to Mortgagee, as of the date hereof, that the following information set forth in clauses (i), (v) and (vi) below, is true and correct:

(i) The "Debtor" is the Mortgagor and the "Secured Party" is the Collateral Agent for the benefit of the Secured Parties. The exact legal name and address of the Debtor are:

Northwest Financial Corporation  
16 South Pennsylvania  
Oklahoma City, Oklahoma 73107

(ii) Name and address of Secured Party:

Banc of America Leasing & Capital LLC  
c/o Annemarie L. Warren, VP; Group Operations Manager  
Bank of America  
MA5-100-32-01  
100 Federal St.  
Boston, MA 02110

(iii) Description of the types (or items) of property covered by this Financing Statement: all of the property comprising the Mortgaged Property other than the Land.

(iv) Description of real estate to which collateral is attached or upon which it is located: Described in Exhibit A.

(v) Debtor's Organizational and Tax Identification Numbers:

Org No.	None
Tax ID	73-1131584

(vi) The debtor's chief executive office is located in the State of Oklahoma, and the debtor's state of formation is the State of Oklahoma.

Information concerning the security interest herein granted may be obtained from the parties at the addresses of the parties set forth in the first paragraph of this Mortgage. Any reproduction of this Mortgage or of any other security agreement or financing statement is sufficient as a financing statement.

3.06 Covenant Regarding Compliance. Mortgagor shall keep and maintain the Mortgaged Property in compliance with, and shall not cause, permit or suffer the Mortgaged Property to be in violation of any Environmental Law (as defined below), except for noncompliance that could not reasonably be expected to have a Material Adverse Effect.

3.07 Notice. Mortgagor represents and warrants to Mortgagee as of the date of the Loan Agreement, the date of the Borrowing Notice and the date of the Borrowing Date (as each such term is defined in the Loan Agreement) that Mortgagor has not received any notice of a violation of any Environmental Law, nor incurred any previous liability therefor, except as disclosed in writing to Mortgagee in connection with the Loan Agreement. To the extent that such could reasonably be expected to (i) have a Material Adverse Effect (as defined in the Loan Agreement) or (ii) cause the Mortgaged Property to be subject to any restrictions on ownership, occupancy, liability, use, transferability, or marketability under any Environmental Law. Mortgagor shall give prompt written notice to Mortgagee of:

(a) becoming aware of any violation of Environmental Law on the Mortgaged Property, or any use, generation, manufacture, production, storage, release, discharge or disposal of any Hazardous Materials on, under, from or about the Mortgaged Property or the migration thereof to or from the Mortgaged Property in each case in violation of any Environmental Law;

(b) the commencement or institution of any proceeding, inquiry or action by or notice from any governmental authority with respect to the use or presence of any Hazardous Materials on the Mortgaged Property or the migration thereof from or to other property;

(c) all claims made by any third party against Mortgagor or the Mortgaged Property relating to any damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials;

(d) Mortgagor's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Mortgaged Property that could cause the Mortgaged Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law, or to be otherwise subject to any restrictions on the ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law.

3.08 Indemnity. Mortgagor shall protect, indemnify and hold harmless Mortgagee, its directors, officers, employees, agents, successors and assigns (each, an "Indemnitee") from and against any and all claims, loss, damage, cost, expense, liability, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial action requirements, enforcement actions of any kind (including, without limitation, attorneys' fees and costs), or any

other Environmental Liability, directly or indirectly arising out of or attributable to, in whole or in part, the breach of any Environmental Laws, the covenants, representations and warranties of this Section or the use, generation, manufacture, production, storage, release, threatened release, discharge, disposal, or presence of a Hazardous Materials on, under, from or about the Mortgaged Property, whenever the same shall have occurred, whether before or after the date of this Mortgage, whether by Mortgagor or any employees, agents, contractors or subcontractors of Mortgagor, or any third persons occupying or present on the Mortgaged Property, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Materials located or present on, under, from or about the Mortgaged Property, including, without limitation: (i) all consequential damages; (ii) the costs of any required or necessary repair, cleanup or detoxification of the Mortgaged Property and the preparation and implementation of any closure, remedial or other required plans including, without limitation: (A) the costs of removal or remedial action incurred by the United States Government or the State, or response costs incurred by any other person, or damages from injury to, destruction of, or loss of natural resources, including the costs of assessing such injury, destruction or loss, incurred pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601 *et seq.* as amended; and (B) the costs and expenses of abatement, correction or clean-up, fines, damages, response costs or penalties which arise from the provisions of any other statute, state or federal, or any other Environmental Laws; and (iii) liability for personal injury or property damage arising under any statutory or common-law tort theory, including damages assessed for the maintenance of the public or private nuisance, response costs or for the carrying on of an abnormally dangerous activity or any other Environmental Liability, IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE COMPARATIVE, CONTRIBUTORY OR SOLE NEGLIGENCE OF THE INDEMNITEE; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by Mortgagor or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if such Mortgagor or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

The foregoing indemnity shall further apply to any residual contamination on, under, from or about the Mortgaged Property, or affecting any natural resources arising in connection with the use, generation, manufacturing, production, handling, storage, transport, discharge or disposal of any such Hazardous Materials whenever the same shall have occurred, whether before or after the date of this Mortgage, and irrespective of whether any of such activities were or will be undertaken in accordance with Environmental Law or other applicable laws, regulations, codes and ordinances. This indemnity is intended to be operable under 42 U.S.C. Section 9607(e)(1), and any successor Section thereof and shall survive the reconveyance of the lien of this Mortgage, the extinguishment of the lien by foreclosure or action in lieu thereof, and any transfer of the Mortgaged Property by Mortgagor.

The foregoing indemnity shall in no manner be construed to limit or adversely affect Mortgagee's rights under this Section, including, without limitation, Mortgagee's rights to approve any remedial work or the contractors and consulting engineers retained in connection therewith.

3.09 **Inspection.** In the event that (i) an Event of Default has occurred or (ii) Mortgagee reasonably believes that there may be a violation or threatened violation by Mortgagor of any Environmental Law or a violation or threatened violation by Mortgagor of any covenant under this Section, Mortgagee is authorized, upon reasonable advance notice to Mortgagor, but not obligated, by itself, its agents, employees or workmen to enter at any reasonable time upon any part of the Mortgaged Property for the purposes of inspecting the same for Hazardous Materials and Mortgagor's compliance with this Section, and such inspections may include, without limitation, soil borings. Mortgagor agrees to pay to Mortgagee, upon Mortgagee's demand, all reasonable third party expenses, costs or other amounts incurred by Mortgagee in performing any inspection for the purposes set forth in this Subparagraph 3.09.

3.10 **Costs and Expenses of Mortgagee.** All reasonable third party costs and expenses incurred by Mortgagee under Section 3 and all subparagraphs thereof shall be immediately due and payable upon demand and shall become part of the indebtedness secured hereby and shall bear interest at the rate set forth in the Loan Agreement from the date of payment by Mortgagee until repaid.

3.11 **Definitions.** The following terms shall have the following meanings for purposes of this Section 3 and all subparagraphs thereof:

(a) "**Environmental Laws**" means any and all present and future Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, directives, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution, industrial hygiene, environmental conditions, the protection of human health or the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions, soil and ground water contamination, discharges to waste or public systems, or the assessment, monitoring or remediation of the same, as may be amended from time to time, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("**CERCLA**") as amended, 42 U.S.C. Sections 9601 *et seq.*, and the Resource Conservation and Recovery Act of 1976 ("**RCRA**"), 42 U.S.C. Sections 6901 *et seq.*

(b) "**Environmental Liability**" means any claim, demand, order, suit, obligation, cost, liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, monitoring, fines, penalties or indemnity obligations), loss or expense (including attorneys' and consultants' fees and expenses), whenever the same shall have occurred, whether before or after the date of the Loan, of any Mortgagor, any other Loan Party (other than Parent) or any of their respective Subsidiaries (other than the Excluded Subsidiaries) directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, processing, labeling, recycling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment, (e) alleged personal

injury or property damage arising under any statutory or common-law tort theory, including damages assessed for the maintenance of a public or private nuisance, response costs or for the carrying on of an abnormally dangerous activity, or (f) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

(c) "Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

(d) "Requirement of Law" shall mean the common law and all federal, state, local and foreign laws, rules and regulations, orders, judgments, decrees and other determinations of any Governmental Authority or arbitrator, applicable to or binding to the person or property in question.

3.12 **Representations and Warranties.** Mortgagor represents and warrants to Mortgagee and the Lenders as of the date of the Loan Agreement, the date of the Borrowing Notice and the date of the Borrowing Date (as each such term is defined in Section 3.07 above), knowing that the Lenders will rely on such representations and warranties as incentive to make the Term Loans to the Borrowers, that, except as otherwise provided in, or disclosed as a schedule to, the Loan Agreement.

(a) Mortgagor is a duly organized and existing corporation having full corporate power and authority to consummate the transactions contemplated by this Mortgage, and the execution, delivery and performance of this Mortgage, and the documents executed in connection herewith have been duly authorized by all necessary corporate action.

(b) All utility and sanitary sewage services necessary for the current use of the Mortgaged Property and all roads necessary for the current use of the Mortgaged Property are available pursuant to permanent private or public easements which are not subject to the exclusive rights of any other persons which could interfere with Mortgagor's use thereof.

(c) There are no proceedings pending, or, to the best of Mortgagor's knowledge, threatened, to acquire any Power of condemnation or eminent domain with respect to the Mortgaged Property, or any interest therein, or to enjoin or similarly prevent the use of any of the Mortgaged Property as presently used.

(d) The Mortgaged Property complies with all applicable laws, ordinances, rules and regulations, and all laws, ordinances, rules and regulations relating to zoning, building codes, set back requirements and environmental matters except where as such violation in the aggregate will not result in a Material Adverse Effect, or such violation is subject to a Permitted Protest or is disclosed in Section 5.09 of the Loan Agreement.

(e) Except as set forth on Exhibit B hereto, there are no leases affecting the Mortgaged Property. Each lease, if any, is in full force and effect, and no rents have been discounted, released, waived, compromised or otherwise discharged except for prepayment of



rent of not more than one month prior to the accrual thereof. There are no material defaults now existing under any of the leases by the landlord or tenant, and there exists no state of facts which, with the giving of notice or lapse of time or both, would constitute a default under any of the leases by the landlord or tenant. Each lease is subject and subordinate to the Mortgage. Each lease is subject to no lien, charge or encumbrance other than this Mortgage, except Permitted Encumbrances. No tenant under a lease or any other person has an option or right of first refusal to purchase any portion of the Mortgaged Property. No tenant under any lease has, as of the date hereof, paid rent more than thirty (30) days in advance, and the rents under such leases have not been waived, released, or otherwise discharged or compromised.

(f) All easement agreements, covenants or restrictive agreements, supplemental agreements and any other instruments mortgaged hereby are and will remain valid, subsisting and in full force and effect in accordance with their terms, unless the failure to remain valid, subsisting and in full force and effect, could not, individually or in the aggregate, have or result in a Material Adverse Effect, and Mortgagor is not in default thereunder and has fully performed the material terms thereof required to be performed through the date hereof, and has no knowledge of any default thereunder or failure to fully perform the terms thereof by any other party, nor of the occurrence of any event which after notice or the passage of time or both will constitute a default thereunder which, in each such instance, could, individually or in the aggregate, have or result in a Material Adverse Effect.

(g) This Mortgage, when duly recorded in the appropriate public records and when financing statements are duly filed in the appropriate public records, will create a valid, perfected and enforceable first priority lien upon and security interest in all the Mortgaged Property free and clear of all Liens other than the Permitted Encumbrances and there are no defenses or offsets to this Mortgage or to any of the Secured Obligations secured hereby.

(h) The Mortgaged Property is not part of a larger tract of land owned by Mortgagor or its Affiliates, nor is it otherwise included under any unity of title or similar covenant with other real property not encumbered by this Mortgage.

(i) The Mortgaged Property is covered by a title insurance policy (the "Title Insurance Policy"), insuring Mortgagor, its successors and assigns, as to its fee simple title to the Mortgaged Property free of all Liens except Permitted Encumbrances. No claims have been made under such Title Insurance Policy and Mortgagor has not, by act or omission, done anything which would impair the coverage of such title insurance policy.

(j) The Mortgaged Property, including without limitation the location, existence, use, occupancy and operation of the Mortgaged Property, is in compliance in all material respects with all applicable Laws including without limitation the building and zoning laws of the jurisdiction in which the Mortgaged Property is situated and all easements, declarations, covenants and restrictions affecting the Mortgaged Property, except where such violation is subject to a Permitted Protest or would not have a Material Adverse Effect. All material licenses and permits which may be required with respect to the use, occupancy, operation and maintenance of the Mortgaged Property have been obtained and are in full force and effect and each improvement located on the Mortgaged Property complies therewith. Except as disclosed in Section 5.09 of the Loan Agreement, no notice of any violation of any

Requirement of Law has been entered or received by Mortgagor and to Mortgagor's knowledge there is no basis for the entering of any such notice.

(k) All streets, roads, highways, bridges and waterways necessary for access to and full use, occupancy, operation and disposition of the Mortgaged Property have been completed, have been dedicated to and accepted by the appropriate municipal authority and are open and available to the Mortgaged Property without further condition or cost to Mortgagor.

(l) The Mortgaged Property is free and clear of any mechanics' or materialmen's liens or liens in the nature thereof, and no rights are outstanding that under law would give rise to any such liens, any of which liens are or may be prior to, or equal with, the lien of this Mortgage, except those which are insured against by the Mortgagee's title insurance policy.

(m) No lease or contract or easement, right of way, permit or declaration relating to the Mortgaged Property (collectively, "Property Agreements") provides any party with the right to obtain a lien or encumbrance upon the Mortgaged Property superior to the lien of this Mortgage.

(n) Mortgagor has delivered to Mortgagee true, correct and complete copies of all Property Agreements that provides to any party the right to obtain a lien or encumbrance upon the Mortgaged Property and no default exists or which the passing of time or the giving of notice or both would exist under any Property Agreement which would, in the aggregate, have a Material Adverse Effect.

(o) The Mortgaged Property forms no part of any property owned, used or claimed by Mortgagor as a residence or business homestead and is not exempt from forced sale under the laws of the state in which the Mortgaged Property is located. Mortgagor hereby disclaims and renounces each and every claim to all or any portion of the Mortgaged Property as a homestead and the Term Notes evidenced by the Loan Agreement and the other Loan Documents are issued solely for business, investment, commercial or other similar purposes.

(p) There are no outstanding options or rights of first offer or refusal to purchase all or any portion of the Mortgaged Property or Mortgagor's interest therein or ownership thereof.

3.13 Notices. Any and all notices, elections or demands permitted or required to be made under this Mortgage, the Loan Agreement and the other Loan Documents, or any other agreement executed in connection with or relating to the Loan Agreement and the other Loan Documents or this Mortgage, or by applicable law, shall be given and be deemed effective (a) on the date delivered in person, (b) three (3) days following the date deposited with the U.S. Mail, certified or registered, postage prepaid, return receipt requested, or (c) one (1) business day following the date sent by Federal Express or overnight U.S. Mail or other national overnight carrier, and addressed in each such case to the parties at their respective addresses set forth in the heading of this instrument or such other single address as either party may designate in a written notice given as herein provided (except that a change of address notice shall not be effective until actual receipt).

3.14 **Controlling Law.** The Secured Obligations and all terms and provisions in this Mortgage shall be governed by and construed and interpreted in accordance with the laws of the State of New York, except for the creation, perfection and enforcement of certain lien rights and remedies provided herein which shall be governed by and construed in accordance with the laws of the State of Arkansas. Mortgagor expressly acknowledges that by their respective terms the Loan Documents shall be governed and construed in accordance with the laws of the State of New York, and for purposes of consistency, Mortgagor agrees that in any in personam proceeding related to this Mortgage the rights of the parties to this Mortgage shall also be governed by and construed in accordance with the laws of the State of New York governing contracts made and to be performed in that State.

3.15 **Waiver of Jury Trial.** MORTGAGOR HEREBY WAIVES ANY RIGHT THAT IT MAY HAVE TO A TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM, SETOFF, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING OUT OF OR IN ANY WAY RELATED TO THIS MORTGAGE, THE LOAN AGREEMENT OR THE OTHER AGREEMENTS, OR (B) IN ANY WAY CONNECTED WITH OR PERTAINING OR RELATED TO OR INCIDENTAL TO ANY DEALINGS OF MORTGAGEE AND/OR MORTGAGOR WITH RESPECT TO THE LOAN AGREEMENT OR THE OTHER AGREEMENTS OR IN CONNECTION WITH THIS MORTGAGE OR THE EXERCISE OF EITHER PARTY'S RIGHTS AND REMEDIES UNDER THIS MORTGAGE, THE LOAN AGREEMENT OR THE OTHER AGREEMENTS OR OTHERWISE, OR THE CONDUCT OR THE RELATIONSHIP OF THE PARTIES HERETO, IN ALL OF THE FOREGOING CASES WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. MORTGAGOR AGREES THAT MORTGAGEE MAY FILE A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY, AND BARGAINED AGREEMENT OF MORTGAGOR IRREVOCABLY TO WAIVE ITS RIGHTS TO TRIAL BY JURY AS AN INDUCEMENT OF LENDERS TO PURCHASE THE NOTES FROM BORROWERS, AND THAT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY DISPUTE OR CONTROVERSY WHATSOEVER BETWEEN MORTGAGOR AND MORTGAGEE SHALL INSTEAD BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE SITTING WITHOUT A JURY.

3.16 **Assignment of Leases and Rents; Collection of Rents, Issues and Profits; Approval of Leases.**

(a) **Assignment of Leases and Rents.** Mortgagor assigns all leases, licenses and other occupancy agreements ("Leases") and all rents, issues and profits to Mortgagee absolutely and unconditionally and not merely as additional collateral or security for the payment and performance of the Secured Obligations, but subject to a license back to Mortgagor as set forth below. Mortgagor appoints Mortgagee as Mortgagor's attorney-in-fact to execute unilaterally and record, at Mortgagee's election, a document subordinating this Deed of Trust to the Leases, provided that the subordination will not affect (i) the priority of Mortgagee's entitlement to any insurance or condemnation proceeds or (ii) the priority of this Deed of Trust over intervening liens or liens arising under or with respect to the Leases.

(b) **Mortgagor's Authority to Collect and Retain Rents.** Mortgagee confers upon Mortgagor a license to collect and retain the rents, issues and profits of the Mortgaged Property as they become due and payable, subject, however, to the right of Mortgagee to revoke such license at any time following the occurrence of an Event of Default in its sole discretion and without notice to Mortgagor. If an Event of Default shall have occurred and is continuing, Mortgagee shall have the absolute right to revoke such authority and collect and retain the rents, issues and profits assigned herein, without taking possession of all or any part of the Mortgaged Property. The right to collect rents, issues and profits herein provided shall not grant to Mortgagee the right to possession, except as expressly herein provided; nor shall such right impose upon Mortgagee the duty to produce rents, issues or profits or maintain the Property in whole or in part. Possession of the Mortgaged Property by a receiver appointed by a court of competent jurisdiction shall not be considered possession of the Mortgaged Property by Mortgagee for purposes hereof. Following the occurrence of an Event of Default that is continuing, Mortgagee may, in its sole discretion determine the order of priority for application of any rents, issues and profits collected against the costs of collection and any indebtedness secured by or obligations of Mortgagor arising under the Loan Agreement and the other Loan Documents in accordance with the terms of the Loan Agreement. Collection of any rents, issues and profits by Mortgagee shall not cure or waive any Event of Default or notice of Event of Default, or invalidate any acts done pursuant to such notice.

(c) **Mortgagor's Authority to Enter into Leases.** Mortgagor shall not enter into any lease of the Mortgaged Property, or any portion thereof, or modify or amend or supplement any such lease, or extend any existing lease, without the prior written consent of Mortgagee (which consent shall not be unreasonably withheld), except as otherwise permitted in the Loan Agreement. Mortgagor shall, on demand, execute such further assignments to Mortgagee of any or all leases, agreements, rents, issues or profits of the Mortgaged Property as Mortgagee may require in accordance with the terms of the Loan Agreement. Upon request of Mortgagee, Mortgagor shall promptly deliver to Mortgagee a copy of the fully executed original of any or all leases or agreements entered into hereunder. All leases of the Mortgaged Property shall be subordinate to this Mortgage unless Mortgagee elects in writing, at its sole option, to subordinate this Mortgage to a particular lease or leases.

3.17 **Impound Account.** Upon the happening of an Event of Default, and so long as the Event of Default shall continue, at the request of Mortgagee, Mortgagor shall pay to Mortgagee each month on the first day thereof an amount reasonably estimated by Mortgagee to be equal to (a) the taxes and assessments payable under Section 1.03 and (b) premiums next due for all insurance carried under Section 1.04, each such estimate divided by the number of months to lapse preceding the month in which it will become due and Mortgagor irrevocably grants and assigns to Mortgagee a security interest in and to the amounts, if any, so paid by Mortgagor. Such funds shall not be claimed to be held in trust and no sums so paid shall bear interest, except to the extent of the minimum amount of interest, if any, required by law; and Mortgagee shall, at its option, either apply such funds to, or release such funds to Mortgagor for, payment of, such taxes and assessments and premiums. If the total amount retained in the impound account exceeds the amount of payments actually applied by Mortgagee as set forth above, such excess may be credited by Mortgagee on subsequent payments to be made by Mortgagor hereunder or, at the option of Mortgagee, refunded to Mortgagor; but if the security account shall not be sufficient to pay the sums required at least thirty (30) days before the same are due and payable,

Mortgagor shall, within three (3) business days of receipt of written demand therefore from Mortgagee, deposit with Mortgagee the full amount of any such deficiency. Upon repayment of the amounts evidenced by the Term Notes and the satisfaction of all other Secured Obligations of Mortgagor secured hereby, any remaining funds held under this paragraph shall be released to Mortgagor.

3.18 Conflicts. If any provision hereof conflicts with the terms of the Loan Agreement, the terms of the Loan Agreement shall be controlling.

3.19 Accommodation Provisions. To the extent this Mortgage secures Obligations of a party other than Mortgagor (an "Obligor"), Mortgagor has executed and delivered this Mortgage as an accommodation instrument with the intent of subjecting its interests in the Mortgaged Property to the lien of this Mortgage as security for the Secured Obligations. Mortgagor hereby agrees, to the fullest extent permitted by law, not to assert or take advantage of:

(a) Any right to require Mortgagee to proceed against any other Obligor, including as maker of the Term Notes, or any other person or to proceed against or exhaust any other security held by Mortgagee at any time or to pursue any other remedy in Mortgagee's power before exercising any right or remedy under this Mortgage.

(b) Any defense that may arise by reason of:

(i) Mortgagee's failure to proceed against any other Obligor's property, or any other party against whom Mortgagee might assert a claim, before proceeding against Mortgagor under this Mortgage; or

(ii) The release, suspension, discharge or impairment of any of Mortgagee's rights against any other Obligor or any other party against whom Mortgagee might assert a claim, whether such release, suspension, discharge or impairment is explicit, tacit or inadvertent; or

(iii) Mortgagee's failure to pursue any other remedies available to Mortgagee that would reduce the burden of the indebtedness secured hereby on Mortgagor's interests in the Mortgaged Property; or

(iv) Any extension of the time for the payment or performance of any of any other Obligor's obligations under the Term Notes, or any of the other Loan Documents; or

(v) Any amendment of this Mortgage, the Term Notes or any of the other Loan Documents, whether or not such amendment materially affects the risk that Mortgagor has assumed by executing this Mortgage; or

(vi) The incapacity or lack of authority of any other Obligor or any person or persons; or

(vii) The failure of Mortgagee to file or enforce a claim against the estate (in either administration, bankruptcy or any other proceedings) of any partner of any other Obligor or any other person or persons.

(c) Demand, protest and notice of any kind, including, without limitation, the following notices:

(i) Notice of the evidence, creation or incurring of any new or additional indebtedness or obligation (provided that such indebtedness or obligation is not secured by this Mortgage); or

(ii) Notice of any action or non-action on the part of any other Obligor or Mortgagee in connection with any obligation or evidence of indebtedness held by Mortgagee as collateral; or

(iii) Notice of payment or non-payment by any other Obligor of the indebtedness secured by this Mortgage.

(d) Any right to assert against Mortgagee any defense arising by reason of any claim or defense based upon an election of remedies by Mortgagee to foreclose, either by judicial foreclosure or by exercise of the power of sale, this Mortgage, which in any manner impairs, reduces, releases, destroys or extinguishes Mortgagor's subrogation rights, rights to proceed against any other Obligor for reimbursement, or any other rights of Mortgagor to proceed against any other person or security. Mortgagor waives all rights and defenses to enforcement of all or any part of the indebtedness secured hereby which defenses are based on an election of remedies by Mortgagee, even though the election of remedies, such as nonjudicial foreclosure with respect to this Mortgage, may destroy Mortgagor's rights of subrogation and reimbursement against any other Obligor. Mortgagor makes this waiver with full knowledge that if Mortgagee (i) waives a deficiency judgment in a judicial foreclosure, or (ii) exercises the power of sale under this Mortgage, any action by Mortgagor against any other Obligor to obtain reimbursement of any amount paid by Mortgagor hereunder may be barred by reason of (x) Mortgagee's waiver of such deficiency in a judicial foreclosure or (y) Mortgagee's exercise of such power of sale. Mortgagor understands that absent the waiver set forth herein, Mortgagor may have a defense to its obligations hereunder with respect to a deficiency following a nonjudicial foreclosure or a judicial foreclosure in which the Mortgagee waived its right to a deficiency judgment against any other Obligor and that by granting this waiver, Mortgagor is waiving this defense which Mortgagor would have against Mortgagee.

(e) Any rights arising because of Mortgagor's payment or satisfaction of the indebtedness secured hereby (i) against any other Obligor, by way of subrogation to the rights of Mortgagee or otherwise, or (ii) against any other guarantor or any other party obligated to pay any of the indebtedness secured hereby, by way of contribution or reimbursement or otherwise, but only until the indebtedness secured hereby is paid in full.

(f) Any duty on the part of Mortgagee to disclose to Mortgagor any default under the Term Notes or any other Loan Document.

(g) Any duty on the part of Mortgagee to disclose to Mortgagor any facts Mortgagee may now know or may hereafter know about any other Obligor or any successors in interest (if any) regardless of whether Mortgagee (i) has reason to believe that any such facts materially increase the risk beyond the risk which Mortgagor intends to assume by executing this Mortgage, (ii) has reason to believe that these facts are unknown to Mortgagor, or (iii) has a reasonable opportunity to communicate such facts to Mortgagor, it being understood and agreed that Mortgagor is fully responsible for being and keeping informed of the financial condition of any other Obligor or any successor in interest of any other Obligor and of all circumstances bearing on the risk of non-payment of any indebtedness of any other Obligor to Mortgagee that is secured hereby.

(h) Any right to object to the release of any portions of the Mortgaged Property from the lien of this Mortgage notwithstanding the fact that such releases may be made without Mortgagee having received any or adequate consideration therefor.

Mortgagor further agrees that with respect to any obligation secured hereby Mortgagee may, in such manner and upon such terms and at such times as Mortgagee deems best and without demand or notice to or consent of Mortgagor (i) release any party now or hereafter liable for the performance of any such obligation, (ii) extend the time for the performance of any such obligation, (iii) accept additional security therefor, and (iv) alter, substitute or release any property securing such performance.

Before executing this Mortgage, Mortgagor has made such independent legal and factual inquiries and investigations as Mortgagor deemed necessary or desirable with respect to the ability of any other Obligor to honor all of any other Obligor's covenants and agreements with Mortgagee, and Mortgagor has relied solely on said independent inquiries and investigations preparatory to entering into this Mortgage.

Mortgagor agrees that Mortgagee may enforce this Mortgage without the necessity of resorting to or exhausting any security or collateral securing the Secured Obligations, without the necessity of proceeding against any guarantor, and without the necessity of proceeding against any other Obligor. Mortgagor hereby waives the right to require Mortgagee to proceed against any other Obligor, to foreclose any lien on any real or personal property securing the Secured Obligations, to exercise any right or remedy under the Loan Documents, to pursue any other remedy or to enforce any other right.

Notwithstanding any modification, discharge or extension of the Secured Obligations or any amendment, modification, stay or cure of Mortgagee's rights which may occur in any bankruptcy or reorganization case or proceeding concerning any other Obligor, whether permanent or temporary, and whether assented to by Mortgagee, Mortgagor hereby agrees that it shall be obligated hereunder to pay and perform its obligations in accordance with the terms of this Mortgage and the other Loan Documents in effect on the date hereof. Mortgagor understands and acknowledges that by virtue of this Mortgage, it has specifically assumed any and all risks of a bankruptcy or reorganization case or proceeding with respect to any other Obligor. Without in any way limiting the generality of the foregoing, any subsequent modification of the Secured Obligations in any reorganization case concerning any other Obligor

shall not affect the obligation of Mortgagor to perform its obligations hereunder and under the other Loan Documents.

[No Further Text on this Page; Signature Page Follows]



IN WITNESS WHEREOF, the Mortgagor has executed this Mortgage, or has caused this Mortgage to be executed on the day and year first above written.

NORTHWEST FINANCIAL CORPORATION, an Oklahoma corporation

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

STATE OF ARKANSAS )  
 ) ss.  
COUNTY OF \_\_\_\_\_)

On this the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, before me, \_\_\_\_\_ the undersigned officer, personally appeared \_\_\_\_\_, who acknowledged himself/herself to be the \_\_\_\_\_ of \_\_\_\_\_, a corporation, and that he/she, as such \_\_\_\_\_, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself/herself as \_\_\_\_\_.

In witness whereof I hereunto set my hand and official seal.

\_\_\_\_\_  
Notary Public

My Commission Expires:

\_\_\_\_\_

**EXHIBIT A**

**LEGAL DESCRIPTION**

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**EXHIBIT B**

**PERMITTED ENCUMBRANCES**

**As defined in the Loan Agreement including without limitation the following:**

**[attach pages showing permitted encumbrances under Arkansas Title Policy]**

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COLLATERAL ASSIGNMENT OF AGREEMENTS

FOR VALUE RECEIVED, and to secure the payment and performance by CHEROKEE NITROGEN COMPANY, an Oklahoma corporation ("Assignor") of the Obligations, Assignor does hereby collaterally assign unto BANC OF AMERICA LEASING & CAPITAL, LLC, not in its individual capacity but solely as collateral agent, as Secured Party (the "Secured Party") and its successors and assigns, all of the Assignor's right, title and interest in and to each of the agreements listed on Schedule 1 hereto, as each such agreement may hereafter be executed, supplemented, modified or amended from time to time (the "Assigned Agreements"); provided, however, that the Secured Party shall have no obligation or liability of any kind under or with respect to the Assigned Agreements, either before or after the Secured Party's exercise of any rights hereby granted to it.

For all purposes hereof, the capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in that certain Term Loan Agreement dated as of November 2, 2007 (the "Loan Agreement") among ThermaClima, Inc., Assignor and certain of their Affiliates, as borrowers, each lender from time to time party thereto (the "Lenders"), Banc of America Leasing & Capital, LLC, as administrative, Bank of Utah, as payment agent, and Secured Party.

This Assignment shall be effective as of November 2, 2007.

This Assignment shall inure to the benefit of the Secured Party and its successors and assigns, and shall be binding upon the Assignor and its successors and assigns, and shall continue in full force and effect until all Obligations have been fully and indefeasibly paid, performed and satisfied, at which time this Assignment will terminate. The Secured Party will not exercise any of its rights hereunder until there shall have occurred and be continuing an Event of Default.

Subject to the terms and conditions of this Assignment, the Assignor assigns, conveys and transfers to the Secured Party, and creates in favor of the Secured Party a security interest, as security for the Obligations, in, all of the Assignor's rights, titles, interests, privileges, benefits and remedies in, to and under the Assigned Agreements, including, without limitation, all of Assignor's (i) rights to receive moneys due and to become due under or pursuant to any Assigned Agreement, (ii) rights to receive insurance proceeds of any insurance, indemnity, warranty, guaranty or collateral security with respect to any Assigned Agreement, (iii) claims for damages arising out of or for breach of or default under any Assigned Agreement, (iv) rights to terminate any Assigned Agreement, to perform thereunder and to compel performance and otherwise exercise all remedies thereunder, and (v) to the extent not included in the foregoing, proceeds of any and all of the foregoing collateral.

Neither this Assignment nor any action or omission by the Secured Party, the Administrative Agent or any Lender shall constitute, or be deemed or construed to constitute, an assumption by the Secured Party or any Lender of any of the Assignor's obligations under any of

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the Assigned Agreements, and the Assignor shall continue to be liable for all of the Assignor's obligations under the Assigned Agreements. The Secured Party shall not have any obligation or liability under any such Assigned Agreements by reason of this Assignment, nor shall the Secured Party be obligated to perform any of the obligations or duties of the Assignor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. Notice of the acceptance of this Assignment by the Secured Party is waived by the Assignor.

The Assignor shall deliver to the Secured Party a duly executed Consent in the form of Exhibit A to this Assignment from the applicable Contract Party (as defined below) with respect to each Assigned Agreement; provided that no failure or delay by the Assignor in delivering any Consent shall limit, affect or invalidate the assignment to the Secured Party of all of the Assigned Agreements as set forth herein or the Secured Party's or any Lender's rights or remedies under this Assignment with respect to any of the Assigned Agreements. For purposes of this Assignment, "Contract Party" means a party to any of the Assigned Agreements other than the Assignor.

The Assignor hereby represents to the Secured Party, the Administrative Agent and the Lenders that no authorizations, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either (i) for the grant by the Assignor or the assignment and security interest granted hereby or for the execution, delivery and performance of this Assignment by the Assignor, or (ii) for the perfection of or the exercise by the Secured Party of its rights and remedies hereunder. The Assignor further represents to the Secured Party, the Administrative Agent and the Lenders that as of the date of this Assignment (i) no default or event which, with notice or lapse of time or both, if uncured, would constitute a default by Assignor or to Assignor's knowledge by Contract Party has occurred under the Assigned Agreements and (ii) all amounts due and payable to Contract Party under the Assigned Agreements have been paid in full.

This Assignment is a present, perfected and absolute assignment; provided, however, that the Secured Party shall not have the right to enforce the provisions of any Assigned Agreement until an Event of Default shall have occurred and be continuing. During the continuance of any such Event of Default, the Secured Party may, without affecting any other right or remedy available to it and without releasing the Assignor from any of its duties or obligations under the Assigned Agreements, exercise its rights under this Assignment as provided herein and in the Loan Documents in any manner permitted by law. If any notice to the Assignor is required by law, such notice shall be deemed commercially reasonable if given at least ten (10) days prior to the date of intended action.

All rights of the Secured Party and the security interests granted to the Secured Party hereunder, and all obligations of the Assignor hereunder, shall be absolute and unconditional, irrespective of (a) any failure of the Secured Party, the Administrative Agent or any Lender to assert any claim or demand or to enforce any right or remedy against any other Loan Party, any other Person or any other collateral under the provisions of the other Loan Documents or otherwise, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations or any other extension, compromise or renewal of any of the Obligations, (c) any reduction, limitation, impairment or termination of any Obligations for any reason other than indefeasible payment in full of the Obligations, including any claim of waiver,

release, surrender, alteration or compromise, and shall not be subject to (and the Assignor hereby waives any right to or claim of) any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise, unenforceability of, or any other event or circumstance affecting, any Obligations, (d) any amendment to, rescission, waiver or other modification of, or any consent to departure from, any of the terms of the Loan Agreement or any other Loan Document, (e) any addition, exchange, release, surrender or non-perfection of any collateral (including the Collateral), or any amendment to or waiver or release of or addition to or consent to departure from any guaranty, for any of the Obligations, or (f) any other circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Assignor or any other Loan Party other than full and indefeasible payment of the Obligations.

This Assignment may be effectively waived, modified, amended or terminated only by a written instrument executed by the Secured Party and the Assignor. Any waiver by the Secured Party shall be effective only with respect to the specific instance described therein. Delay or course of conduct shall not constitute a waiver of any right or remedy of the Secured Party.

THIS ASSIGNMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK). This Assignment and the other Loan Documents constitute the entire understanding among the parties hereto with respect to the subject matter hereof and thereof and supersede any prior agreements, written or oral, with respect thereto.

The provisions of Articles V and VI of the Security Agreement dated of even date herewith among Assignor, the other Borrowers and the Secured Party are hereby incorporated by reference into this Assignment.

The Assignor acknowledged and agrees that this Assignment is a Collateral Document.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Assignment as of the date first written above, pursuant to proper authority duly granted.

[NAME OF BORROWER PARTY TO THE ASSIGNED AGREEMENTS], as Assignor

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

SIGNATURE PAGE TO COLLATERAL ASSIGNMENT AND CONSENT

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**BANC OF AMERICA LEASING & CAPITAL, LLC,**  
**not in its individual capacity but solely as Collateral Agent**

**By:** \_\_\_\_\_  
**Name:** \_\_\_\_\_  
**Title:** \_\_\_\_\_

**SIGNATURE PAGE TO COLLATERAL ASSIGNMENT AND CONSENT**

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Exhibit A

FORM OF ACKNOWLEDGMENT OF AND CONSENT TO ASSIGNMENT

The undersigned, [ ] (“Contract Party”) hereby acknowledges notice of, and consents to the terms and provisions of, the foregoing Collateral Assignment of Agreements, dated as of [ ], 2007] (the “Assignment”), made by [NAME OF BORROWER PARTY TO ASSIGNED AGREEMENTS], a [ ] corporation (“Assignor”) in favor of Banc of America Leasing & Capital LLC, not in its individual capacity but solely as Collateral Agent (“Secured Party”), pursuant to which Assignor assigned to Secured Party, as security under that certain Term Loan Agreement dated as of [ ], 2007 among ThermaCline, Inc., Assignor and certain of their Affiliates, as borrowers, each lender from time to time party thereto (the “Lenders”), Banc of America Leasing & Capital, LLC, as administrative agent (the “Administrative Agent”), Bank of Utah as payment agent, and Secured Party (the “Loan Agreement”), all of its right, title and interest in, to and under the [ ] (the “Agreement”), which rights may not be enforced by Secured Party unless an Event of Default occurs and is continuing, and Contract Party hereby agrees with Secured Party that:

- (a) Secured Party shall be entitled to exercise any and all rights and remedies of Contract Party under the Assigned Agreement in accordance with the terms of the Agreement, and Contract Party shall comply in all respects with such exercise,
- (b) upon receipt of written notice from Secured Party, Contract Party will pay to Secured Party all amounts due under or in connection with the Assigned Agreement, and
- (c) the undersigned will not, without the prior written consent of Secured Party, (i) cancel or terminate the Assigned Agreement or consent to or accept any cancellation or termination thereof, or (ii) amend or otherwise modify the Assigned Agreement.

The Contract Party agrees to look solely to Assignor for the performance of all of the obligations of Assignor under the Agreement. The undersigned parties agree that neither the Secured Party, the Administrative Agent, any Lender (as defined in the Assignment) nor any of their respective successors and assigns is personally liable for, or required to assume any claims or obligations incurred under the Agreement. If any Person including any Lender purchases the rights of Secured Party under the Assignment with respect to the Agreement upon foreclosure or otherwise or accepts such rights in satisfaction of an attendant debt, such person or entity may be required upon or following such purchase to agree to be bound by the terms and conditions of the Agreement and to become subject to the obligations and liabilities of Assignor arising under the Agreement following such purchase or acceptance, and such person or entity shall have all rights and benefits of Assignor under the Agreement.

In the event Assignor becomes the subject of any bankruptcy or other insolvency proceeding and the Agreement is rejected or terminated as a result of such proceeding, the Contract Party agrees upon the request of the Administrative Agent to enter into a new agreement with Secured Party or its designated assignee on the same terms and conditions for the

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remaining term of the Agreement, provided that Secured Party or its designated assignee has complied with all of its obligations set forth in this Acknowledgement of and Consent to Assignment.

Subject to the terms and conditions hereof, Secured Party shall have the right upon the receipt by Contract Party of written notice from Secured Party that Secured Party is exercising, or has exercised, its remedies (a "Notice of Exercise"), to assign or sell Assignor's rights under the Agreement to one or more purchaser(s) or assignee(s) (a "Successor"). Contract Party agrees that it will not charge any fee or other amount in connection with such assignment or sale.

The foregoing is furnished for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Contract Party, and Contract Party understands that the foregoing may and shall be relied upon by Secured Party and by the Lenders, as a condition to the extension of credit to be evidenced thereby.

This Acknowledgement of and Consent to Assignment shall be binding upon Contract Party and its successors and assigns, and shall inure, together with the rights and remedies of Secured Party hereunder, to the benefit of Secured Party and its successors, transferees and assigns. THIS ACKNOWLEDGMENT OF AND CONSENT TO ASSIGNMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, Contract Party has duly executed this Acknowledgement of and Consent to Assignment as of the date set opposite its name below.

Dated: \_\_\_\_\_, 2007

[NAME OF CONTRACT PARTY],  
a \_\_\_\_\_

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



EXHIBIT H-1

RECORDING REQUESTED BY )
AND WHEN RECORDED MAIL TO: )
Banc of America Leasing & Capital LLC )
Bank of America )
MA5-100-32-01 )
100 Federal St. )
Boston, MA 02110 )
Attn.: Annemarie L. Warren, VP )
Group Operations Manager )
Loan No.: \_\_\_\_\_ )

0;
Space above for Recorder's Use

ASSIGNMENT OF LEASES AND RENTS AND SUBORDINATION AGREEMENT

THIS ASSIGNMENT OF LEASES AND RENTS AND SUBORDINATION AGREEMENT (this "Assignment") is made as of \_\_\_\_\_, by and among CHEROKEE NITROGEN HOLDINGS, INC., an Oklahoma corporation, as assignor ("Assignor"), with a mailing address at 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107, Attention: \_\_\_\_\_, and CHEROKEE NITROGEN COMPANY, an Oklahoma corporation ("Lessee") with a mailing address at 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107, Attention \_\_\_\_\_ in favor of BANC OF AMERICA LEASING & CAPITAL LLC, as collateral agent for the Lenders (hereinafter called the "Assignee" or the "Collateral Agent"), whose address is c/o Annemarie L. Warren, VP; Group Operations Manager, Bank of America, MA5-100-32-01, 100 Federal St., Boston, MA 02110.

RECITALS:

A. WHEREAS, upon the terms and conditions of a certain Term Loan Agreement, dated as of the date hereof (collectively, such agreement, as amended, restated, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Loan Agreement"), by and among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), Assignor, Northwest Financial Corporation, an Oklahoma corporation, Chemex I Corp., an Oklahoma corporation, Chemex II Corp, an Oklahoma corporation, Cherokee Nitrogen Company, an Oklahoma corporation, ClimaCool Corp., an Oklahoma corporation, ClimateCraft, Inc., an Oklahoma corporation, Climate Master, Inc., a Delaware corporation, DSN Corporation, an Oklahoma corporation, El Dorado Chemical Company, an Oklahoma corporation, International Environmental Corporation, an Oklahoma corporation, Koax Corp., an Oklahoma corporation, LSB Chemical Corp., an Oklahoma corporation, The Climate Control Group, Inc., an Oklahoma corporation, Trison Construction, Inc., an Oklahoma corporation, ThermaClime Technologies, Inc., an Oklahoma corporation, and XpediAir, Inc., an Oklahoma corporation, as borrowers (individually and collectively, jointly and severally, "Borrower" or "Borrowers"), LSB Industries, Inc., as guarantor, Banc of America Leasing & Capital, LLC, as administrative agent (the "Administrative Agent"), the Collateral Agent and the Lenders from time to time party thereto (the "Lenders"; collectively with the Administrative Agent and the Collateral Agent, the "Secured Parties"), Secured Parties have agreed to provide certain financial accommodations (the "Loan") to Borrowers, upon the terms and conditions set forth in the Loan Agreement and the other Loan Documents.

B. The Loan is secured by that certain Mortgage, Assignment of Rents and Security Agreement and Fixture Filing (the "Mortgage"), dated as of the date of this Assignment, from Assignor, as 'mortgagor', for the benefit of Assignee, as "mortgagee, encumbering real property located in the County of Colbert, State of Alabama, as described on Exhibit A attached hereto, and all buildings and other improvements now or hereafter located thereon (collectively, the "Improvements") (the real property and the Improvements are hereinafter sometimes collectively referred to as the "Property");

C. The Loan Documents (as defined in the Loan Agreement) include the Mortgage, one or more promissory note(s) (each and collectively, the "Note") and all other documents evidencing, securing or otherwise pertaining to the Loan. This Assignment is one of the Loan Documents;

D. Assignor and Lessee are parties to the following lease agreement:

Industrial Plant Lease effective as of January 1, 2004 by and between Assignor as "Lessor" and Lessee as "Lessee"

(the "Lease"), pursuant to which Lessee leases from Assignor certain real property legally described on the attached Exhibit A and certain improvements located thereon (the "Premises"). All rights of Assignee with respect to the Property set forth herein are understood and agreed to include and extend to the Premises and any portion thereof. The Premises is or will be encumbered by the Mortgage securing the Loan in favor of Assignee. Lessee has agreed to recognize the rights of Assignee in accordance with the terms and provisions of this Assignment; and

E. As a condition to making the Loan to Borrowers, Assignee has required that Assignor and Lessee execute and deliver this Assignment to further secure payment and performance of Assignor's obligations under the Loan Documents.

NOW, THEREFORE, to induce Assignee to enter into the Loan Documents and to make the Loan, and in consideration thereof and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Lessee hereby covenant and agree for the benefit of Assignee, as follows:

Covenants of Assignor with respect to Assignment:

1. Absolute Assignment. Assignor hereby absolutely and presently assigns to Assignee the following:

(a) All of Assignor's right, title and interest in, to and under the Lease, including (i) all guaranties of and security for Lessee's performance under the Lease, and (ii) all amendments, extensions, renewals or modifications to the lease; and

(b) All deposits (whether for security or otherwise), rents, issues, profits, revenues, royalties, rights, benefits and income of and from the Property, including liquidated damages following default and all proceeds payable under any policy of insurance covering loss of rents, together with the continuing right to collect and receive the same, and together with all rights and claims that Assignor may have against any party under the Lease or against any other occupant of the Property (collectively, the "Rents").

THIS IS AN ABSOLUTE ASSIGNMENT, NOT AN ASSIGNMENT FOR SECURITY ONLY.

2. Grant of License. Assignee hereby confers upon Assignor a license (the "License") to collect and retain the Rents as they become due and payable, so long as no Event of Default (as defined in the Mortgage) shall exist and be continuing. If an Event of Default has occurred and is continuing, Assignee shall have the right, which it may choose to exercise in its sole discretion, to terminate the License without notice to or demand upon Assignor, and without regard to the adequacy of Assignee's security under the Loan Documents.

3. Collection and Application of Rents. Subject to the License granted to Assignor under Section 2 above, Assignee has the right, power and authority to collect any and all Rents after the occurrence and during the continuance of an Event of Default. Assignor hereby appoints Assignee its attorney-in-fact, which power of attorney is with full power of substitution and coupled with an interest, after the occurrence and during the continuance of an Event of Default to perform any and all of the following acts as Assignee, in its sole discretion, may elect:

- (a) Demand, receive and enforce payment of any and all Rents;
- (b) Give receipts, releases and satisfactions for any and all Rents; or
- (c) Sue either in the name of Assignor or in the name of Assignee for any and all Rents.

Assignee may, in its sole discretion, choose to collect Rents either with or without taking possession of the Property. Even if Assignee is collecting and applying Rents as permitted under this Assignment, Assignee shall still be entitled, upon an Event of Default, to exercise and invoke every right and remedy provided to it under this Assignment, the Mortgage, or under any of the other Loan Documents.

Covenants of Lessee, Assignee and Assignor with respect to Subordination:

4. Subordination. Notwithstanding anything to the contrary contained in the Lease, the Lease and the leasehold estate created thereby are hereby declared to be, and hereafter shall continue at all times to be, junior, subject and subordinate, in each and every respect, to the Mortgage, including, without limitation, (i) any and all increases, renewals, modifications, extensions, substitutions, replacements and or consolidations of the Note or the Mortgage and (ii) any future mortgage or encumbrance affecting the Premises held by or made for the benefit of Assignee and/or its successors and assigns. The foregoing subordination is effective and self-operative without the necessity for execution of any further instruments. Lessee hereby covenants with Assignee that Lessee will not cause the Lease to be subordinated to any interests other than those held by or made for the benefit of Assignee and/or its successors and assigns without prior written notice to and prior written consent of Assignee. At any time at the election of Assignee, Assignee shall have the right to declare the Lease superior to the lien, provisions, operation and effect of the Mortgage.

5. Attornment; Right of Termination.

a) Notwithstanding the foregoing subordination, if the interest of Assignor under the Lease shall be transferred by reason of foreclosure or other proceedings (judicial or non judicial) for enforcement of the Mortgage or by reason of a deed in lieu of foreclosure (any of the foregoing being a "Transfer Event") , Lessee, at the election of the transferee and its successors and assigns (the "Purchaser") acquiring said interests, shall be bound to the Purchaser pursuant to all of the terms, covenants and conditions of the Lease for the balance of the term of the Lease then remaining and any extensions or renewals thereof which may be effected in accordance with any option therefor in the Lease, with the same force and effect as if the Purchaser were the original Assignor under the Lease,

and Lessee does hereby attorn to and agree to attorn to the Purchaser, as its Assignor, said attornment to be effective and self-operative without the necessity for execution of any further instruments, upon Purchaser's election after succeeding to the interest of the Assignor under the Lease.

b) Purchaser shall have the right, at any time immediately upon and after the occurrence of a Transfer Event, to terminate the Lease upon written notice to Lessee and Assignor ("Notice of Termination"), which Notice of Termination shall set forth the date on which such termination shall be effective.

6. Further Acts. Notwithstanding any provisions contained in Sections 4 and 5 above which state that the attornment and subordination by Lessee to Assignee and Purchaser are effective and self-operative without the execution of any further instrument, Lessee agrees that, upon request of Assignee and/or Purchaser, it will execute such written agreement to evidence and affirm any and all of Lessee's obligations under this Assignment, and further, Lessee agrees that it will execute from time to time such further assurances and estoppel certificates as may reasonably be requested by Assignee and Purchaser. Without limiting the generality of the foregoing, if and to the extent that Assignor rejects the Lease in any federal or state proceeding, Lessee will, upon the request of Assignee or Purchaser after exercise by Assignee of its remedies in enforcement of the Mortgage, immediately enter into a new lease directly with the Assignee or Purchaser on the same terms as the Lease (for the then-unexpired term of the Lease), provided execution of such new lease does not violate any bankruptcy law or related court order.

7. Limitation. Neither Assignee nor any Purchaser shall be (a) liable for any act or omission of Assignor or any prior Assignor (including the loss or misappropriation of any rental payments or security deposits); (b) subject to any credits, claims, setoffs, offsets or defenses which Lessee may have against Assignor or any prior Assignor; (c) bound by (or responsible for) any advance payment of rent or any other monetary obligations under the Lease to Assignor in excess of one month's prepayment thereof in the case of rent, or in excess of one periodic payment in advance in the case of any other monetary obligations under the Lease; (d) responsible for any security deposit not actually received by Assignee or any Purchaser; (e) bound by any amendment, assignment (in whole or in part), subletting, extension, renewal or modification of the Lease to which Assignee or Purchaser has not consented in writing (to the extent such consent by Assignee is required under the Loan Documents), and any attempted amendment, assignment (in whole or in part), subletting, extension, renewal or modification of the Lease without said consent (to the extent such consent by Assignee is required under the Loan Documents) shall be null and void and of no force and effect; provided, however, that the consent of the Assignee or Purchaser is not required for (i) an assignment or subletting entered into pursuant to such provision of the Lease as shall expressly provide that Lessee may effect such assignment or subletting without the consent of Assignor or (ii) an extension of the term of such Lease; (f) liable for latent and/or patent defects in the construction of the Premises; (g) liable for any breach of any warranty in the Lease by Assignor or a prior Assignor; (h) bound by any obligation to repair, replace, rebuild or restore the Premises, or any part thereof, in the event of damage by fire or other casualty, or in the event of partial condemnation, beyond such repair, replacement, rebuilding or restoration as may be required of the Assignor under the Lease and as can reasonably be accomplished with the use of the net insurance proceeds or the net condemnation award actually received by or made available to Assignee (as successor in interest to Assignor) or Purchaser; (i) required to remove any person occupying the Premises or any part thereof; or (j) bound by any right of first refusal or right of first offer set forth in the Lease. Neither Assignee nor any Purchaser shall be liable for any reason for amounts in excess of the value of its interest in the Premises, or for consequential or punitive damages of any kind

8. Notice; Cure; Waivers. Lessee agrees to give prompt written notice to Assignee (and to any successor in interest to Assignee of which Lessee has been notified) of any uncured default of the

Assignor under the Lease if such default is of such a nature as to give Lessee a right to terminate the Lease, reduce rent or to credit or offset any amounts against future rents. If, within thirty (30) days after receipt of written notice from Lessee, Assignee, at Assignee's sole option, cures (or commences and is diligently pursuing the cure of) a default of Assignor under the Lease that is capable of being cured by Assignee, Lessee agrees not to terminate the Lease, reduce rent, credit or offset against future rents, consent or acquiesce in the termination of the Lease or surrender the Premises and agrees to continue to be bound by the terms of the Lease and this Assignment. To the extent that Assignee is only able to effect cure of such default after taking possession of the Premises or exercising its right to foreclosure under the mortgage, Lessee agrees that the time for cure of such default by Assignee shall be extended for the time reasonably required to obtain such possession or effect such foreclosure.

9. **Payments of Rent to Assignee.** Assignor absolutely assigns to Assignee all payments of rent as the same are due under the Lease (the "Rent") and Lessee agrees that within thirty (30) days after notice delivered to Lessee of an uncured Event of Default (as defined in the Mortgage) by the Assignee and until such time as all of Assignor's monetary obligations to Assignee pursuant to the Note and the Loan Agreement between Assignee and Borrowers have been fully paid or such Event of Default has been cured (and Assignee and Lessee shall have notice of such cure), Lessee will pay the Rent directly to Assignee. All such rental payments received by Assignee shall be credited against Assignor's obligations to Assignee. Assignor, by its execution hereof, agrees that this Assignment does not constitute a waiver by Assignee of any of Assignee's rights under the Mortgage and any assignment of leases or rents contained therein, or in a separate instrument or in any way release the Assignor from any of the terms, conditions, obligations, covenants and agreements of the Mortgage.

10. **Notices.** All notices, consents, approvals or other instruments required or permitted to be given by any party pursuant to this Assignment shall be in writing and given by (i) hand delivery, (ii) express overnight delivery service or (iii) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (a) receipt, if hand delivered, (b) the next business day, if delivered by express overnight delivery service, or (c) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt requested. Notices shall be provided to the parties and addresses (or facsimile numbers, as applicable) as set forth in the introductory paragraph hereto.

11. **Remedies of Assignee.** Upon or at any time after the occurrence and during the continuance of an Event of Default, (i) Assignee may, at its option, without waiving such Event of Default and without regard to the adequacy of Assignee's security under the Loan Documents, either in person, by agent, or by a receiver appointed by a court, take possession of the Property and hold, manage, lease and operate the Property on such terms and for such period of time as provided in the Mortgage, (ii) Assignee may, with or without taking possession of the Property, in its own name, demand, sue for or otherwise collect and receive all Rents, including those past due and unpaid, (iii) Assignee shall have full power to make all alterations, renovations, repairs or replacements and to do any and all other things which it may in its sole discretion consider necessary or appropriate to protect the security of this Assignment and under the Mortgage, and (iv) Assignee may apply the Rents to pay any of the following amounts and in such order as provided in the Mortgage: (a) the Secured Obligations (as defined in the Mortgage); (b) all expenses of the Property, including the salaries, fees, commissions and wages of a managing agent and such other employees, agents or independent contractors as Assignee deems necessary or desirable; (c) all taxes, charges, claims, assessments, or any other liens against the Property; (d) all premiums for all insurance Assignee deems necessary or desirable; (e) the cost of all alterations, renovations, repairs or replacements; and (f) all expenses incident to taking and retaining possession of the Property. Neither the demand for nor collection of Rents by Assignee shall constitute any assumption by Assignee of any obligation under the lease. Assignee is obligated to account only for such Rents as are actually collected or received by Assignee. For purposes of this Section, Assignor



grants to Assignee its irrevocable power of attorney, with full power of substitution and coupled with an interest, to take any and all of the aforementioned actions for the proper management and preservation of the Property. Assignee shall, as a matter of absolute right, be entitled, upon application to a court of applicable jurisdiction, to the appointment of a receiver to obtain and secure the rights of Assignee hereunder and the benefits intended to be provided to Assignee under this Assignment. The exercise by Assignee of the option granted it in this Section and the collection of the Rents and the application thereof as provided in this Assignment shall not be considered a waiver of any Event of Default by Assignor under the note(s), the Mortgage, this Assignment or the other Loan Documents. This Assignment shall remain in full force and effect during any period of foreclosure and/or redemption with respect to the Property.

12. No Liability of Assignee. Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure to lease any part of the Property or from any other act or omission of Assignee in managing the Property after an Event of Default, other than acts or omissions of Assignee constituting willful misconduct or gross negligence of Assignee. Assignee shall not be responsible for performing any of Assignor's obligations under the lease by reason of this Assignment. Assignor hereby agrees to indemnify, defend and hold Assignee harmless for, from and against any and all liability, loss or damage which may be incurred under the lease or by reason of this Assignment and from any and all claims and demands whatsoever, including the defense of any such claims or demands which may be asserted against Assignee by reason of any alleged obligations and undertakings on its part to perform or discharge any of the terms, covenants or agreements contained in the lease. Should Assignee incur any such liability, Assignor shall reimburse Assignee promptly upon demand. This Assignment shall not operate to place any obligation or liability for the control, care, management or repair of the Property upon Assignee, nor shall it operate to make Assignee responsible or liable for any waste committed on the Property by any lessee or any other party, any dangerous or defective condition of the Property, including, without limitation, the presence of any Hazardous Substances (as defined in the Loan Agreement), or for any negligence in the management, upkeep, repair or control of the Property resulting in loss or injury or death to any lessee, licensee, employee or stranger, other than acts or omissions of Assignee constituting gross negligence or willful misconduct of Assignee.

13. Other Security. Assignee may take or release other security for the payment of the Secured Obligations, may release any party primarily or secondarily liable therefor and may apply any other security held by it to the reduction or satisfaction of the Secured Obligations without prejudice to any of its rights under this Assignment.

14. Other Remedies. Assignor has executed the Mortgage which contains an Assignment of Rents and Leases assigning to Assignee all of Assignor's right, title and interest, as Assignor, in and to the lease. All rights and remedies granted to Assignee under the Assignment of Rents and Leases contained in the Mortgage shall be in addition to all rights and remedies granted to Assignee under this Assignment. The right of Assignee to collect the Secured Obligations and to enforce any other security held by Assignee may be exercised by Assignee either prior to, simultaneously with, or subsequent to any action taken by it under this Assignment.

15. No Mortgagee in Possession. Nothing contained in this Assignment shall be construed as constituting Assignee a "mortgagee in possession" for any purpose.

16. Conflict of Terms. In case of any conflict between the terms of this Assignment and the terms of the Mortgage, the terms of the Mortgage shall prevail.

17. Non-Waiver. Each waiver by any Assignee must be in writing, and no waiver shall be construed as a continuing waiver. No waiver shall be implied from any delay or failure by Assignee to

take action on account of any default of Assignor. Consent by Assignee to any act or omission by Assignor shall not be construed as a consent to any other or subsequent act or omission or to waive the requirement for Assignee's consent to be obtained in any future or other instance. No collection by Assignee of any Rents pursuant to this Assignment shall constitute or result in a waiver of any default then existing under this Assignment or under any of the other Loan Documents.

18. Invalid Provisions. A determination that any provision of this Assignment is unenforceable or invalid shall not affect the enforceability or validity of any other provision, and any determination that the application of any provision of this Assignment to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to any other persons or circumstances.

19. Governing Law. This Assignment shall be governed by and construed in accordance with the laws of the state where the Property is located, except to the extent any of such laws may now or hereafter be preempted by Federal law.

20. Termination of Assignment. Upon payment in full of the Secured Obligations and the delivery and recording of a satisfaction, release, reconveyance or discharge of the Mortgage duly executed by Assignee, this Assignment shall become and be void and of no effect.

21. Successors in Interest; Transfer of Loan. The terms, covenants and conditions of this Assignment shall be binding upon and inure to the benefit of the heirs, successors and assigns of the parties. Assignee and any successor may, at any time, sell, transfer, or assign the Loan, this Assignment and the other Loan Documents, and any or all servicing rights with respect thereto, or grant participations therein or issue mortgage pass-through certificates or other securities evidencing a beneficial interest in a rated or unrated public offering or private placement (the "Securities"). Assignee may forward to each Assignee, transferee, assignee, servicer, participant, investor in such Securities or any rating agency (a "Rating Agency") rating such Securities (all of the foregoing entities collectively referred to as an "Investor") and each prospective Investor, all documents, financial and other information which Assignee now has or may hereafter acquire relating to (a) the Loan; (b) the Property and its operation (including, without limitation, copies of all leases, subleases or any other agreements concerning the use and occupancy of the Property); and/or (c) any party connected with the Loan (including, without limitation, Assignor, any partner or member of Assignor, any constituent partner or member of Assignor, and any guarantor). In connection with such Securities, Assignor further agrees that the Loan Documents shall be sufficient evidence of the obligations of Assignor to each Investor. Assignor shall, within fifteen (15) days after request by Assignee, deliver an estoppel certificate verifying for the benefit of Assignee and any other party designated by Assignee the status and the terms and provisions of the Loan in form and substance acceptable to Assignee. The representations, warranties, obligations, covenants, and indemnity obligations of Assignor under the Loan Documents shall also benefit and apply with respect to any Assignee, transferee, assignee, participant, servicer or investor.

22. Attorneys' Fees. If any lawsuit, suit or proceeding is commenced which arises out of or relates to the Loan Agreement, this Assignment, the other Loan Documents or the Loan, the prevailing party shall be entitled to recover from each other party such sums as the court may adjudge to be reasonable attorneys' fees in the action, in addition to costs and expenses otherwise allowed by law. In all other situations, including any matter arising out of or relating to any proceeding under any Debtor Relief Law (as defined in the Mortgage), Assignor agrees to pay all of Assignee's costs and expenses, including attorneys' fees, which may be incurred in enforcing or protecting Assignee's rights or interests. From the time(s) incurred until paid in full to Assignee, all such sums shall bear interest at the Default Rate. Whenever Assignor is obligated to pay or reimburse Assignee for any attorneys' fees, those fees shall include the allocated costs for services of in-house counsel.

23. Execution in Counterparts

. This Assignment may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one Agreement

24. WAIVER OF TRIAL BY JURY. ASSIGNOR HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THE LOAN, THE LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY ASSIGNOR, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. ASSIGNEE IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY ASSIGNOR.

IN WITNESS WHEREOF, Assignor, Lessee and Assignee have executed this Assignment as of the day and year first above written.

ASSIGNOR:

CHEROKEE NITROGEN HOLDINGS, INC.,  
an Oklahoma corporation

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

LESSEE:  
CHEROKEE NITROGEN COMPANY,  
an Oklahoma corporation

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

ASSIGNEE:

BANC OF AMERICA LEASING & CAPITAL, LLC,

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

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EXHIBIT A

LEGAL DESCRIPTION

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[ACKNOWLEDGEMENT]

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ )

On \_\_\_\_\_, before me, \_\_\_\_\_, a Notary Public in and for the State of \_\_\_\_\_, personally appeared \_\_\_\_\_, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

\_\_\_\_\_

[SEAL]

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INTERCOMPANY LOAN SUBORDINATION AGREEMENT

THIS INTERCOMPANY LOAN SUBORDINATION AGREEMENT (this "Agreement"), dated as of \_\_\_\_\_, 2007, is made among LSB INDUSTRIES, INC. ("Parent"), the Borrowers (as defined hereinafter) and BANC OF AMERICA LEASING & CAPITAL LLC, as collateral agent (in such capacity, together with its successors, if any, in such capacity, "Collateral Agent") for the Secured Parties (as defined hereinafter).

WHEREAS, Parent, Cherokee Nitrogen Holdings, Inc. ("Cherokee"), ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), and the subsidiaries of ThermaClime party to this Agreement (each of Cherokee, ThermaClime and each such subsidiary is herein referred to as a "Borrower" and Cherokee, ThermaClime and all such subsidiaries are herein referred to, collectively, as the "Borrowers"), Banc of America Leasing & Capital, LLC, as administrative agent ("Administrative Agent") and as Collateral Agent, Bank of Utah, as payment agent ("Payment Agent") and the lenders from time to time party thereto (the "Lenders"; collectively with the Administrative Agent, the Collateral Agent and the Payment Agent, the "Secured Parties") are parties to that certain Term Loan Agreement dated as of even date herewith (as amended, modified, renewed, extended, or replaced from time to time, the "Loan Agreement"), pursuant to which the Secured Parties have agreed to make certain financial accommodations to the Borrowers;

WHEREAS, Parent and each Borrower (collectively, the "Loan Parties" and each a "Loan Party") has made or may make from time to time loans or advances (the "Intercompany Loans") to one or more of Parent or the other Borrowers; and

WHEREAS, each Loan Party has agreed to the subordination of the Intercompany Loans, upon the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions, representations, and warranties set forth herein and for other good and valuable consideration, the parties hereto agree as follows:

**SECTION 1. Definitions; Interpretation.**

(a) Certain Defined Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Bankruptcy Code" means title 11 of the United States Code, as in effect from time to time.

"Insolvency Proceeding" means 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.

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"Senior Debt" means the Obligations.

"Senior Loan Documents" means the "Loan Documents" (as that term is defined in the Loan Agreement).

"Subordinated Debt" means, with respect to each Loan Party, all indebtedness, liabilities, and other obligations for borrowed money of any other Loan Party owing to such Loan Party in respect of any and all Intercompany Loans made by or such Loan Party to such other Loan Party, whether now existing or hereafter arising, and whether due or to become due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including all fees and all other amounts payable by any other Loan Party to such Loan Party under or in connection with any documents or instruments entered into to evidence the Intercompany Loans.

"Subordinated Debt Payment" means any payment or distribution by or on behalf of any Loan Party, directly or indirectly, of assets of such Loan Party of any kind or character, whether in cash, property, or securities, including on account of the purchase, redemption, or other acquisition of Subordinated Debt, as a result of any collection, sale, or other disposition of collateral, or by setoff, exchange, or in any other manner, for or on account of the Subordinated Debt.

(b) Interpretation. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. References to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto. References to statutes or regulations are to be construed as including all statutory and regulatory provisions consolidating, amending, or replacing the statute or regulation referred to. The captions and headings are for convenience of reference only and shall not affect the construction of this Agreement.

**SECTION 2. Subordination to Payment of Senior Debt.**

As to each Loan Party, all payments on account of the Subordinated Debt shall be subject, subordinate, and junior, in right of payment and exercise of remedies, to the extent and in the manner set forth herein, to the prior payment, in full, in cash or cash equivalents of the Senior Debt.

**SECTION 3. Subordination Upon Any Distribution of Assets of Borrowers.**

As to each Loan Party and until the prior payment, in full, in cash or cash equivalents of the Senior Debt, in the event of any payment or distribution of assets of any other Loan Party of any kind or character, whether in cash, property, or securities, upon an Insolvency Proceeding relating to such other Loan Party or its property: (i) all amounts owing on account of the Senior Debt shall first be paid, in full, in cash, or payment provided for in cash or in cash



equivalents, before any Subordinated Debt Payment is made; and (ii) to the extent permitted by applicable law, any Subordinated Debt Payment to which such Loan Party would be entitled except for the provisions hereof, shall be paid or delivered by the trustee in bankruptcy, receiver, assignee for the benefit of creditors, or other liquidating agent making such payment or distribution directly to Collateral Agent for application to the payment of the Senior Debt in accordance with clause (i), after giving effect to any concurrent payment or distribution or provision therefor to Collateral Agent in respect of such Senior Debt.

**SECTION 4. Payments on Subordinated Debt.**

(a) Permitted Payments. So long as no Event of Default has occurred and is continuing, each Loan Party may make, and each other Loan Party shall be entitled to accept and receive, payments on account of the Subordinated Debt, to the extent such Indebtedness is permitted under the Loan Agreement and only if such Loan Party is a party to this Agreement.

(b) No Payment Upon Senior Debt Defaults. Upon the occurrence of any Event of Default, and until such Event of Default is cured or waived, no Loan Party shall make, and no other Loan Party shall accept or receive, any Subordinated Debt Payment.

**SECTION 5. Subordination of Remedies.**

As long as any Senior Debt shall remain outstanding and unpaid, no Loan Party shall, without the prior written consent of Collateral Agent:

(a) accelerate, or otherwise make due and payable, or make demand prior to the original due date thereof any Subordinated Debt or bring suit or institute any other actions or proceedings to enforce its rights or interests in respect of the Subordinated Debt of any other Loan Party owing to such Loan Party;

(b) exercise any rights under or with respect to guaranties of the Subordinated Debt, if any;

(c) exercise any rights to set-offs (it being understood that an intercompany netting of payments on the books of the Loan Parties in the ordinary course of business shall not be deemed a set-off for purposes of this clause (c) so long as no default has occurred and is continuing under the applicable Subordinated Debt and no Event of Default has occurred and is continuing) and counterclaims in respect of any indebtedness, liabilities, or obligations of such Loan Party to any other Loan Party against any of the Subordinated Debt; or

(d) commence, or cause to be commenced, or join with any creditor other than Collateral Agent on behalf thereof in commencing, any bankruptcy, insolvency, or receivership proceeding against the other Loan Party.

**SECTION 6. Payment Over to Collateral Agent.**

In the event that, notwithstanding the provisions of Sections 3, 4, and 5, any Subordinated Debt Payments shall be received in contravention of any such Sections 3, 4, or 5 by any Loan Party before all Senior Debt is paid in full, in cash or cash equivalents, such

Subordinated Debt Payments shall be held in trust for the benefit of Collateral Agent and shall be paid over or delivered to Collateral Agent for application to the payment, in full, in cash or cash equivalents, of all Senior Debt remaining unpaid to the extent necessary to give effect to such Sections 3, 4, and 5, the application thereof in accordance with the Senior Loan Documents and after giving effect to any concurrent payments or distributions to Collateral Agent in respect of the Senior Debt.

**SECTION 7. Authorization to Collateral Agent.**

If, while any Subordinated Debt is outstanding and until the Indefeasible Payment and Performance of All Obligations has occurred, any Insolvency Proceeding shall occur and be continuing with respect to another Loan Party or its property: (i) Collateral Agent is hereby irrevocably authorized and empowered (in the name of each Loan Party or otherwise), but shall have no obligation, to demand, sue for, collect, and receive every payment or distribution in respect of the Subordinated Debt and give acquittance therefor and to file claims and proofs of claim and take such other action (including voting the Subordinated Debt) as it may deem necessary or advisable for the exercise or enforcement of any of the rights or interests of the Secured Parties; and (ii) each Loan Party shall promptly take such action as Collateral Agent may reasonably request (A) to collect the Subordinated Debt for the account of the Secured Parties and to file appropriate claims or proofs of claim in respect of the Subordinated Debt, (B) to execute and deliver to Collateral Agent such powers of attorney, assignments, and other instruments as it may reasonably request to enable it to enforce any and all claims with respect to the Subordinated Debt, and (C) to collect and receive any and all Subordinated Debt Payments.

**SECTION 8. Certain Agreements of Each Loan Party.**

(a) No Benefits. Each Loan Party understands that there may be various agreements between Collateral Agent or other Secured Parties and any other Loan Party evidencing and governing the Senior Debt, and each Loan Party acknowledges and agrees that such agreements are not intended to confer any benefits on such Loan Party and that the Secured Parties and Collateral Agent (on behalf thereof) shall have no obligation to such Loan Party or any other Person to exercise any rights, enforce any remedies, or take any actions which may be available to them under such agreements.

(b) No Interference. Each Loan Party acknowledges that certain of the Borrower have granted to Collateral Agent, for itself and for the benefit of the Secured Parties, security interests in certain of such Borrower's assets as set forth in the Loan Agreement and the other Senior Loan Documents, and agrees not to interfere with or in any manner oppose a disposition of any Collateral by Collateral Agent on behalf thereof in accordance with applicable law.

(c) Reliance by the Secured Parties. Each Loan Party acknowledges and agrees that the Secured Parties will have relied upon and will continue to rely upon the subordination provisions provided for herein and the other provisions hereof in entering into the Senior Loan Documents and making or issuing the Term Loans thereunder.

(d) Waivers. Unless otherwise expressly provided herein or under the Loan Agreement, each Loan Party hereby waives any and all notice of the incurrence of the Senior Debt or any part thereof and any right to require marshaling of assets.

(e) Obligations of Each Loan Party Not Affected. Each Loan Party hereby agrees that at any time and from time to time, without notice to or the consent of such Loan Party except as otherwise provided in the Senior Loan Documents, without incurring responsibility to such Loan Party, and without impairing or releasing the subordination provided for herein or otherwise impairing the rights of Collateral Agent or other Secured Parties hereunder: (i) the time for any other Loan Party's performance of or compliance with any of its agreements contained in the Senior Loan Documents may be extended or such performance or compliance may be waived by the Secured Parties or Collateral Agent on behalf thereof; (ii) the agreements of any other Loan Party with respect to the Senior Loan Documents may from time to time be modified by such other Loan Party and the Secured Parties or Collateral Agent on behalf thereof; (iii) the manner, place, or terms for payment of Senior Debt or any portion thereof may be altered or the terms for payment extended, or the Senior Debt may be renewed in whole or in part; (iv) the maturity of the Senior Debt may be accelerated in accordance with the terms of any present or future agreement by any other Loan Party and the Secured Parties or Collateral Agent on behalf thereof; (v) any Collateral may be sold, exchanged, released, or substituted and any Lien in favor of Collateral Agent for the benefit of the Secured Parties may be terminated, subordinated, or fail to be perfected or become unperfected; (vi) any Person liable in any manner for Senior Debt may be discharged, released, or substituted; and (vii) all other rights against any other Loan Party, any other Person, or with respect to any Collateral may be exercised (or the Secured Parties or Collateral Agent (on behalf thereof) may waive or refrain from exercising such rights).

(f) Rights of the Secured Parties Not to Be Impaired. No right of the Secured Parties or Collateral Agent, on behalf thereof, to enforce the subordination provided for herein or to exercise its other rights hereunder shall at any time in any way be prejudiced or impaired by any act or failure to act by any other Loan Party, the Secured Parties or Collateral Agent hereunder or under or in connection with the Senior Loan Documents or by any noncompliance by any other Loan Party with the terms and provisions and covenants herein or in the Senior Loan Documents, regardless of any knowledge thereof that the Secured Parties or Collateral Agent may have or otherwise be charged with.

(g) Financial Condition of Loan Parties. Unless otherwise expressly permitted under the Loan Agreement, no Loan Party shall have a right to require the Secured Parties to obtain or disclose any information with respect to: (i) the financial condition or character of any other Loan Party or the ability of the other Loan Party to pay and perform Senior Debt; (ii) the Senior Debt; (iii) the Collateral or other security for any or all of the Senior Debt; (iv) the existence or nonexistence of any guarantees of, or any other subordination agreements with respect to, all or any part of the Senior Debt; (v) any action or inaction on the part of the Secured Parties or any other Person; or (vi) any other matter, fact, or occurrence whatsoever.

(h) Acquisition of Liens or Guaranties. Unless otherwise expressly permitted under the Loan Agreement, no Loan Party shall, without the prior written consent of Collateral

Agent, acquire any right or interest in or to any Collateral not owned by such Loan Party or accept any guaranties for the Subordinated Debt.

**SECTION 9. Subrogation.**

Until the Indefeasible Payment and Performance of All Obligations has occurred, no Loan Party shall have, or shall directly or indirectly exercise, any rights that it may acquire by way of subrogation under this Agreement, by any payment or distribution to the Secured Parties hereunder or otherwise. After the Indefeasible Payment and Performance of All Obligations has occurred, each Loan Party shall be entitled to exercise in full any subrogated rights it may possess with respect to the rights of the Secured Parties to receive payments or distributions applicable to the Senior Debt until the Subordinated Debt shall be paid in full. For the purposes of the foregoing subrogation, no payments or distributions to the Secured Parties of any cash, property, or securities to which any Loan Party would be entitled except for the provisions of Section 3, 4, or 5 shall, as among such Loan Party, its creditors (other than the Secured Parties), and the other Loan Parties, be deemed to be a payment by the other Loan Parties to or on account of the Senior Debt.

**SECTION 10. Continuing Agreement; Reinstatement.**

(a) Continuing Agreement. This Agreement is a continuing agreement of subordination and shall continue in effect and be binding upon each Loan Party until the Senior Debt is paid and performed in full and the Loan Agreement is terminated in accordance with its terms. The subordinations, agreements, and priorities set forth herein shall remain in full force and effect regardless of whether any party hereto in the future seeks to rescind, amend, terminate, or reform, by litigation or otherwise, its respective agreements with the other Loan Parties.

(b) Reinstatement. This Agreement shall continue to be effective or shall be reinstated, as the case may be, if, for any reason, any payment of the Senior Debt by or on behalf of any Loan Party shall be rescinded or must otherwise be restored by Collateral Agent or the Secured Parties, whether as a result of an Insolvency Proceeding or otherwise.

**SECTION 11. Transfer of Subordinated Debt.**

No Loan Party may assign or transfer its rights and obligations in respect of the Subordinated Debt, except to another Loan Party which is a party to this Agreement, without the prior written consent of Collateral Agent and any such transferee or assignee, as a condition to acquiring an interest in the Subordinated Debt shall agree to be bound hereby, in form and substance reasonably satisfactory to Collateral Agent.

**SECTION 12. Obligations of Loan Parties Not Affected.**

The provisions of this Agreement are intended solely for the purpose of defining the relative rights of each Loan Party against the other Loan Parties, on the one hand, and of the Secured Parties and Collateral Agent on behalf thereof against the other Loan Parties, on the other hand. Nothing contained in this Agreement shall (i) impair, as between each Loan Party and the other Loan Parties, the obligation of the other Loan Parties to pay their respective

obligations with respect to the Subordinated Debt as and when the same shall become due and payable, or (ii) otherwise affect the relative rights of each Loan Party against the other Loan Parties, on the one hand, and of the creditors (other than the Secured Parties) of the other Loan Parties against the other Loan Parties, on the other hand.

**SECTION 13. Endorsement of Loan Party Documents; Further Assurances and Additional Acts.**

(a) Endorsement of Loan Party Documents. At the request of Collateral Agent, all documents and instruments evidencing any of the Subordinated Debt, if any, shall be endorsed with a legend noting that such documents and instruments are subject to this Agreement, and each Loan Party shall promptly confirm to Collateral Agent its satisfaction of the foregoing requirements and, if requested by Collateral Agent, deliver to Collateral Agent evidence of the same.

(b) Further Assurances and Additional Acts. Each Loan Party shall execute, acknowledge, deliver, file, notarize, and register at its own expense all such further agreements, instruments, certificates, financing statements, documents, and assurances, and perform such acts as Collateral Agent reasonably shall deem necessary or appropriate to effectuate the purposes of this Agreement, and promptly provide Collateral Agent with evidence of the foregoing in form and substance reasonably satisfactory to Collateral Agent.

**SECTION 14. Notices.**

All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including by facsimile transmission) and shall be mailed, sent, or delivered in accordance with the notice provisions contained in the Loan Agreement.

**SECTION 15. No Waiver; Cumulative Remedies.**

No failure on the part of the Secured Parties or Collateral Agent (on behalf of itself or the Secured Parties) to exercise, and no delay in exercising, any right, remedy, power, or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege. The rights and remedies under this Agreement are cumulative and not exclusive of any rights, remedies, powers, and privileges that may otherwise be available to the Secured Parties or Collateral Agent.

**SECTION 16. Costs and Expenses.**

Each Loan Party jointly and severally agrees to pay to Collateral Agent, for itself and for the benefit of the Secured Parties, upon demand by Collateral Agent or any other Secured Party, all costs and expenses of Collateral Agent and the other Secured Parties, and the fees and disbursements of counsel to Collateral Agent and the other Secured Parties, in connection with (i) the negotiation, preparation, execution, delivery, and administration of this Agreement, and any amendments, modifications, or waivers of the terms thereof or any termination pursuant to Section 22, and (ii) the enforcement or attempted enforcement of, and preservation of rights or

interests under, this Agreement, including any losses, costs and expenses sustained by Collateral Agent or the other Secured Parties as a result of any failure by such Loan Party to perform or observe its obligations contained in this Agreement.

**SECTION 17. Survival.**

All covenants, agreements, representations and warranties made in this Agreement shall, except to the extent otherwise provided herein, survive the execution and delivery of this Agreement, and shall continue in full force and effect so long as any Senior Debt remains unpaid. Without limiting the generality of the foregoing, the obligations of each Loan Party under Section 16 shall survive the satisfaction of the Senior Debt.

**SECTION 18. Benefits of Agreement.**

This Agreement is entered into for the sole protection and benefit of the parties hereto and their successors and assigns, and no other Person shall be a direct or indirect beneficiary of, or shall have any direct or indirect cause of action or claim in connection with, this Agreement.

**SECTION 19. Binding Effect.**

This Agreement shall be binding upon, inure to the benefit of and be enforceable by each Loan Party and the Secured Parties and their respective successors and permitted assigns.

**SECTION 20. GOVERNING LAW.**

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

**SECTION 21. SUBMISSION TO JURISDICTION.**

EACH BORROWER HEREBY (i) SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE FEDERAL COURTS OF THE UNITED STATES SITTING IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, FOR THE PURPOSE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, (ii) AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH COURTS, OR AT THE SOLE OPTION OF COLLATERAL AGENT, IN ANY OTHER COURT IN WHICH COLLATERAL AGENT SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY, (iii) IRREVOCABLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY OBJECTION WHICH IT NOW OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY OF THE FOREGOING COURTS, AND ANY OBJECTION ON THE GROUND THAT ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND (iv) AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING

**SECTION 22. Entire Agreement; Amendments and Waivers.**

(a) Entire Agreement. This Agreement constitutes the entire agreement of each of the Loan Party, Collateral Agent and Secured Parties with respect to the matters set forth herein and supersedes any prior agreements, commitments, drafts, communications, discussions, and understandings, oral or written, with respect thereto.

(b) Amendments and Waivers. No amendment to any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by each of the Loan Parties and Collateral Agent; and no waiver of any provision of this Agreement, or consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Collateral Agent. Any such amendment, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given.

**SECTION 23. Conflicts.**

In case of any conflict or inconsistency between any terms of this Agreement, on the one hand, and any documents or instruments in respect of the Subordinated Debt, on the other hand, then the terms of this Agreement shall control.

**SECTION 24. Severability.**

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under all applicable laws and regulations. If, however, any provision of this Agreement shall be prohibited by or invalid under any such law or regulation in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such law or regulation, or, if for any reason it is not deemed so modified, it shall be ineffective and invalid only to the extent of such prohibition or invalidity without affecting the remaining provisions of this Agreement or the validity or effectiveness of such provision in any other jurisdiction.

**SECTION 25. Interpretation.**

This Agreement is the result of negotiations between, and have been reviewed by the respective counsel to, Loan Parties and the several members of the Secured Parties and is the product of all parties hereto. Accordingly, this Agreement shall not be construed against any of Collateral Agent or Secured Parties merely because of their involvement in the preparation hereof.

**SECTION 26. Counterparts.**

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

**SECTION 27. Termination of Agreement.**

Upon the occurrence of the Indefeasible Payment and Performance of All Obligations, this Agreement shall terminate and Collateral Agent, on behalf of the Secured Parties, shall promptly execute and deliver to each Loan Party such documents and instruments as shall be necessary to evidence such termination; provided, however, that the obligations of each Loan Party under Section 16 shall survive such termination.

[Signature pages follow]



IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Agreement as of the date first written above.

**LOAN PARTIES:**

**LSB INDUSTRIES, INC.**

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

**THERMACLIME, INC.  
CHEROKEE NITROGEN HOLDINGS, INC.,  
NORTHWEST FINANCIAL CORPORATION,  
CHEMEX I CORP.,  
CHEMEX II CORP.,  
CHEROKEE NITROGEN COMPANY,  
CLIMACOOOL CORP.,  
CLIMATECRAFT, INC.,  
CLIMATE MASTER, INC.,  
DSN CORPORATION,  
EL DORADO CHEMICAL COMPANY,  
INTERNATIONAL ENVIRONMENTAL CORPORATION,  
KOAX CORP.,  
LSB CHEMICAL CORP.,  
THE CLIMATE CONTROL GROUP, INC.,  
TRISON CONSTRUCTION, INC.,  
THERMACLIME TECHNOLOGIES, INC.,  
XPEDIAIR, INC.**

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

**[COLLATERAL AGENT:]**

**[BANC OF AMERICA LEASING & CAPITAL LLC,  
as collateral agent on behalf of the Secured Parties]<sup>1</sup>**

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

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<sup>1</sup> Confirm signatory with BofA.

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MANAGEMENT FEE SUBORDINATION AGREEMENT

THIS MANAGEMENT FEE SUBORDINATION AGREEMENT (this "Agreement"), dated as of November 2, 2007, is made among LSB INDUSTRIES, INC. ("Parent"), the Borrowers (as defined hereinafter) and BANC OF AMERICA LEASING & CAPITAL LLC, as collateral agent (in such capacity, together with its successors, if any, in such capacity, "Collateral Agent") for the Secured Parties (as defined hereinafter).

WHEREAS, Parent, Cherokee Nitrogen Holdings, Inc. ("Cherokee"), ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), and the subsidiaries of ThermaClime party to this Agreement (each of Cherokee, ThermaClime and each such subsidiary is herein referred to as a "Borrower" and Cherokee, ThermaClime and all such subsidiaries are herein referred to, collectively, as the "Borrowers"), Banc of America Leasing & Capital, LLC, as administrative agent ("Administrative Agent") and as Collateral Agent, Bank of Utah, as payment agent ("Payment Agent") and the lenders from time to time party thereto (the "Lenders"; collectively with the Administrative Agent, the Collateral Agent and the Payment Agent, the "Secured Parties") are parties to that certain Term Loan Agreement dated as of even date herewith (as amended, modified, renewed, extended, or replaced from time to time, the "Loan Agreement"), pursuant to which the Secured Parties have agreed to make certain financial accommodations to the Borrowers;

WHEREAS, certain of the Loan Parties currently provides or may provide certain management, consulting and other services to the other Loan Parties, including without limitation, pursuant to that certain Management Agreement, dated November 21, 1997 (as amended or otherwise modified from time to time, the "Management Agreement");

WHEREAS, Parent and each of the Borrowers (collectively, "Loan Parties") has agreed to the subordination of the Subordinated Obligations (defined below), upon the terms and subject to the conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises, covenants, conditions, representations, and warranties set forth herein and for other good and valuable consideration, the parties hereto agree as follows:

**SECTION 1. Definitions; Interpretation.**

(a) Certain Defined Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement. As used in this Agreement, the following terms shall have the following meanings:

"Bankruptcy Code" means title 11 of the United States Code, as in effect from time to time.

"Insolvency Proceeding" means 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

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moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

“**Senior Obligations**” means the Obligations.

“**Loan Documents**” means the “Loan Documents” (as that term is defined in the Loan Agreement).

“**Subordinated Obligations**” means any management, consulting or other fees of any kind, whether now existing or hereafter arising, and whether due or to become due, absolute or contingent, liquidated or unliquidated, determined or undetermined, payable by any Loan Party to any other Loan Party or any officer, director, employee, agent or Affiliate to any such Loan Party, including without limitation, pursuant to the Management Agreement.

“**Subordinated Management Payments**” means any payment or distribution by or on behalf of any Loan Party, directly or indirectly, of assets of such Loan Party of any kind or character, whether in cash, property, or securities, including on account of the purchase, redemption, or other acquisition of the Subordinated Obligations, as a result of any collection, sale, or other disposition of collateral, or by setoff, exchange, or in any other manner, for or on account of the Subordinated Obligations.

(b) **Interpretation.** Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term “including” is not limiting, and the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or.” The words “hereof,” “herein,” “hereby,” “hereunder,” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. References to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto. References to statutes or regulations are to be construed as including all statutory and regulatory provisions consolidating, amending, or replacing the statute or regulation referred to. The captions and headings are for convenience of reference only and shall not affect the construction of this Agreement.

**SECTION 2. Subordination to Payment of Senior Obligations.**

As to each Loan Party and each such Loan Party’s officers, directors, employees, agents and Affiliates, all payments on account of the Subordinated Obligations, including all Subordinated Management Payments, shall be subject, subordinate, and junior, in right of payment and exercise of remedies, to the extent and in the manner set forth herein, to the prior payment, in full, in cash or cash equivalents of the Senior Obligations.

**SECTION 3. Subordination Upon Any Distribution of Assets of Borrowers.**

As to each Loan Party and until the prior payment, in full, in cash or cash equivalents of the Senior Obligations, in the event of any payment or distribution of assets of any other Loan Party of any kind or character, whether in cash, property, or securities, upon an

Insolvency Proceeding relating to such other Loan Party or its property: (i) all amounts owing on account of the Senior Obligations shall first be paid, in full, in cash, or payment provided for in cash or in cash equivalents, before any Subordinated Management Payments are made; and (ii) to the extent permitted by applicable law, any Subordinated Management Payments to which such Loan Party would be entitled except for the provisions hereof, shall be paid or delivered by the trustee in bankruptcy, receiver, assignee for the benefit of creditors, or other liquidating agent making such payment or distribution directly to Collateral Agent for application to the payment of the Senior Obligations in accordance with clause (i), after giving effect to any concurrent payment or distribution or provision therefor to Collateral Agent in respect of such Senior Obligations.

**SECTION 4. Payments on Subordinated Obligations.**

(a) Permitted Payments. So long as no Event of Default has occurred and is continuing, each Loan Party may make, and other Loan Party shall be entitled to accept and receive, payments on account of the Subordinated Obligations to the extent such Subordinated Obligations are permitted under the Loan Agreement and in compliance with the other provisions of this Agreement.

(b) No Payment Upon Senior Obligations Defaults. Upon the occurrence of any Event of Default, and until such Event of Default is cured or waived, no Loan Party shall make, and no other Loan Party shall not accept or receive, any Subordinated Management Payments.

**SECTION 5. Subordination of Remedies.**

As long as any Senior Obligations shall remain outstanding and unpaid, no Loan Party shall, without the prior written consent of Collateral Agent:

(a) accelerate, or otherwise make due and payable, or make demand prior to the original due date thereof any Subordinated Obligations or bring suit or institute any other actions or proceedings to enforce its rights or interests in respect of the Subordinated Obligations of any Loan Party owing to such Loan Party;

(b) exercise any rights under or with respect to guaranties of the Subordinated Obligations, if any;

(c) exercise any rights to set-offs (it being understood that an intercompany netting of payments on the books of the Loan Parties in the ordinary course of business shall not be deemed a set-off for purposes of this clause (c) so long as no default has occurred and is continuing under the applicable Subordinated Obligations and no Event of Default has occurred and is continuing) and counterclaims in respect of any indebtedness, liabilities, or obligations of such Loan Party to any other Loan Party against any of the Subordinated Obligations; or

(d) commence, or cause to be commenced, or join with any creditor other than Collateral Agent on behalf thereof in commencing, any bankruptcy, insolvency, or receivership proceeding against the other Loan Party.

**SECTION 6. Payment Over to Collateral Agent.**

In the event that, notwithstanding the provisions of Sections 3, 4, and 5, any Subordinated Management Payments shall be received in contravention of any such Sections 3, 4, or 5 by any Loan Party before all Senior Obligations is paid in full, in cash or cash equivalents, such Subordinated Management Payments shall be held in trust for the benefit of Collateral Agent and shall be paid over or delivered to Collateral Agent for application to the payment, in full, in cash or cash equivalents, of all Senior Obligations remaining unpaid to the extent necessary to give effect to such Sections 3, 4, and 5, the application thereof in accordance with the Senior Loan Documents and after giving effect to any concurrent payments or distributions to Collateral Agent in respect of the Senior Obligations.

**SECTION 7. Authorization to Collateral Agent.**

If, while any Subordinated Obligations is outstanding and until the Indefeasible Payment and Performance of All Obligations has occurred, any Insolvency Proceeding shall occur and be continuing with respect to another Loan Party or its property: (i) Collateral Agent is hereby irrevocably authorized and empowered (in the name of each Loan Party or otherwise), but shall have no obligation, to demand, sue for, collect, and receive every payment or distribution in respect of the Subordinated Obligations and give acquittance therefor and to file claims and proofs of claim and take such other action (including voting the Subordinated Obligations) as it may deem necessary or advisable for the exercise or enforcement of any of the rights or interests of the Secured Parties; and (ii) each Loan Party shall promptly take such action as Collateral Agent may reasonably request (A) to collect the Subordinated Obligations for the account of the Secured Parties and to file appropriate claims or proofs of claim in respect of the Subordinated Obligations, (B) to execute and deliver to Collateral Agent such powers of attorney, assignments, and other instruments as it may reasonably request to enable it to enforce any and all claims with respect to the Subordinated Obligations, and (C) to collect and receive any and all Subordinated Management Payments.

**SECTION 8. Certain Agreements of Each Loan Party.**

(a) No Benefits. Each Loan Party understands that there may be various agreements between Collateral Agent or other Secured Parties and any other Loan Party evidencing and governing the Senior Obligations, and each Loan Party acknowledges and agrees that such agreements are not intended to confer any benefits on such Loan Party and that the Secured Parties and Collateral Agent (on behalf thereof) shall have no obligation to such Loan Party or any other Person to exercise any rights, enforce any remedies, or take any actions which may be available to them under such agreements.

(b) No Interference. Each Loan Party acknowledges that certain of the Borrowers have granted to Collateral Agent, for itself and for the benefit of the Secured Parties, security interests in certain of such Borrower's assets as set forth in the Loan Agreement and the other Senior Loan Documents, and agrees not to interfere with or in any manner oppose a disposition of any Collateral by Collateral Agent on behalf thereof in accordance with applicable law.

(c) Reliance by the Secured Parties. Each Loan Party acknowledges and agrees that the Secured Parties will have relied upon and will continue to rely upon the subordination provisions provided for herein and the other provisions hereof in entering into the Senior Loan Documents and making or issuing the Term Loans thereunder.

(d) Waivers. Unless otherwise expressly provided herein or under the Loan Agreement, each Loan Party hereby waives any and all notice of the incurrence of the Senior Obligations or any part thereof and any right to require marshaling of assets.

(e) Obligations of Each Loan Party Not Affected. Each Loan Party hereby agrees that at any time and from time to time, without notice to or the consent of such Loan Party except as otherwise provided in the Senior Loan Documents, without incurring responsibility to such Loan Party, and without impairing or releasing the subordination provided for herein or otherwise impairing the rights of Collateral Agent or other Secured Parties hereunder: (i) the time for any other Loan Party's performance of or compliance with any of its agreements contained in the Senior Loan Documents may be extended or such performance or compliance may be waived by the Secured Parties or Collateral Agent on behalf thereof; (ii) the agreements of any other Loan Party with respect to the Senior Loan Documents may from time to time be modified by such other Loan Party and the Secured Parties or Collateral Agent on behalf thereof; (iii) the manner, place, or terms for payment of Senior Obligations or any portion thereof may be altered or the terms for payment extended, or the Senior Obligations may be renewed in whole or in part; (iv) the maturity of the Senior Obligations may be accelerated in accordance with the terms of any present or future agreement by any other Loan Party and the Secured Parties or Collateral Agent on behalf thereof; (v) any Collateral may be sold, exchanged, released, or substituted and any Lien in favor of Collateral Agent for the benefit of the Secured Parties may be terminated, subordinated, or fail to be perfected or become unperfected; (vi) any Person liable in any manner for Senior Obligations may be discharged, released, or substituted; and (vii) all other rights against any other Loan Party, any other Person, or with respect to any Collateral may be exercised (or the Secured Parties or Collateral Agent (on behalf thereof) may waive or refrain from exercising such rights).

(f) Rights of the Secured Parties Not to Be Impaired. No right of the Secured Parties or Collateral Agent, on behalf thereof, to enforce the subordination provided for herein or to exercise its other rights hereunder shall at any time in any way be prejudiced or impaired by any act or failure to act by any other Loan Party, the Secured Parties or Collateral Agent hereunder or under or in connection with the Senior Loan Documents or by any noncompliance by any other Loan Party with the terms and provisions and covenants herein or in the Senior Loan Documents, regardless of any knowledge thereof that the Secured Parties or Collateral Agent may have or otherwise be charged with.

(g) Financial Condition of Loan Parties. Unless otherwise expressly permitted under the Loan Agreement, no Loan Party shall have a right to require the Secured Parties to obtain or disclose any information with respect to: (i) the financial condition or character of any other Loan Party or the ability of the other Loan Party to pay and perform Senior Obligations; (ii) the Senior Obligations; (iii) the Collateral or other security for any or all of the Senior Obligations; (iv) the existence or nonexistence of any guarantees of, or any other subordination agreements with respect to, all or any part of the Senior Obligations; (v) any action

or inaction on the part of the Secured Parties or any other Person; or (vi) any other matter, fact, or occurrence whatsoever.

(h) Acquisition of Liens or Guaranties. Unless otherwise expressly permitted under the Loan Agreement, no Loan Party shall, without the prior written consent of Collateral Agent, acquire any right or interest in or to any Collateral not owned by such Loan Party or accept any guaranties for the Subordinated Obligations.

**SECTION 9. Subrogation.**

Until the Indefeasible Payment and Performance of All Obligations has occurred, no Loan Party shall have, or shall directly or indirectly exercise, any rights that it may acquire by way of subrogation under this Agreement, by any payment or distribution to the Secured Parties hereunder or otherwise. After the Indefeasible Payment and Performance of All Obligations has occurred, each Loan Party shall be entitled to exercise in full any subrogated rights it may possess with respect to the rights of the Secured Parties to receive payments or distributions applicable to the Senior Obligations until the Subordinated Obligations shall be paid in full. For the purposes of the foregoing subrogation, no payments or distributions to the Secured Parties of any cash, property, or securities to which any Loan Party would be entitled except for the provisions of Section 3, 4, or 5 shall, as among such Loan Party, its creditors (other than the Secured Parties), and the other Loan Parties, be deemed to be a payment by the other Loan Parties to or on account of the Senior Obligations.

**SECTION 10. Continuing Agreement; Reinstatement.**

(a) Continuing Agreement. This Agreement is a continuing agreement of subordination and shall continue in effect and be binding upon each Loan Party until the Senior Obligations is paid and performed in full and the Loan Agreement is terminated in accordance with its terms. The subordinations, agreements, and priorities set forth herein shall remain in full force and effect regardless of whether any party hereto in the future seeks to rescind, amend, terminate, or reform, by litigation or otherwise, its respective agreements with the other Loan Parties.

(b) Reinstatement. This Agreement shall continue to be effective or shall be reinstated, as the case may be, if, for any reason, any payment of the Senior Obligations by or on behalf of any Loan Party shall be rescinded or must otherwise be restored by Collateral Agent or the Secured Parties, whether as a result of an Insolvency Proceeding or otherwise.

**SECTION 11. Transfer of Subordinated Obligations.**

No Loan Party may assign or transfer its rights and obligations in respect of the Subordinated Obligations, except to another Loan Party which is a party to this Agreement, without the prior written consent of Collateral Agent and any such transferee or assignee, as a condition to acquiring an interest in the Subordinated Obligations shall agree to be bound hereby, in form and substance reasonably satisfactory to Collateral Agent.

**SECTION 12. Obligations of Loan Parties Not Affected.**

The provisions of this Agreement are intended solely for the purpose of defining the relative rights of each Loan Party against the other Loan Parties, on the one hand, and of the Secured Parties and Collateral Agent on behalf thereof against the other Loan Parties, on the other hand. Nothing contained in this Agreement shall (i) impair, as between each Loan Party and the other Loan Parties, the obligation of the other Loan Parties to pay their respective obligations with respect to the Subordinated Obligations as and when the same shall become due and payable, or (ii) otherwise affect the relative rights of each Loan Party against the other Loan Parties, on the one hand, and of the creditors (other than the Secured Parties) of the other Loan Parties against the other Loan Parties, on the other hand.

**SECTION 13. Endorsement of Loan Party Documents; Further Assurances and Additional Acts.**

(a) Endorsement of Loan Party Documents. At the request of Collateral Agent, all documents and instruments evidencing any of the Subordinated Obligations, if any, shall be endorsed with a legend noting that such documents and instruments are subject to this Agreement, and each Loan Party shall promptly confirm to Collateral Agent its satisfaction of the foregoing requirements and, if requested by Collateral Agent, deliver to Collateral Agent evidence of the same.

(b) Further Assurances and Additional Acts. Each Loan Party shall execute, acknowledge, deliver, file, notarize, and register at its own expense all such further agreements, instruments, certificates, financing statements, documents, and assurances, and perform such acts as Collateral Agent reasonably shall deem necessary or appropriate to effectuate the purposes of this Agreement, and promptly provide Collateral Agent with evidence of the foregoing in form and substance reasonably satisfactory to Collateral Agent.

**SECTION 14. Notices.**

All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including by facsimile transmission) and shall be mailed, sent, or delivered in accordance with the notice provisions contained in the Loan Agreement.

**SECTION 15. No Waiver; Cumulative Remedies.**

No failure on the part of the Secured Parties or Collateral Agent (on behalf of itself or the Secured Parties) to exercise, and no delay in exercising, any right, remedy, power, or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power, or privilege. The rights and remedies under this Agreement are cumulative and not exclusive of any rights, remedies, powers, and privileges that may otherwise be available to the Secured Parties or Collateral Agent.



**SECTION 16. Costs and Expenses.**

Each Loan Party jointly and severally agrees to pay to Collateral Agent, for itself and for the benefit of the Secured Parties, upon demand by Collateral Agent or any other Secured Party, all costs and expenses of Collateral Agent and the other Secured Parties, and the fees and disbursements of counsel to Collateral Agent and the other Secured Parties, in connection with (i) the negotiation, preparation, execution, delivery, and administration of this Agreement, and any amendments, modifications, or waivers of the terms thereof or any termination pursuant to Section 22, and (ii) the enforcement or attempted enforcement of, and preservation of rights or interests under, this Agreement, including any losses, costs and expenses sustained by Collateral Agent or the other Secured Parties as a result of any failure by such Loan Party to perform or observe its obligations contained in this Agreement.

**SECTION 17. Survival.**

All covenants, agreements, representations and warranties made in this Agreement shall, except to the extent otherwise provided herein, survive the execution and delivery of this Agreement, and shall continue in full force and effect so long as any Senior Obligations remains unpaid. Without limiting the generality of the foregoing, the obligations of each Loan Party under Section 16 shall survive the satisfaction of the Senior Obligations.

**SECTION 18. Benefits of Agreement.**

This Agreement is entered into for the sole protection and benefit of the parties hereto and their successors and assigns, and no other Person shall be a direct or indirect beneficiary of, or shall have any direct or indirect cause of action or claim in connection with, this Agreement.

**SECTION 19. Binding Effect.**

This Agreement shall be binding upon, inure to the benefit of and be enforceable by each Loan Party and the Secured Parties and their respective successors and permitted assigns.

**SECTION 20. GOVERNING LAW.**

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

**SECTION 21. SUBMISSION TO JURISDICTION.**

EACH BORROWER HEREBY (i) SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE FEDERAL COURTS OF THE UNITED STATES SITTING IN THE COUNTY OF NEW YORK, STATE OF NEW YORK, FOR THE PURPOSE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, (ii) AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH COURTS, OR AT THE SOLE OPTION OF COLLATERAL

AGENT, IN ANY OTHER COURT IN WHICH COLLATERAL AGENT SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY, (iii) IRREVOCABLY WAIVES (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY OBJECTION WHICH IT NOW OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY OF THE FOREGOING COURTS, AND ANY OBJECTION ON THE GROUND THAT ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND (iv) AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PERMITTED BY LAW.

**SECTION 22. Entire Agreement; Amendments and Waivers.**

(a) Entire Agreement. This Agreement constitutes the entire agreement of each of the Loan Party, Collateral Agent and Secured Parties with respect to the matters set forth herein and supersedes any prior agreements, commitments, drafts, communications, discussions, and understandings, oral or written, with respect thereto.

(b) Amendments and Waivers. No amendment to any provision of this Agreement shall in any event be effective unless the same shall be in writing and signed by each of the Loan Parties and Collateral Agent; and no waiver of any provision of this Agreement, or consent to any departure by any Loan Party therefrom, shall in any event be effective unless the same shall be in writing and signed by Collateral Agent. Any such amendment, waiver, or consent shall be effective only in the specific instance and for the specific purpose for which given.

**SECTION 23. Conflicts.**

In case of any conflict or inconsistency between any terms of this Agreement, on the one hand, and any documents or instruments in respect of the Subordinated Obligations, on the other hand, then the terms of this Agreement shall control.

**SECTION 24. Severability.**

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under all applicable laws and regulations. If, however, any provision of this Agreement shall be prohibited by or invalid under any such law or regulation in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such law or regulation, or, if for any reason it is not deemed so modified, it shall be ineffective and invalid only to the extent of such prohibition or invalidity without affecting the remaining provisions of this Agreement or the validity or effectiveness of such provision in any other jurisdiction.

**SECTION 25. Interpretation.**

This Agreement is the result of negotiations between, and have been reviewed by the respective counsel to, Loan Parties and the several members of the Secured Parties and is the product of all parties hereto. Accordingly, this Agreement shall not be construed against any of Collateral Agent or Secured Parties merely because of their involvement in the preparation hereof.

**SECTION 26. Counterparts.**

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

**SECTION 27. Termination of Agreement.**

Upon the occurrence of the Infeasible Payment and Performance of All Obligations, this Agreement shall terminate and Collateral Agent, on behalf of the Secured Parties, shall promptly execute and deliver to each Loan Party such documents and instruments as shall be necessary to evidence such termination; provided, however, that the obligations of each Loan Party under Section 16 shall survive such termination.

[Signature pages follow]

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Agreement as of the date first written above.

**PARENT:**

**LSB INDUSTRIES, INC.**

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

**BORROWERS:**

**THERMACLIME, INC.  
CHEROKEE NITROGEN HOLDINGS, INC.,  
NORTHWEST FINANCIAL CORPORATION,  
CHEMEX I CORP.,  
CHEMEX II CORP.,  
CHEROKEE NITROGEN COMPANY,  
CLIMACOOOL CORP.,  
CLIMATECRAFT, INC.,  
CLIMATE MASTER, INC.,  
DSN CORPORATION,  
EL DORADO CHEMICAL COMPANY,  
INTERNATIONAL ENVIRONMENTAL CORPORATION,  
KOAX CORP.,  
LSB CHEMICAL CORP.,  
THE CLIMATE CONTROL GROUP, INC.,  
TRISON CONSTRUCTION, INC.,  
THERMACLIME TECHNOLOGIES, INC.,  
XPEDIAIR, INC.**

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

**[COLLATERAL AGENT:]**

**[BANC OF AMERICA LEASING & CAPITAL LLC,  
as collateral agent on behalf of the Secured Parties]<sup>1</sup>**

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

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<sup>1</sup> Confirm signatory with BofA.

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**EXHIBIT J-1**

November 6, 2007

The Lenders Party to  
the Loan Agreement referred to below

and

Banc of America Leasing & Capital, LLC,  
as Administrative Agent and as Collateral Agent

and

Bank of Utah,  
as Payment Agent

**Re: Term Loan Facility for ThermaClime, Inc., Cherokee Nitrogen Holdings, Inc., Northwest Financial Corporation, Chemex I Corp., Chemex II Corp., Cherokee Nitrogen Company, ClimaCool Corp., ClimateCraft, Inc., Climate Master, Inc., DSN Corporation, El Dorado Chemical Company, International Environmental Corporation, Koax Corp., LSB Chemical Corp., The Climate Control Group, Inc., Trison Construction, Inc., ThermaClime Technologies, Inc., and XpediAir, Inc. and guaranteed by LSB Industries, Inc.**

Ladies and Gentlemen:

I am general counsel to LSB Industries, Inc., a Delaware corporation (the "**Parent**"), ThermaClime, Inc., an Oklahoma corporation ("**ThermaClime**"), Cherokee Nitrogen Holdings, Inc., an Oklahoma corporation ("**Cherokee**"), Northwest Financial Corporation, an Oklahoma corporation ("**NFC**"), Chemex I Corp., an Oklahoma corporation ("**Chemex I**"), Chemex II Corp., an Oklahoma corporation ("**Chemex II**"), Cherokee Nitrogen Company, an Oklahoma corporation ("**CNC**"), ClimaCool Corp., an Oklahoma corporation ("**ClimaCool**"), ClimateCraft, Inc., an Oklahoma corporation ("**ClimateCraft**"), Climate Master, Inc., a Delaware corporation ("**Climate Master**"), DSN Corporation, an Oklahoma corporation ("**DSN**"), El Dorado Chemical Company, an Oklahoma corporation ("**El Dorado**"), International Environmental Corporation, an Oklahoma corporation ("**IEC**"), Koax Corp., an Oklahoma corporation ("**Koax**"), LSB Chemical Corp., an Oklahoma corporation ("**LSB Chemical**"), The Climate Control Group, Inc., an Oklahoma corporation ("**TCCG**"), Trison Construction, Inc., an Oklahoma corporation ("**Trison**"), ThermaClime Technologies, Inc., an Oklahoma corporation ("**TTI**"), and XpediAir, Inc., an Oklahoma corporation ("**XpediAir**") and, together with ThermaClime, Cherokee, NFC, Chemex I, Chemex II, CNC, ClimaCool, ClimateCraft, Climate Master, DSN, El Dorado, IEC, Koax, LSB Chemical, TCCG, Trison and TTI, collectively, the "**Borrowers**", and each, a "**Borrower**", in connection with the term loan facility established by that certain Term Loan Agreement, dated as of November 2, 2007 (the "**Loan Agreement**"), by and among the Borrowers, Banc of America Leasing & Capital, LLC ("**BALC**"), in its capacity

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as administrative agent (the "**Administrative Agent**") and as collateral agent (the "**Collateral Agent**"), Bank of Utah, in its capacity as payment agent (the "**Payment Agent**"), and the Lenders from time to time party thereto (together with their successors and assigns, the "**Lenders**") and other Transaction Documents (as that term is hereafter defined). This opinion is being furnished to you pursuant to Section 4.01(a) (vii) of the Loan Agreement.

Capitalized terms used but not defined herein shall have the meaning given thereto in the Loan Agreement and, if not defined therein, in the related Transaction Documents (as hereinafter defined). The Parent and the Borrowers are each referred to herein as a "**Loan Party**" and are collectively referred to herein as the "**Loan Parties**". References herein to the "**UCC**" are to the Uniform Commercial Code as in effect in the state referenced in connection therewith, or if no such reference is made, as is in effect in the appropriate state as the context requires.

**I. MY REVIEW**

I have made such legal and factual examinations as I have deemed necessary or advisable for the purposes of rendering the opinions expressed herein, including the examination and review of the following documents and instruments, each dated as of November 2, 2007, unless otherwise indicated (the following documents and instruments listed at clauses (a)-(bb) are collectively referred to herein as the "**Transaction Documents**"):

- (a) the Loan Agreement;
  - (b) the Term Notes;
  - (c) the Guaranty;
  - (d) the Security Agreement;
  - (e) the Cherokee Mortgage;
  - (f) the El Dorado Mortgage;
  - (g) the Fee Letters;
  - (h) the Intercompany Loan Subordination Agreement;
  - (i) the Intercompany Lease Subordination Agreement;
  - (j) the Inter-Lender Agreement;
  - (k) the Management Agreement Subordination;
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- (l) the Trademark Security Agreement;
  - (m) Nelson Brothers, Airgas, Austin Powder, Isbell Farms Lease Assignments;
  - (n) Koch, Interconn, Watco, Air Liquide Consents to Assignment;
  - (o) the UCC-1 financing statements naming El Dorado, DSN, NFC, CNC and Cherokee (collectively, the "**Grantors**"), as debtor and the Collateral Agent as secured party (collectively, the "**Oklahoma Financing Statements**"), in the form set forth on Exhibit A hereto, to be filed in the Office of the County Clerk of Oklahoma County (the "**OK County Clerk**");
  - (p) the UCC-3 financing statements with respect to Orix Capital Markets, LLC, in the forms set forth on Exhibit B hereto (the "**Orix Release Documents**"), to be filed with the OK County Clerk;
  - (q) the UCC-3 financing statements with respect to Wells Fargo Foothill, Inc., to be filed with the OK County Clerk and the releases of the Security Interests in the Trademarks to be filed with the USPTO, in the forms set forth on Exhibit C hereto (the "**WFF Release Documents**");
  - (r) the Organizational Documents of each of the Loan Parties, as amended and in effect on the date hereof;
  - (s) the minute books of the Loan Parties, and unanimous written consents of the Board of Directors of the Loan Parties dated October 19, 2007;
  - (t) (i) a certificate from the Secretary of State of the State of Delaware ("**Delaware SOS**") dated October 22, 2007 with respect to the existence and good standing of the Parent in the State of Delaware, and (ii) a certificate from the Secretary of State of the State of Oklahoma ("**Oklahoma SOS**") dated October 22, 2007 with respect to the existence and good standing of the Parent and Parent's qualification to do business in the State of Oklahoma;
  - (u) (i) a certificate from the Delaware SOS dated October 22, 2007 with respect to the existence and good standing of Climate Master in the State of Delaware, and (ii) a certificate from the Oklahoma SOS dated October 22, 2007 with respect to the existence and good standing of Climate Master and Climate Master's qualification to do business in the State of Oklahoma;
  - (v) certificates from the Oklahoma SOS dated October 22, 2007 with respect to the existence and good standing of each Borrower, other than Climate Master, in the State of Oklahoma;
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- (w) a certificate from the Alabama SOS dated October 22, 2007 with respect to the good standing of Cherokee in the State of Alabama and Cherokee's qualification to do business in the State of Alabama;
- (x) a certificate from the Alabama SOS dated October 22, 2007 with respect to the good standing of CNC in the State of Alabama and CNC's qualification to do business in the State of Alabama;
- (y) a certificate from the Arkansas SOS dated October 22, 2007 with respect to the good standing of NFC in the State of Arkansas and NFC's qualification to do business in the State of Arkansas;
- (z) a certificate from the Arkansas SOS dated October 22, 2007 with respect to the good standing of El Dorado in the State of Arkansas and El Dorado's qualification to do business in the State of Arkansas;
- (aa) a certificate from the Arkansas SOS dated October 22, 2007 with respect to the good standing of DSN in the State of Arkansas and DSN's qualification to do business in the State of Arkansas; and
- (bb) Amended and Restated Loan and Security Agreement, by and among Parent as guarantor, ThermaClime and each of its subsidiaries that are signatories thereto as borrowers, the lenders that are signatories thereto and Wells Fargo Foothill, Inc. as the arranger and administrative agent.

I have also reviewed such other documents, certificates, corporate and other records as I have deemed necessary or appropriate as a basis for the opinion set forth herein.

Any reference to any of the instruments or documents identified above includes all schedules, exhibits, and annexes thereto, if any.

## **II. OPINIONS**

Based on the foregoing and subject to the assumptions and qualifications set forth below, I am of the opinion that:

1. The Parent is validly existing as a corporation in good standing under the laws of the State of Delaware, and has the corporate power and authority, and holds all requisite governmental license, permits and other approvals (other than such licenses, permits or approvals the absence of which would not result in a Material Adverse Effect), to own and lease its properties and to carry on its business as presently conducted and as presently proposed to be conducted. Except for Climate Master, each Borrower is validly existing as a corporation in
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good standing under the laws of the State of Oklahoma and has the corporate power and authority, and holds all requisite governmental license, permits and other approvals (other than such licenses, permits or approvals the absence of which would not result in a Material Adverse Effect), to own and lease its properties and to carry on its business as presently conducted and as presently proposed to be conducted. Climate Master is validly existing as a corporation in good standing under the laws of the State of Delaware and has the corporate power and authority, and holds all requisite governmental license, permits and other approvals (other than such licenses, permits or approvals the absence of which would not result in a Material Adverse Effect), to own and lease its properties and to carry on its business as presently conducted. Each of the Borrowers is a wholly-owned subsidiary of the Parent.

2. Each of the Parent and Climate Master is in good standing as a foreign corporation under the laws of the State of Oklahoma and in each other jurisdiction where it is required to qualify to do business other than where the failure to so qualify would have a Material Adverse Effect. Each of Cherokee and CNC is in good standing as a foreign corporation under the laws of the State of Alabama and in each other jurisdiction where it is required to qualify to do business other than where the failure to so qualify would have a Material Adverse Effect. Each of El Dorado, DSN and NFC is in good standing as a foreign corporation under the laws of the State of Arkansas and in each other jurisdiction where it is required to qualify to do business other than where the failure to so qualify would have a Material Adverse Effect. Each of the other Borrowers is in good-standing as a foreign corporation in each jurisdiction where it is required to qualify to do business other than where the failure to so qualify would have a Material Adverse Effect

3. Each of the Loan Parties has the corporate power and authority to execute, deliver, and perform its obligations under the Transaction Documents to which it is a party and the execution and delivery by each of the Loan Parties of the Transaction Documents to which each such Loan Party is a party and the performance by each such Loan Party of its obligations thereunder have been duly authorized by all necessary corporate action on the part of each such Loan Party.

4. Each of the Transaction Documents has been duly executed and delivered by each Loan Party that is a party thereto.

5. Each of the Transaction Documents constitute legal, valid and binding obligations of each Loan Party that is a party thereto, enforceable against each such Loan Party in accordance with its terms.

6. The execution and delivery by each Loan Party of the Transaction Documents to which each such Loan Party is a party and the performance by such Loan Party of its obligations thereunder will not: (i) violate any provision of such Loan Party's respective Organizational

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Documents; (ii) violate any Applicable Law (as defined below); (iii) violate any order, judgment, or decree of any domestic court or other agency of domestic government that is binding upon any such Loan Party or the assets of such Loan Party; (iv) constitute a default under any terms, conditions, or provisions of any of the agreements described on the Schedules to the Loan Agreement or, any other material agreement or instrument to which such Loan Party is a party or to which such Loan Party or its assets is bound which breach or defect would have a Material Adverse Effect; or (v) result in the creation of any Lien upon such Borrower's property, other than in favor of the Collateral Agent and the Lenders as contemplated by the Loan Documents.

7. No registration, authorization, filing with, consent, approval, withholding of objection of, notice to, or other action by, any governmental entity is required under any Applicable Law in connection with the execution, delivery, or performance by any Loan Party of the Transaction Documents to which such Loan Party is a party and the consummation of the transactions contemplated thereby (other than such registration, authorization, filing, consent, approval, withholding of objection, notice, or other actions that have been completed or obtained (as applicable) prior to the date hereof and except for the filing of financing statements listed in Schedule 4.01(a)(iii) to the Loan Agreement). Parent is required to disclose the Term Loan Facility in its Securities and Exchange Commission filings.

8. Except as set forth on the Schedules to the Loan Agreement, there is no action, suit, or proceeding before, or instituted by, any court or governmental agency or body, domestic or foreign now pending or to my knowledge filed but not yet served or threatened against any Loan Party: (i) asserting the invalidity of any of the Transaction Documents; (ii) seeking to prevent the consummation of any of the transactions contemplated by the Transaction Documents; or (iii) seeking any determination or ruling that could reasonably be expected to, if adversely determined, have a Material Adverse Effect.

9. None of the Administrative Agent, the Collateral Agent, the Payment Agent or any of the Lenders is required under the laws of the State to qualify as a foreign corporation or otherwise qualify in the State to file a designation for service of process or similar type of filing in the State solely as a result of its execution, delivery and performance of the Loan Documents to which it is a party.

10. The provisions of the Security Agreement are effective to create in favor of the Collateral Agent, for the benefit of the Lenders, a valid security interest under Article 9 of the UCC in all right, title, and interest of the Grantors in the Collateral (as defined in the Security Agreement) in which a security interest may be created under Article 9 of the UCC (the "**UCC Collateral**").

11. The provisions of the Trademark Security Agreement are effective to create in favor of the Collateral Agent, for the benefit of the Lenders, a valid security interest in all right, title, and interest of the Loan Parties in the Trademark Collateral as defined in the Trademark

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Security Agreement (the “**Trademark Collateral**”). The Trademark Security Agreement when filed with the United States Patent and Trademark Office (the “**USPTO**”) will have been filed in all public offices in which such filing is necessary to perfect the interests of the Secured Parties in the Trademark Collateral described therein to the extent the same can be perfected by filing with the USPTO.

12. The Oklahoma Financing Statements, the forms of which are attached hereto as Exhibit A, are in form sufficient under the laws of the State for filing in Oklahoma, and when filed with the OK County Clerk will have been filed in all public offices in the State in which such filing is necessary to perfect the interests of the Secured Parties in the UCC Collateral described therein to the extent a security interest in the UCC Collateral may be perfected by the filing of a UCC-1 Financing Statement.

13. Upon the filing of the Orix Release Documents, all of Orix’s liens as reflected in the Orix loan documents or the lien searches with respect to the Collateral, other than real property and fixtures, shall have been terminated or released.

14. Upon the filing of the WFF Release Documents, all of Foothill’s liens as reflected in the Foothill loan documents or the lien searches with respect to the Collateral, other than real property and fixtures, shall have been terminated or released.

15. Assuming the perfection of the security interests in the manner set forth in the preceding Paragraph 12, no other recordation or filing need be made, and no other action need be taken, in order to perfect the Collateral Agent’s and the Lenders’ security interest in the UCC Collateral.

16. Except for the filings and recordings described above, no approval, consent, or withholding of objection on the part of, or filing or registration with, any Governmental Authority is required to be made or taken in the State to establish, protect and preserve title to, interests in, liens on and security interests in the Collateral as contemplated by the Loan Documents, except for UCC continuation statements.

17. Except for nominal filing or recording fees payable at the time of filing or recording of the Oklahoma Financing Statements, the Orix Release Documents and the WFF Release Documents, no taxes (other than state and federal income tax paid on interest or fees accruing on the Loan), fees or other charges imposed by the State, county or any other local governmental entity are payable by the Administrative Agent, the Collateral Agent, the Payment Agent or the Lenders solely as a result of the execution, delivery, recordation or filing (where applicable) of the Loan Documents and all other instruments delivered in connection with the transactions contemplated thereby.

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18. (a) Attached hereto as Exhibit D-[ ] is a copy of the UCC search report summary that was obtained by [ ] from the State of Oklahoma with respect to Borrowers (the " Report"). The Report identifies no still effective financing statement covering any of the Collateral naming the Borrowers, as debtor filed in the UCC filing offices for the State of [ ] prior to [ ], 2007 at [ ][a.m./p.m.].

(b) [Please provide same opinion with respect to each jurisdiction where search conducted.]

19. The description of the UCC Collateral (except for tort claims arising after the date of this opinion) contained in the Oklahoma Financing Statement is legally sufficient under the laws of the State of Oklahoma for the purpose of subjecting such collateral to the lien of the Collateral Agent and the Lenders.

20. The provisions in the Loan Documents concerning interest, late fees, prepayment premiums, default rate of interest and other charges, including the methods of calculation and payment thereof, are not usurious under, or otherwise violative of, the laws of the State.

21. The express choice of law of the State of New York to govern the Loan Documents (excluding all of the real estate security documents listed in Schedule 4.01(a)(iii)) is enforceable and will be recognized by the courts in the State. Notwithstanding the foregoing, if any such court did not give effect to such choice of laws provisions and held that the laws of the State governed the Loan Documents, each such Loan Document would constitute the valid, binding and enforceable obligation of the parties thereto (subject to the limitations set forth in clause (a) in section III herein).

22. A decision by a New York court to grant a money judgment would be respected by a state or federal court in the State.

23. The laws of the State does not require a lienholder to make an election of remedies where such lienholder holds security interests and liens on both the real and the personal property of a debtor or to take recourse first or solely against or otherwise exhaust its remedies against its collateral before otherwise proceeding to enforce against such debtor the obligations of such debtor.

24. None of the Loan Parties is: (a) a public utility company within the meaning of the Public Utility Holding Company Act of 1935, as amended; (b) subject to current regulation thereunder; or (c) an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, subject to current regulation thereunder, or subject to any federal or state regulation limiting its ability to incur indebtedness for borrowed money or encumber its real or personal property assets.

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### III. ASSUMPTIONS AND QUALIFICATIONS

The opinions expressed in Section II above are subject to the following assumptions and qualifications:

(a) The opinion set forth in Paragraph 5 of Section II above are subject to, and may be limited by: (i) bankruptcy, insolvency, reorganization, moratorium, rearrangement, liquidation, conservatorship, fraudulent conveyance, and other similar laws (including court decisions) now or hereafter in effect relating to or affecting the rights of creditors generally; (ii) general principles of equity (including without limitation, concepts of materiality, reasonableness, good faith and fair dealing, and the award of injunctive relief or other equitable remedies being in the discretion of the court to which application for such relief is made), regardless of whether enforceability of the applicable agreements is considered in a proceeding in equity or at law; and (iii) as they relate to certain remedial or procedural provisions of the applicable agreements, applicable federal and state laws (including court decisions, and including any delays in the enforcement of any such remedial provisions which may result therefrom), but such laws and court decisions do not, in my opinion, subject to the matters referred to in the preceding clauses (i) and (ii) interfere with the practical realization of the benefits purported to be provided by the remedial and procedural provisions of the applicable agreements.

(b) I have assumed that: (i) each document submitted to me for review is accurate and complete, each such document that is an original is authentic, each such document that is a copy conforms to an authentic original, all signatories to such documents (other than the Loan Parties) have been duly authorized, and all signatures on each document (other than the Loan Parties) are genuine; (ii) there has not been any mutual mistake of fact or misunderstanding, fraud, duress, or undue influence; (iii) the conduct of the parties has complied with any requirement of good faith, fair dealing, and conscionability; and (iv) except with respect to the Transaction Documents, there are no agreements or understandings among the parties, written or oral, and there is no usage of trade or course of prior dealing among the parties that would, in either case, define, supplement, or qualify the terms of any of the agreements or documentation on which I have opined.

(c) With respect to the opinion set forth in Paragraph 5 of Section II above other than with respect to the Loan Parties, I have assumed that each of the other parties to the Transaction Documents is duly organized and validly existing under the laws of the jurisdiction of its organization, with all requisite power and authority to enter into and perform its respective obligations under the Transaction Documents to which it is a party. In each case, with respect to the opinion set forth in Paragraph 5 of Section II above other than with respect to the Loan Parties, I have assumed that each of the Transaction Documents: (i) constitutes the legal, valid, and binding agreement of each other party

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thereto, enforceable against each such other party thereto (subject to the qualifications set forth in paragraph (a) of this Section III); and (ii) has been duly and validly authorized, executed, and delivered by each other party thereto.

(d) With respect to the opinions set forth in Paragraphs 12 and 13 of Section II above, further filings under the UCC may be necessary to preserve and maintain (to the extent established and perfected by the filing of a financing statement as described herein), the perfection of the security interests of the Collateral Agent and the Lenders in the UCC Collateral, as follows:

- (1) appropriate continuation filings to be made within the period of six months prior to the expiration of the five year anniversary date from the date of the original filing of the applicable financing statement;
- (2) filings required to be made within four months of the change of name, identity, or corporate structure of the debtor to the extent set forth in Sections 9-507 and 9-508 of the UCC;
- (3) filings required to be made within four months after the respective debtor changes its location, to the extent set forth in Section 9-316 of the UCC; and
- (4) filings required within one year after the transfer of collateral to a Person that becomes a debtor and is located in another jurisdiction, to the extent set forth in Section 9-316 of the UCC.

(e) With regard to the opinions expressed herein, I express no opinion:

- (i) As to any federal securities or state blue sky laws, rules or regulations;
  - (ii) As to the enforceability of provisions in any of the Transaction Documents relating to waiver of rights to trial by jury;
  - (iii) The enforceability of any provisions which purport to restrict, limit or prevent access to legal or equitable remedies, which purport to waive any rights to notices or any other legal rights, or which purport to establish evidentiary standards;
  - (iv) The enforceability of any provisions relating to delay or omissions of the enforcement of rights or remedies, waiver or ratification of future acts, consent judgments, or marshalling of assets;
  - (v) Any federal or state environmental laws;
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- (vi) The creation or perfection of any security interest or lien in and to (A) any real property (or fixtures located thereon), (B) "farm products" (as defined in the UCC), (C) "timber", "as-extracted collateral" (as described in UCC Section 9501(a)(1)), or (D) other than as stated herein, intellectual property; provided, however, to my knowledge, the Collateral does not include any farm products or timber;
- (vii) As to the solvency of the Parent or the Borrowers, individually or on a consolidated basis; or
- (viii) As to any other matters not covered by the opinions set forth above in this letter.

(f) The phrase "to my knowledge" means actual knowledge.

(g) Provisions of the Transaction Documents which purport to indemnify any party against or release any party from, liability for any acts that are unenforceable to the extent such acts are determined to be unlawful, negligent, reckless or constitute willful misconduct.

(h) Without limitation of the opinion provided in Paragraph 20 in Section II above, the provisions at Section 11.09 of the Loan Agreement purporting to exculpate any party from any violation of usuary laws by the *ipso facto* reduction of interest in excess of the maximum rate, and/or the application of such excess interest to principal or return thereof to the Borrowers are unenforceable based on *Oklahoma Preferred Finance & Loan Corporation v. Morrow*, 497 P.2d 221 (1972).

(i) As to enforceability of that portion of the Transaction Documents that provide if any provisions of the Transaction Documents are determined to be illegal, invalid or unenforceable, the remaining provisions remains in full force and effect where any such provision is an essential part of the Transaction Documents, and the parties would not have entered into the documents absent such provision.

(j) The enforceability of the Transaction Documents is subject to the effect of principles of law regarding course of dealing and performed oral modification to the Transaction Documents.

(k) "State" means the State of Oklahoma. "Applicable Laws" means those laws, rules, and regulations of the United States, the State of Oklahoma and the corporate laws of the State of Delaware.

(l) I express no opinion as to the laws of any jurisdiction other than the laws, rules and regulations of the United States, the State of Oklahoma and the corporate law of Delaware.

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**IV. CONCLUSION**

Except as set forth in the following sentence, this opinion is being furnished solely for the benefit of you and your successors and assigns, and your and their respective counsel, in connection with the transactions contemplated by the Loan Documents. The Administrative Agent and the Collateral Agent, and their respective successors and assigns and each Lender (whether a party to the Loan Agreement on the date hereof or becoming a party in the future) may rely on this opinion to the same extent as if it were addressed and delivered to such person on the date hereof. No other use of this opinion may be made without our approval.

Respectfully submitted,

David M. Shear  
Senior Vice President and General Counsel

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**EXHIBIT A**

Form of Oklahoma Financing Statements

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**EXHIBIT B**

Form of Orix Filings

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**EXHIBIT C**

Form of Foothill Filings

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**EXHIBIT D-[ ]**

[ ] Report

See attached.

[Please make cover sheet for each report.]

November \_\_, 2007

Banc of America Leasing & Capital, LLC  
Bank of America  
MA5-100-32-01  
100 Federal St.  
Boston, MA 02110  
Attn.: Annemarie L. Warren, VP  
Group Operations Manager

The Lenders listed on Schedule 1.01(d) of the Term Loan Agreement

**Re: Term Loan Agreement (the "Loan Agreement"), dated as of November 2, 2007, by and among the Borrowers, Parent, Banc of America Leasing & Capital, LLC, as administrative agent ("Administrative Agent"), Banc of America Leasing & Capital, LLC, as collateral agent ("Collateral Agent", and together with Administrative Agent, the "Agents"), and the various financial institutions and other institutional investors which are parties thereto from time to time, as Lenders (collectively, the "Lenders", and together with the Administrative Agent and Collateral Agent, the "Lender Parties").**

Ladies and Gentlemen:

We are special counsel to the Agents in the State of Alabama (the "State") in connection with the negotiation, execution and delivery of the Loan Agreement among Borrowers, Parent, the Agents and the Lenders listed on Schedule 1.01(d) thereof, and the other Loan Documents to be executed or delivered to the Agents or such Lenders by one or more of the Loan Parties, and the term loan facility made available thereunder (the "Loan"). This opinion is being furnished to you pursuant to Section 4.01(a)(viii) of the Loan Agreement. Unless the context shall otherwise require, capitalized terms used and not defined herein shall have the meanings assigned thereto in Article I of the Loan Agreement.

In rendering this opinion, we have reviewed unexecuted forms of the following documents (collectively, the "Documents"):

1. The Loan Agreement;

2. Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (the "Alabama Mortgage") from Cherokee Nitrogen Holdings, Inc., an Oklahoma corporation (the "Alabama Mortgagor"), as mortgagor, to the Collateral Agent, as mortgagee, encumbering certain real and personal property in Colbert County, Alabama (the "Property");

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3. Assignment of Leases and Rents and Subordination Agreement from Cherokee Nitrogen Holdings, Inc., as assignor, and Cherokee Nitrogen Company, as lessee (the "Cherokee Lease Assignment"); and
4. Assignment of Leases and Rents, Subordination [AND NONDISTURBANCE] Agreement from Cherokee Nitrogen Holdings, Inc., as assignor, and Airgas Specialty Products, Inc., as lessee; Assignment of Leases and Rents, Subordination [AND NONDISTURBANCE] Agreement from Cherokee Nitrogen Holdings, Inc., as assignor, and Nelson Brothers, LLC, as lessee; Assignment of Leases and Rents, Subordination [AND NONDISTURBANCE] Agreement from Cherokee Nitrogen Holdings, Inc., as assignor, and Austin Power Company, as lessee; and Assignment of Leases and Rents, Subordination and Nondisturbance Agreement from Cherokee Nitrogen Holdings, Inc., as assignor, and Isbell Farms, as lessee (collectively, the "Third Party Lease Assignments"), and together with the Cherokee Lease Assignment, the "Lease Assignments"; the Lease Assignments and the Alabama Mortgage sometimes referred to herein as the "Alabama Security Documents"; and
5. Copies of Form UCC-1 Financing Statements made by the Alabama Mortgagor, as debtor, in favor of Collateral Agent, as secured party, to be filed in the land records of Colbert County, Alabama (the "Local Filing") or with the Secretary of State of Oklahoma (the "Central Filing", and collectively with the Local Filing, the "Financing Statements"), as applicable.

In addition, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such other documents and records and have made such examination of law as we have deemed appropriate in order to enable us to render the opinions set forth herein. In conducting such investigation, we have relied, without independent verification, upon certificates of officers of the Lender Parties, public officials and other appropriate persons, and on the representations and warranties as to matters of fact and on the covenants as to the application of proceeds contained in the Loan Documents.

We have not made or undertaken to make any investigation as to factual matters or as to the accuracy or completeness of any representation, warranty, data or any other information, whether written or oral, that may have been made by or on behalf of the parties to the Documents or otherwise (but have no actual knowledge of the inaccuracy or incompleteness of any of the same), and we assume, in giving this opinion, that none of such information, if any, contains any untrue statement of a material fact.

On the basis of the assumptions and subject to the qualifications, exceptions and limitations set forth herein, we are of the opinion that:

1. You have asked our advice regarding whether any Lender is required to qualify to do business as a foreign entity in the State solely by virtue of its execution, delivery and performance of the Loan Documents to which it is a party, the making of the Loan and the recording by an independent third party of the Alabama Mortgage in the Probate Office of Colbert County, Alabama (collectively, the "Limited Alabama Contacts"). As used in this letter,
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being a Lender in connection with the Loan means only the following activities (or any one or *more* of them) conducted nor or in such party's offices and outside of the State: (a) collection of payments made under the Loan Documents, (b) administration of and disbursements of funds and payments under the Loan Documents, (c) providing and receiving written notices to and other communications using the United States mail or other instrumentalities of interstate commerce, (d) collecting and distributing operating and financial information related to the Loan Documents, (e) monitoring of compliance with the terms and conditions of the Loan Documents and (f) being a mortgagee and secured party under the Alabama Mortgage.

Article XII, Section 232, of the Alabama Constitution of 1901 ("Section 232") provides that no foreign corporation shall do any business in the State without having at least one known place of business and an authorized agent or agents therein, and without filing with the Secretary of State of the State a certified copy of its articles of incorporation or association. Under Section 232, limited liability companies most likely would be regarded as corporations.

At least two early Alabama cases indicate that the predecessor to Section 232 independently disallowed a foreign corporation doing business in the State the power to enforce its contracts in the State if it was not qualified in the State at the time the relevant contracts were executed. *See, Farrior v. New England Mortgage Security Co.*, 7 So. 200 (Ala. 1889); *Dudley v. Collier*, 6 So. 304 (Ala. 1888). Alabama Corporate Code Section 10-2B-15.02 provides: "All contracts or agreements made or entered into in this state by foreign corporations prior to obtaining a certificate of authority to transact business in this state shall be held void at the action of the foreign corporation or any person claiming through or under the foreign corporation by virtue of the contract or agreement." If a Lender were deemed to be "doing business" in the State but had not qualified to do business in the State prior to the execution and delivery of the Loan Documents, such party or parties holding interests under it may not be able to enforce the Loan Documents in the State.

In *Vines v. Romar Beach, Inc.*, 670 So. 2d 901 (Ala. 1995), the Alabama Supreme Court reiterated that "nonqualified foreign corporations are 'prohibited from doing a single act of business in this state, if done in the exercise of its corporate function' - - meaning, of course, the exercise of the function or business it was organized to do, and not a purely incidental and preparatory act." *Id.* The *Vines* court concluded that a corporation that is doing business in the State who fails to qualify in the State on or before the date its contracts are executed may be precluded *from* enforcing such contracts in the State.

Because the activities that constitute "doing business" are not specifically defined by the constitution, statutes or cases of the State, a court's "doing business" analysis depends upon the facts of each case and the outcome of any particular case is difficult to predict. You're your permission, in addition to the other assumptions, qualifications and limitations set forth elsewhere in this letter, we have assumed the following in rendering the opinion expressed herein: (1) the Lenders have ongoing business activities unrelated to the Loan; (2) the Lenders do not have any offices, agents (other than the Collateral Agent acting as collateral agent), employees, properties or assets in the State have not conducted any solicitation or inducement in

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the State with respect to the transaction and have not, are not and will not be exercising their primary corporate function within the State; (3) none of the Loan Documents have been executed or delivered in the State; (4) the negotiations resulting in the execution and delivery of the Loan Documents occurred outside the State or using means or instrumentalities of interstate commerce, and such negotiations were concluded outside the State; (5) the Loan Documents are to be performed and administered by the Lenders outside of the State; (6) the transactions contemplated by the Loan Documents are to be performed and administered by the Lenders outside the State; (7) the Lenders are not and will not be acting as fiduciary in the State under or in connection with the Loan Documents; (8) loan funds were not and are not to be disbursed in the State; (9) payments under the Loan Documents are to be received and credited outside of the State; (10) none of any Lender's activities in connection with the Loan Documents will occur in the State; and (11) that the Lenders have and had no other contacts with and engaged in no other activities in the State. Thus, based upon the foregoing assumptions and although contrary arguments exist, it is our judgment that the Lenders should not be required to qualify to do business in the State solely by virtue of the Limited Alabama Contacts. However, if the Lenders intend to engage in other activities in the State, including, without limitation, activities constituting performance or enforcement of the Loan Documents in the State or relating to the operation, management, sale or other disposition of any of the collateral or property covered by the Loan Documents as a result of foreclosure, the exercise of any pre-foreclosure remedy or otherwise, the Lenders should obtain further advice regarding requirements for qualification to do business as a foreign entity in the State.

Further, you have asked our advice as to whether one Lender's engaging in other activities in the State in addition to the Limited Alabama Contacts which would require that Lender to qualify to do business in the State, without first qualifying to do business as a foreign entity in the State, would preclude the Collateral Agent from enforcing the Loan Documents and foreclosing the Alabama Mortgage for and to the extent of the other Lenders' interests. Based upon the foregoing, subject to the facts, assumptions and qualifications stated herein, and recognizing that we have found no reported State decision on this question, we believe that in a properly presented and argued case a court should conclude that one Lender's transacting business in the State without first qualifying where required to do so will not preclude enforcement of the Loan Documents by the Collateral Agent for the other Lenders, to the extent of such other Lenders' interests, under State law.

2. To the extent that the law of the State is applicable, each of the Alabama Security Documents constitutes the valid and binding obligations of the applicable Loan Parties, enforceable by the Collateral Agent against such Loan Parties in accordance with their respective terms. This opinion Paragraph 2 as to enforceability of the Alabama Security Documents is also subject to the qualification that certain provisions contained in the Alabama Security Documents may not be enforceable, but such unenforceability will not render the Alabama Security Documents invalid as a whole or preclude (x) judicial enforcement of repayment, (y) acceleration of the Loan, or (z) foreclosure, in accordance with the procedures prescribed by applicable law, of the applicable Lender Parties' rights, title and interests in and to the real property and fixture

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collateral, in the event of a material breach of a payment obligation or other material provisions of the Alabama Security Documents. The opinions expressed in this opinion Paragraph are governed by, and shall be interpreted in accordance with, the ACREL Statement of Policy on Mortgage Loan Enforceability Opinions (12/91).

3. (a) The Alabama Mortgage and the Lease Assignments (including the acknowledgments attached thereto) are in sufficient form for recording in the State pursuant to all generally applicable laws thereof, including all generally applicable recording, filing and registration statutes and regulations, and except as set forth hereinafter, no other or further or subsequent filing, re-filing, recording, or re-recording in the State of the Alabama Mortgage or any other instrument will be necessary to continue the perfection of the liens, mortgages and security interests created thereby. Other rules may apply in the event insolvency or bankruptcy proceedings are commenced by or against the debtor listed in the Alabama Mortgage. We call to your attention that Section 35-10-20 of the Code of Alabama provides that as to third parties without actual notice or knowledge to the contrary, the indebtedness secured by a mortgage covering real estate twenty years past due according to the original maturity date or some new date fixed by a duly recorded extension agreement, or, if the maturity date cannot be determined therefrom, then from the date of the mortgage, shall be conclusively presumed to have been paid.

(b) The form of the Alabama Mortgage (including but not limited to the description of the land attached hereto as Exhibit A, assuming its correctness and completeness) is sufficient to create (i) a valid mortgage lien on that portion of the mortgaged property thereunder which constitutes real property and (ii) a valid security interest on that portion of the mortgaged property thereunder which constitutes timber to be cut, as-extracted collateral, or fixtures located or to be located on such real property (all such real property, fixture and personal property collateral for the Alabama Mortgage referred to herein collectively as the "Collateral"), in each case of clauses (i) and (ii) above as security for the Secured Obligations (as defined in the Alabama Mortgage).

(c) Upon the due recording and proper indexing of the Alabama Mortgage in the land records (the "Land Records") of the Office of the Judge of Probate of Colbert County, Alabama (the "Recording Office"), the Alabama Mortgage will provide constructive notice of the mortgage in favor of the Collateral Agent, as security for the Secured Obligations, in that portion of the mortgaged property referred to therein which constitutes real property located in the State and the Collateral Agent will have a valid and perfected security interest in the fixtures described therein.

4. The State has no existing statute of general application which denies to a real estate mortgagee any otherwise existing right to seek a judgment against the mortgagor for any remaining legally enforceable indebtedness owed by the mortgagor to the real estate mortgagee, after application to the outstanding indebtedness of the proceeds of, or credit resulting from, any foreclosure of the mortgage and sale of the mortgaged property conducted in accordance with applicable law. In addition, in the absence of special circumstances and any agreement to the

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contrary, a mortgagee may sue for collection of the secured indebtedness and foreclose the mortgage in whatever order the mortgagee chooses. Further, Section 7-9A-604(a) of the Uniform Commercial Code of the State (the "Alabama UCC") provides that where a security agreement covers both real and personal property, the secured party may proceed as to both the real and the personal property in accordance with the secured party's rights and remedies in respect of the real property. Section 7-9A-604 does not address, and we express no opinion with respect to, whether a secured party may proceed against real estate and later proceed in a separate action against personal property.

5. The Financing Statements are in appropriate form for filing with the Recording Office and the Secretary of State of Oklahoma, as applicable, and upon filing will perfect, in favor of the Collateral Agent, a lien or liens upon the collateral described in each of the Financing Statements to the extent such lien or liens can be perfected by filing in the States of Alabama and Oklahoma in such offices, as applicable. We call to your attention to the fact that UCC Continuation Statements complying with the Alabama UCC and the Uniform Commercial Code of Oklahoma as now in effect, applicable, must be filed within the six (6) month period prior to the expiration of the five (5) year period dating from the date of the original filing of the Financing Statements and within the six (6) month period prior to the expiration of each subsequent five (5) year period after the date of the original filing of the Financing Statements. Other rules may apply in the event insolvency proceedings are commenced by or against the Loan Parties or any other debtor listed in the Financing Statements.

6. Neither the execution and delivery of the Loan Documents, nor the fulfillment of or the compliance with the provisions thereof, by Administrative Agent, Collateral Agent or the Lenders, will result in a violation of, or contravenes any law of the State known to us to be presently effective having applicability.

7. Except for the October 31, 2007 Mortgage Tax Order obtained from the Alabama Department of Revenue, and the recordation or filing of the Alabama Security Documents and the Local Filing in the Recording Office, no approval or other authorization of, or registration with, any court or governmental agency, commission or other authority of the State or any subdivision thereof is required for the due execution, delivery, filing, recordation and enforcement in the State of the Alabama Security Documents and the Local Filing, except for UCC continuation statements.

8. Assuming the Local Filing and the Lease Assignments are filed or recorded (as applicable) simultaneously with the Alabama Mortgage as additional security for the indebtedness secured thereby, the only taxes and governmental fees and charges payable in the State in connection with the execution, delivery and recording of the Alabama Mortgage and Lease Assignments in the State or the execution, delivery or filing of the Local Filing in the State are nominal filing or recording fees payable at the time of filing or recording of the Alabama Mortgage, the Lease Assignments and the Local Filing, and the mortgage recording privilege tax for the Alabama Mortgage. Section 40-22-2 of the Code of Alabama imposes a privilege tax in an amount equal to \$0.15 per \$100 (or fraction thereof) of the indebtedness secured by mortgages

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and other financing instruments which are recorded in Land Records of the Recording Office. In order to avoid duplication of recording taxes, the Lease Assignments and Local Filing should: (i) contain a statement substantially as follows: "This instrument is filed as additional security for a mortgage recorded simultaneously herewith upon which the mortgage recording tax has been paid"; and (ii) be filed in the Recording Office at the same time as the Alabama Mortgage is filed in such office. No taxes are, under the generally applicable law of the State, required to be withheld or otherwise deducted from any amounts payable to the Lender Parties under the Loan Documents. Except as set forth in this opinion Paragraph 8, we express no opinion as to whether any taxes may or may not be due as a result of the transaction contemplated by the Loan Documents.

9. If the internal laws of the State were applicable thereto, the rates of interest under the Loan Documents would be governed by Section 8-8-5 of the Code of Alabama, which permits the parties to agree upon the interest rate to be charged (subject to principles of unconscionability and to the extent not deemed a penalty) for loans of \$2,000 or more. Other than Section 8-8-5, no statute of the State establishes any usury limits applicable to the Loan Documents. The rates of interest to be charged and paid by the Borrowers under the Loan Documents are not usurious under State law.

10. Although State and federal courts exercise broad discretion in conflicts of law matters, if properly presented with the issue, a State court or a federal court in the State applying Alabama choice of law rules should enforce provisions of the Loan Documents designating New York law as the applicable or governing law for such documents except (i) to the extent the application of New York law would (a) contravene the public policy of the State; provided, subject to all assumptions, qualifications and exceptions set forth in this opinion, we know of no such public policy of State which would be so contravened or (b) be inconsistent with Section 301(c) of the Alabama UCC, and (ii) we express no opinion with respect to which jurisdiction's laws would govern (a) procedural matters, (b) the maximum amount of interest which may be charged or collected under the Loan Documents, (c) except as set forth in opinion paragraphs 2 and 3 above, the creation, perfection (and the effect of non-perfection) or priority of any mortgages, liens, pledges, assignments and security interests in property or interests in property, (d) except as set forth in opinion paragraphs 2 and 3 above, any foreclosure, sale, appointment of a receiver or other exercise of remedies, or (e) matters relating to the internal affairs of corporations, trusts, limited liability companies, partnerships or similar entities.

11. The State has no generally applicable law requiring any certification or notification to State or local governmental authorities as a result of a sale, conveyance, lease, mortgage of or foreclosure of a mortgage on real property located in the State. We call to your attention that the Collateral Agent will want to record the Alabama Mortgage in the Office of the Judge of Probate of the county in the State where the real property covered by the Alabama Mortgage is located.

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The foregoing opinions are qualified with and subject to the following exceptions:

(i) We express no opinion regarding any provision of any of the Loan Documents which purports (a) to permit any party to sell or otherwise dispose of any collateral subject thereto, or enforce any other remedy thereunder except in compliance with applicable law, or (b) to vary or change by agreement any provision of applicable law which may not, by the terms of applicable law, be varied or changed by agreement.

(ii) We express no opinion with respect to the title or other rights of the Loan Parties or any other person to any collateral or property covered by any of the Loan Documents. Except as set forth in opinion paragraphs 2, 3 and 5 above with respect to the Alabama Mortgage and the Financing Statements, we express no opinion regarding the creation or perfection (or the effect of non-perfection) of any security interest, mortgage, lien, assignment or pledge. Without limiting the foregoing, we express no opinion regarding any security interests arising or deemed to arise under any subordination or similar agreements or the consequences of failing to perfect any such security interests. We express no opinion regarding the priority of any security interest, mortgage, lien, assignment or pledge or regarding continuation of perfection or any manner in which a security interest, mortgage, lien, assignment or pledge or the perfection thereof may be lost, terminated or otherwise affected or the exercise of any rights or remedies which require the approval of or notification to any governmental authority. No opinion is expressed herein regarding any matter relating or pertaining to any security interest or the perfection of any security interest, any conflicting security interest (or the proper place to search for the same), assignment, mortgage, license, lien and/or pledge of, in or with respect to:

(a) any accounts or receivables that are or will be due *from* the United States, *from* any state of the United States, from any agency or department of the United States or of any state or *from* any other government or agency or department thereof;

(b) any property or interests in property excluded *from* Article 9A of the Alabama UCC under the provisions thereof (including, without limitation, Section 7-9A-109 of the Alabama UCC) or otherwise not governed by said Article 9A of the Alabama UCC or with respect to which creation or enforcement is governed by the laws (including the conflict of laws rules) of any state or jurisdiction other than the State (including, without limitation, the United States and/or any foreign country) or the perfection and effect of perfection or non-perfection is governed by the laws (including the conflict of laws rules) of any state or jurisdiction other than the States of Alabama and Oklahoma (including, without limitation, the United States and/or any foreign country);

(c) any property or interests in property including, without limitation, contracts, agreements or other instruments (or of any rights of the Loan Parties, or any other person thereunder) that contain provisions (or are subject to laws or decisions) that prohibit or impose conditions upon the granting of an assignment, security interest, pledge or similar transfer of such property, contracts, agreements or instruments (or the

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Loan Parties' or any other person's rights thereunder), except to the extent, if any, that such provisions are ineffective under Sections 7-9A-406, 7-9A-407, 7-9A-408, or 7-9A-409 of the Alabama UCC (to the extent applicable);

(d) any interest in property which is or will constitute or consist of fixtures, equipment or goods used in farming operations, perishable agricultural commodities or any inventory of food or other products derived therefrom, farm products, accounts or general intangibles arising from or relating to the sale of farm products by a farmer, crops growing or to be grown, sand, gravel, minerals, mining rights or the like (including oil and gas), or accounts resulting from the sale thereof, consumer goods, timber, timber to be cut, insurance policies or any proceeds thereof or rights thereunder, aircraft, vessels, money, cash or cash equivalents, chattel paper, uncertificated securities, documents, instruments, investment property, commercial tort claims, railroad equipment, patents, patent licenses, copyrights, copyright licenses, trademarks, trademark licenses, licenses, trade names, service marks, logos and the like, deposit accounts, beneficial interests in a trust or a decedent's estate, letters of credit, letter of credit rights, supporting obligations, consigned goods, inventory and equipment which are not in the physical possession of the Borrowers [grantor of the relevant security interest] or which are the subject of any documents of title, instruments, accessions, products, or any property which is or is to be installed in or affixed to or become a part of a product or mass with other goods;

- (e) proceeds of collateral except to the extent a continuously perfected security interest in such property exists under Section 7-9A-315 of the Alabama UCC; or
- (f) any collateral transferred, disposed of or consumed in accordance with the terms of the Loan Documents or with the consent of the Lenders;
- (g) any security interest granted by a "broker", "securities intermediary" or "commodities intermediary" in investment property; or
- (h) any property or interest in property acquired or arising after the commencement of a case under the United States Bankruptcy Code.

(iii) Except as set forth in opinion paragraph 3 above with respect to real property, and opinion paragraph 5 above with respect to personal property, we express no opinion regarding which jurisdiction's laws govern the creation, perfection (and effect of perfection or nonperfection) or priority of any mortgages, liens, pledges, assignments and security interests under the Loan Documents or govern any foreclosure, sale, appointment of receiver or other exercise of remedies with respect to any other collateral.

(iv) We express no opinion regarding the perfection of any security interest, mortgage, assignment, lien, pledge or other rights in or with respect to (a) any automobiles, trucks or other motor vehicles or any mobile homes, manufactured homes or trailers, or (b) any other property subject to a certificate of title or other similar registration, recordation, filing or certification

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(other than filing a financing statement under the Alabama UCC or Section 9-501 of the Uniform Commercial Code as currently in effect in Oklahoma).

(v) We express no opinion regarding any security interest that is or purports to be a security interest in a security interest.

(vi) In the ease of any instrument, chattel paper, account or general intangible that is itself secured by other property, we express no opinion with respect to Collateral Agent's or any other person's rights in and to such underlying property.

(vii) We express no opinion regarding the existence, adequacy, payment or receipt of consideration (all of which we assume for purposes of the opinions expressed herein).

(viii) We express no opinion with respect to any provision of any of the Loan Documents constituting or relating to (a) waivers; (b) the availability of "self help" remedies; (c) the occurrence of an event of default upon certain acts of bankruptcy, insolvency or receivership; (d) penalties or forfeitures; (e) unreasonable restraints on alienation or any restrictions rendered ineffective by Alabama UCC Sections 7-9A-404, 7-9A-405, or 7-9A-406; (f) remedies for defaults under the Loan Documents which are determined by a court to arise nor the Loan Parties' or any other person's compliance with applicable law or which are determined by a court to be non-material or without substantial adverse effect upon the rights of any person or the ability of the Loan Parties to perform their material obligation; (g) subrogation; or (h) rights or remedies granted to any person which are in contravention of, or which *modify* such person's standard of care, or the rights of the Loan Parties or any other person to receive notice or any other right prescribed by the Alabama UCC, as adopted and in effect nor time to time, or other applicable law.

(ix) We express no opinion regarding any provision of any of the Loan Documents (a) relating to indemnities, powers of attorney, releases nor liability, exculpation, severability, subordination (except as set forth in opinion paragraphs 2 and 3 above with respect to the Lease Assignments) or setoff, (b) which purports to restrict, or to deny effect to, oral amendments, consents, waivers, releases or similar defenses, (c) which permits, or purports to permit, any person to seek or obtain specific performance or to select or enforce multiple or inconsistent remedies, (d) specifying or indicating that a lender, creditor or other person may apply funds to indebtedness in its discretion or in such order as it may elect or providing for of funds to principal or charges prior to the application thereof to interest, (e) regarding the appointment or powers of, borrowings by or advances to a receiver or the operation of or the exercise of any rights with respect to any collateral prior to default and foreclosure or other disposition in accordance with applicable law, (f) providing for late chargers or an interest rate after a default greater than the rate applicable prior to such *time* or any provision which provides for interest on interest (including past due interest, fees and charges) or interest following judgment, (g) regarding the granting of rights and interests in property not yet in existence or which is not adequately described, (h) purporting to waive or establish trial by jury, venue, jurisdiction or standards for service of process, (i) regarding any consent to relief nor or waiver of the benefits

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of a bankruptcy stay, (j) regarding marshalling of assets, (k) regarding the priority on distribution of any person's assets, (l) which is in the nature of an "agreement to agree", (m) purporting to render assignments or obligations absolute or unconditional, to permit a person to fail to comply with applicable law or to disclaim or restrict liability for actions taken in reliance upon advice of counsel or for negligence or other wrongful acts, (n) except as set forth in opinion paragraph 3(b) above regarding the sufficiency of the description of real estate, regarding the characterization of property as realty or personalty, (o) purporting to incorporate unrecorded documents or the terms thereof into recorded documents or the sufficiency or effect thereof, (p) regarding the effectiveness of the Alabama Mortgage as a financing statement or fixture filing, (q) regarding assumption or allocation of risks, (r) providing for the assignment of permits, licenses or other rights and approvals issued by governmental officials, boards or authorities, (s) except as set forth in opinion Paragraph 10 above, regarding conflict or choice of law, (t) purporting to prevent the merger of estates or interest in real property, (u) purporting to bind or encumber persons and/or the property of persons who are not parties to the Loan Documents, (v) purporting to indemnify or exculpate any party against the consequences of its own negligence, gross negligence, breach of contract, recklessness, willful misconduct, fraud or illegal conduct, (w) except as set forth in opinion Paragraph 9 above, regarding usury or rules of construction, usage or interpretation, (x) regarding a party's right to collect a deficiency judgment except in compliance with applicable law, or (y) as they relate to the effect of course of dealing, course of performance or the like that could modify the terms of an agreement or the respective rights or obligations of the parties under such agreement.

(x) We express no opinion regarding, and our opinions expressed herein are subject to, the "Blue Sky" and securities laws, rules and regulations of the State and of the United States.

(xi) We express no opinion regarding, and our opinions expressed herein are subject to limitations and restrictions contained in the Loan Documents on rights and remedies and the effects thereof, and the applicability and effect of the tax laws, rules and regulations of the State.

(xii) We express no opinion regarding any arbitration, mediation or alternative dispute resolution provisions of any of the Loan Documents.

(xiii) We express no opinion as to the validity or enforceability of any security interests under the Loan Documents as security for any present or future liabilities or obligations that are determined, in the case of liabilities or obligations created in the future, not to constitute "future advances" within the meaning of Section 7-9A-204 of the Alabama UCC, or which are determined not to have been within the contemplation of the parties at the time the Loan Documents were executed, or which are determined not to be of the same character or class as the liabilities and obligations created under the Loan Documents.

(xiv) We express no opinion as to the effect of the terms present in the Loan Documents to the extent that such terms used therein are defined in any other documents, or to the extent that any other document may modify or affect the terms of the Loan Documents.

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(xv) We express no opinion whether an unrecorded document that is incorporated by reference in a recorded document has the effect of according the referenced document the status of a recorded document or providing record notice of the contents of such referenced document; however, we are not aware of any requirement that any of the Loan Documents other than the Alabama Security Documents and the Financing Statements be recorded or filed.

(xvi) We express no opinion as to any provision providing for the payment of interest at the "highest lawful rate" or similar language.

(xvii) The Loan Documents and foregoing opinions are subject to (a) bankruptcy, insolvency, reorganization, fraudulent conveyance, fraudulent transfer, general assignment for the benefit of creditors laws and similar laws of general application affecting the rights and remedies of creditors and secured parties, equitable principles and the discretion of any court before which any proceeding relating thereto may be brought; (b) standards of good faith, conscionability, fair dealing and reasonableness; and (c) the discretion of a court or other body to limit or restrict the enforcement of the Loan Documents, or certain provisions thereof, on the basis of public policy.

(xviii) Except for our opinion in opinion Paragraph 5 above, opinions expressed herein are limited to the generally applicable laws of the State, and, where applicable, federal laws of the United States (with respect to federal laws, our opinion is limited to laws that, in our experience, are normally applicable to transactions of the type contemplated by this opinion letter). Our opinion in opinion Paragraph 5 above with respect to the laws of the State of Oklahoma is based solely upon a review of Sections 9-301, 9-307, 9-308, 9-310, 9-312, 9-501, 9502,9-503,9-504 and 9-509 of the Uniform Commercial Code as currently in effect in such state and excludes review of any official state commentary, state filing office rules, or judicial or administrative decisions interpreting these sections or any other review. We express no opinion as to the laws of any other jurisdiction, including the laws of the United States. We express no opinion as to the laws of any county, municipality or other political subdivision of the State or any other state.

The foregoing opinions are rendered on the basis of and qualified by the following assumptions:

(i) We have assumed, without investigation: (a) the genuineness of all documents, instruments and certificates and the signatures thereon not signed in our presence; (b) that where a document has been examined by us in draft form, it will be or has been executed in the form of that draft, and where a number of drafts of a document have been examined by us all changes thereto have been marked or otherwise drawn to our attention; (c) the authenticity of all documents submitted to us as originals and the conformity with originals of all documents submitted to us as copies; (d) that the representations and warranties of all parties contained in the Loan Documents and all certificates of governmental officials and officers of the Loan Parties are true and correct as to factual matters on the date hereof; (e) the due authorization, execution and delivery of the Loan Documents by the parties thereto and beneficiaries thereof;

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(f) with respect to each of the Loan Documents that designates New York law as the governing law, each of such documents constitutes the valid, legal and binding obligation of the parties thereto enforceable against each such party in accordance with the terms thereof under the laws of such jurisdiction; (g) that the choice of law in the Loan Documents is not for the purpose of evading the usury or similar laws of any jurisdiction; and (h) that, with respect to the Loan Documents and all other documents examined by us in connection with this opinion, all parties have requisite power and authority to enter into and perform all obligations thereunder. To the extent that this opinion relates to or depends upon the legal, valid and binding character of any document as to any party which executed such document, or to the enforceability of any such document by or against any party which executed such document, we have assumed the due authorization, execution and delivery of such document by such party, the legality, validity and binding nature of the document as to such party, the enforceability of such document against such party and that no party to the Loan Documents has taken, will take or has failed or will fail to take any action which could create a defense to the enforcement of the Loan Documents by or against such parties or beneficiaries.

(ii) We have assumed that each of the parties to and each of the beneficiaries of the Loan Documents is duly and validly organized, existing and except to the extent of our opinion in opinion Paragraph 1 above, qualified to do business and in good standing under the laws of the jurisdiction of their organization, in the State and in all other jurisdictions where they are doing business and have all requisite power and authority to perform their obligations and agreements under the Loan Documents and to enforce their rights and privileges under the Loan Documents and to consummate the transactions contemplated by the Loan Documents.

(iii) We have assumed that each party to and beneficiary of the Loan Documents has and will comply with all terms and conditions of the Loan Documents.

(iv) We have assumed that any mortgages, security interests, pledges, assignments, liens and the like purporting to arise under the Loan Documents (other than the Alabama Security Documents) are valid and effective under, have attached and are perfected under the laws of all jurisdictions applicable thereto.

(v) We have assumed that the Loan Parties and any other debtors now have, or, with respect to any after-acquired assets, properties, rights and interests, will have, rights in the collateral and other assets, properties, rights and interests subject to, or purportedly subject to, any mortgage, security interest, assignment, lien, pledge or similar interest under the Loan Documents (including all rights in such assets, properties, rights and interests purported to be held thereby), and all such collateral and other property exist and are correctly and adequately described in the applicable Loan Documents. We have assumed further that all real property and fixtures constituting collateral under the Alabama Mortgage are and will be located at all times entirely in Colbert County, Alabama as indicated in the Loan Documents and that all fixtures constituting collateral are located on the land described in the Alabama Mortgage.

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(vi) We have assumed that the addresses for the Loan Parties appearing on the Financing Statements constitute correct and complete mailing addresses for the Loan Parties, and the addresses for the Lender Parties appearing on the Financing Statements constitute correct and complete addresses for the Lender Parties from which information concerning the security interests evidenced thereunder may be obtained.

(vii) We have assumed that the Lender Parties has given value under and in connection with the Loan Documents.

(viii) We have assumed that there has not been any breach of fiduciary duty, mutual mistake of fact or misunderstanding, fraud, duress or undue influence on the part of any party to or beneficiary of any of the Loan Documents with respect to the transactions contemplated thereby.

(ix) We have assumed that all documents and agreements incorporated in the Alabama Mortgage by reference are valid, legal and binding obligations of the parties thereto enforceable in accordance with their terms.

(x) We have assumed that the Collateral Agent has not acted in a manner inconsistent with any security interest granted under the Loan Documents and has not released, modified or terminated any such security interest, and there exists no agreement postponing the time of attachment of any such security interest.

(xi) We have assumed that no bankruptcy or insolvency proceeding is pending by or against any of the parties to the Loan Documents.

(xii) We have assumed that the proceeds of the Loan have been and will be used for business or commercial purposes and not for personal, family, household or agricultural purposes.

(xiii) We have assumed that the execution, delivery and performance of the Loan Documents by the parties thereto do not contravene, or constitute a default under, any provision of any material agreement, judgment, injunction, order, decree or other instrument which is binding upon any of such parties.

(xiv) We have assumed that none of the parties to the Loan Documents is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(xv) We have assumed that the execution, delivery and performance of the Loan Documents by the parties thereto will not violate the charter or articles of incorporation or bylaws or other organizational documents of any such parties.

(xvi) We have assumed that each of the Loan Parties has the right to convey the interests in the collateral and mortgaged property that it purports to convey.

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(xvii) We have assumed that there are no instruments or agreements oral or written by or between the parties with reference to the transactions contemplated by the Loan Document which conflict with or purport to override, modify or amend any of the Loan Documents and there has been no waiver of any of the provisions of the Loan Documents by actions or conduct of the parties or otherwise.

(xviii) We assume, without investigation or inquiry, that the execution, delivery and performance of the Loan Documents and the consummation of the transactions evidenced or secured thereby (a) do not require any consent, authorization, approval or filing pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or any rules or regulations promulgated in connection therewith, and (b) are not prohibited by and do not require any consent, authorization, approval or filing pursuant to the Investment Company Act of 1940, as amended, the Employee Retirement Income Security Act of 1974, as amended, or any rules or regulations promulgated in connection with any of the foregoing.

Whenever a statement herein is qualified by the phrase "to the best of our knowledge" or a similar phrase, it is intended to indicate that those attorneys in this firm who have rendered legal services in connection with the transactions described herein do not have an actual knowledge of the material inaccuracy of such statement; however, unless otherwise expressly indicated, we have not undertaken any independent investigation to determine the accuracy of any such statement, and no inference that we have any knowledge of any matters pertaining to such statement should be drawn *from* our representation of the Administrative Agent.

This opinion may be relied upon by the Administrative Agent and the Collateral Agent, and their respective successors and assigns and each Lender (whether a party to the Loan Agreement on the date hereof or becoming a party in the future), in connection with the transactions contemplated by the Loan Documents. This opinion may not be relied upon in any manner for any other purpose, or quoted *from* or otherwise referenced to in any document or report and may not be furnished to or relied upon by any other person or entity or in any other opinion of any other persons, including any counsel or accountant, for any purpose, without our prior written consent. This opinion is an expression of professional judgment regarding the legal matters addressed and not a guaranty that a court will reach any particular result. This opinion is limited to the matters stated herein and no opinion may be implied or inferred beyond the matters expressly stated herein. This opinion is as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention or any changes in the facts, circumstances or law which may hereafter occur.

Very truly yours,  
BALCH & BINGHAM LLP

By \_\_\_\_\_

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November \_\_\_\_, 2007

Bank of America Leasing & Capital, LLC, as  
Administrative Agent and Collateral Agent  
MA5-100-32-01  
100 Federal Street  
Boston, Massachusetts 02110  
and the Lenders listed on Schedule 1 hereto

Re: Term Loan Agreement (the "Loan Agreement"), dated as of October 31, 2007, by and among the Borrowers, Parent, Administrative Agent, Collateral Agent and the various financial institutions and other institutional investors which are parties thereto from time to time, as Lenders.

Ladies and Gentlemen:

We have acted as special counsel to the Agents and the Lenders in the State of Arkansas (the "State") in conjunction with the loan transaction that is the subject of the Loan Agreement.

In connection with this opinion, we have examined execution copies of the following loan documents and instruments (collectively, the "Documents"):

1. Loan Agreement;
2. Mortgage, Assignment of Rents and Security Agreement, and Fixture Filing Statement (the "Arkansas Mortgage") made by Northwest Financial Corporation, an Oklahoma corporation, one of the listed Borrowers in the Loan Agreement ("Mortgagor") in favor of Collateral Agent, with respect to a first mortgage lien on certain real property and improvements

located in Union County, Arkansas, and being more particularly defined therein (the "Mortgaged Property");

3. an Assignment and Subordination of Leases made by Northwest Financial Corporation, an Oklahoma corporation, one of the listed Borrowers in the Loan Agreement in favor of Collateral Agent, with respect to certain third-party leases affecting all or portions of the Mortgaged Property (the "Third Party Assignment and Subordination of Leases") and an Assignment and Subordination of Leases made by Northwest Financial Corporation, an Oklahoma corporation, one of the listed Borrowers in the Loan Agreement in favor of Collateral Agent, with respect to certain intra-company leases affecting all or portions of the Mortgaged Property (the "Intra-Company Assignment and Subordination of Leases") (the Third Party Assignment and Subordination of Leases and Intra-Company Assignment and Subordination of Leases are collectively referred to hereinafter as the "Assignment of Leases") (the Arkansas Mortgage and the Assignment of Leases sometimes being collectively referred to hereinafter as the "Security Documents"); and

4. The UCC-1 Financing Statement and UCC-1 Addendum to be filed together in the Recorder's Office (as such term is defined hereinafter) as a fixture filing (collectively, the "UCC Financing Statement").

This opinion is being furnished to you pursuant to Section 4.01(a)(viii) of the Loan Agreement. Unless the context shall otherwise require, capitalized terms used and not defined herein shall have the meanings assigned thereto in Article I of the Loan Agreement.

In reaching the opinions set forth below, we have assumed, and to our knowledge there are no facts inconsistent with, the following:

- (a) Each of the parties to the Documents has duly and validly executed and delivered each instrument, document, and agreement to be executed in connection with the credit facility that is the subject of the Loan Agreement (the "Loan") to which such party is a signatory, and, except as to matters of State law regarding which we opine as set forth below, such party's obligations set forth in the Documents are its legal, valid and binding obligations, enforceable in accordance with their respective terms.
  - (b) Each person executing any of the Documents, whether individually or on behalf of an entity, is duly authorized to do so.
  - (c) Each natural person executing any of the Documents is legally competent to do so.
  - (d) All signatures on the Documents are genuine.
  - (e) All Documents submitted to us as originals are authentic; all Documents submitted to us as certified or photostatic copies conform to the original document, and all public records reviewed are accurate and complete.
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(f) The Documents executed by Administrative Agent, Collateral Agent, Lenders, Borrowers, and the other parties thereto, as applicable, are identical to the unexecuted copies of such documents provided to us for review.

(g) The Mortgagor under the Arkansas Mortgage has good, fee simple title to the Mortgaged Property set forth therein.

(h) All recording fees required to be paid in connection with the recording of the Arkansas Mortgage, the Assignment of Subordination of Leases, and the UCC Financing Statement have been paid.

(i) The Lenders have given value in connection with the Documents, and there is actual consideration given and received for the making of the Arkansas Mortgage by the Mortgagor identified therein.

The opinions below are limited to the laws, rules and regulations of the State and of the United States.

Based upon the foregoing, we are of the opinion that:

1. The Lenders are not required under the laws of the State to qualify as a foreign corporation or otherwise qualify in the State or to file a designation for service of process or similar type of filing in the State solely as a result of their execution, delivery and performance of the Documents to which they are a party.

2. Each of the Arkansas Mortgage and Assignment and Subordination of Leases constitute the legal, valid and binding obligation of the parties thereto enforceable against each such party in accordance with the terms thereof, except as such enforceability may be limited by applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and by general equitable principles.

3. Each of the Arkansas Mortgage and Assignment and Subordination of Leases is in proper form for recording in the Office of the Circuit Clerk and Ex-Officio Recorder of Union County, Arkansas (the "Recording Office").

4. The Arkansas Mortgage is in form sufficient under the laws of the State to create valid liens or security interests in favor of the Collateral Agent in the Collateral described therein which constitutes real property or fixtures thereto, and, when recorded with the Recording Office, will have been filed or recorded in all public offices in the State in which such filing or recording is necessary to perfect the lien of the Collateral Agent in the Collateral described therein which constitutes real property or fixtures thereto. The Arkansas Mortgage provides the Collateral Agent with all mortgage remedies customarily obtained by mortgage lenders in the State in connection with the type of loan and security provided for by the Arkansas Mortgage. The foreclosure of the Arkansas Mortgage would not restrict, affect or impair the liability of any of the Loan Parties with respect to the obligations secured thereby or by the other Collateral

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Documents or the rights or remedies of the Collateral Agent with respect to the foreclosure or enforcement of any other security interests or liens securing such obligations to the extent any deficiency remains unpaid after application of the proceeds of the foreclosure.

5. The Laws of the State do not require a lienholder to make an election of remedies where such lienholder holds security interests and liens on both the real and the personal property of a debtor or to take recourse first or solely against or otherwise exhaust its remedies against its collateral before otherwise proceeding to enforce against such debtor the obligations of such debtor.

6. The *UCC* Financing Statement which is to be recorded or filed within the State, the form of which is attached hereto, is in form sufficient under the laws of the State for filing or recording in the Recorder's Office as a fixture filing, and when recorded with the Recorder's Office will have been filed or recorded in all public offices in the State in which such filing or recording is necessary as a fixture filing to perfect the interests of the Secured Parties in the Collateral described therein which constitutes fixtures, as-extracted collateral, or timber to be cut, to the extent the same can be perfected by filing or recording in the State in such Recorder's Office.

7. Neither the execution and delivery of the Documents, nor the fulfillment of or the compliance with the provisions thereof, by Administrative Agent, Collateral Agent or the Lenders, will result in a violation of, or contravenes any Laws of the State. Other than as specifically set forth herein in Paragraph 10 hereinbelow, we do not opine on the application of the usury laws of the State of Arkansas to the transaction that is the subject of the Loan Agreement.

8. Except for the filings and recordings described above, no approval, consent, or withholding of objection on the part of, or filing or registration with, any Governmental Authority is required to be made or taken in the State to establish, protect and preserve title to, interests in, liens on and security interests in the Collateral constituting real property, fixtures, timber to be cut, or as-extracted collateral, as contemplated by the Documents, except for *UCC* continuation statements.

9. Except for nominal filing or recording fees payable at the time of filing or recording of the Arkansas Mortgage, the Assignment and Subordination of Leases, and the *UCC* Financing Statement, no taxes, fees or other charges imposed by the State, Union County, Arkansas, or any other local governmental entity are payable by the Administrative Agent, the Collateral Agent, or the Lenders solely as a result of the execution, delivery, performance, recordation or filing (where applicable) of the Arkansas mortgage, Assignment and Subordination of Lease, and *UCC* Financing Statement delivered in connection with the transactions contemplated thereby.

10. Commercial loans subject to Arkansas law are subject to a usury cap found in the Arkansas Constitution at Article 19, Section 13(a)(i), and A.C.A. Section 4-57-104, which provides, along with further interpretation through Arkansas case law and Arkansas Attorney General Opinions, that a lender may not charge more than five percent (5%) over the Primary Credit Rate at the time of the contract. As of October 31, 2007, at 10:30 am COT, the overall

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maximum rate of interest legally chargeable per Arkansas law is 10.25% per annum. Per Arkansas law, certain fees charged by a lender and other charges which are income to a lender in connection with the making of a commercial loan are also deemed interest for purposes of determining the overall interest rate applicable to the commercial loan, especially fees charged by a lender that are not directly reimbursable to an unrelated third party for a particular service provided by said unrelated third party related to the commercial loan. A loan origination fee which is deemed interest may be spread over the life of the loan at issue for purposes of determining its application to the overall rate of interest charged by a lender. Assuming the Loan is made as of October 31, 2007 at 10:30 am CDT and assuming that the overall rate of interest applicable to the Loan does not exceed 10.25%, the Loan is not usurious under Arkansas law.

11. Based solely on our reliance on telephone conversations with representatives of the Office of the Mayor of the City of El Dorado, Arkansas and the Office of the County Judge of Union County, Arkansas, and that certain written zoning letter from the County Judge of Union County, Arkansas dated as of October 30, 2007, we believe that (i) the Mortgaged Property lies outside of the city limits of the City of El Dorado, Arkansas and outside of the zoning jurisdiction of the City of El Dorado, Arkansas, and (2) there are no Union County, Arkansas zoning laws applicable to the Mortgaged Property.

12. Arkansas has adopted the Uniform Enforcement of Foreign Judgments Act, found at A.C.A. Section 16-66-601, *et seq.* (the "UEFJA"). Assuming compliance with the UEFJA, a judgment rendered by a New York court with proper jurisdiction over the subject matter thereof, with respect to the Loan, will be treated in Arkansas in the same manner as a judgment rendered by a court in the State of Arkansas.

In addition to the assumptions set forth above, the opinions set forth above are also subject to the following qualifications:

- (a) We are licensed to practice law only in the State and do not hold ourselves out to be experts on the laws of any state other than the State. Our opinions are limited to the laws of the State.
  - (b) The foregoing opinion as to enforceability does not pass upon any questions of enforceability that may arise under securities or antitrust laws of the State, any other states, or the United States of America.
  - (c) We express no opinion with respect to title to any of the Mortgaged Property, but we assume with your consent that the Mortgagor in the Mortgage is the owner of such Mortgaged Property. We express no opinion as to the accuracy of any descriptions of the Mortgaged Property contained in the Arkansas Mortgage or any of the Documents.
  - (d) We express no opinion with respect to the relative priority of the liens or security interests created by any of the Documents. We understand that, with respect to the real property, you are relying upon a mortgagee's title insurance policy insuring your lien on
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such property, and, with respect to the personal property, you are relying on UCC searches provided by the applicable filing offices.

(e) In the event of conflicts among the Documents, we express no opinion as to which provision shall prevail.

(f) We express no opinion as to the validity or enforceability of any provisions in any of the Documents to the extent that such provisions purport to waive any requirement of diligent performance or other care on the part of the Administrative Agent, Collateral Agent or Lenders with respect to the recognition or preservation of the rights of the Borrowers to or interest in any property subject to the lien or security interest granted by the Documents.

(g) We express no opinion as to the validity or enforceability of (a) any remedies which any of the Documents purport to grant the Administrative Agent, Collateral Agent or Lenders with respect to the seizure or disposition of the personal property to the extent that such remedies are not specifically provided to a secured party under the applicable State Uniform Commercial Code, or (b) remedies (excluding the power of sale provisions set forth in the Security Instrument) which any of the Documents purport to grant to the Lenders with respect to the seizure or disposition of the real property to the extent that such remedies are not specifically provided for by the laws of the State.

(h) We express no opinion as to the validity or enforceability of any provision of the Documents which permits the Lenders, in the event of acceleration upon delinquency or default, to increase the rate of interest or to collect a late charge or prepayment penalty or premium.

(i) We express no opinion as to the validity or enforceability of any powers of attorney granted or assigned in the Documents to the extent that the grant or assignment of such powers of attorney does not comply with the requirements of A.C.A. Sections 1812-501 and 21-6-306, and other applicable laws of the State.

(j) We note that in order for the Administrative Agent, Collateral Agent or Lenders to obtain the appointment of a receiver, they must comply with the requirements of A.C.A. Section 16-117-208, and Arkansas Rule of Civil Procedure 66, and other applicable laws of the State.

(k) We express no opinion as to the effect of future course of dealings, course of performance or the like, in modifying the terms of any of the Documents or the respective obligations of the Borrowers, any guarantors and the Administrative Agent, Collateral Agent or Lenders under the Documents, and we note that the validity or enforceability of provisions permitting modifications of an agreement only in writing may be limited by the parties' future course of dealings, course of performance and the like.

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(l) We express no opinion as to the validity or enforceability of waivers or advance consents that have the effect of waiving marshaling of assets or similar requirements or defenses, or in certain cases notices.

(m) We express no opinion as to the obligation of any guarantors to pay the outstanding principal balance of the obligations comprising the Loan and observe the covenants under the Documents in the event that the time for payment for said obligations is extended, a party is released from liability, a Document is renewed, the terms of payment under the Documents are modified, any security under the Documents is released or the terms of the Documents and security therefor are made subject to a subordination agreement without the prior consent of any guarantors to such modifications, amendments, releases or subordinations.

(n) We express no opinion with respect to the enforceability of the severability provisions contained in the Documents to the extent that any provision affected by the severability provision is material to the essence of the agreements set forth in the Documents.

(o) We express no opinion as to the validity or enforceability of any provisions in the Documents concerning environmental indemnification to the extent that the same are unenforceable under Federal or state environmental laws, ordinances or regulations.

(p) We express no opinion with respect to the validity or enforceability of provisions in the Documents which provide that the Lenders is not liable for its acts or omission or for any acts or omissions, servants, employees or attorneys, including but not limited to negligence.

The opinions set forth herein are expressed as of the date hereof, and we assume no obligations to update or supplement these opinions to reflect any facts that may hereafter come to our attention or any changes in law that may hereafter occur. The opinions set forth herein are limited to matters expressly set forth herein, and no opinion is to be inferred or implied beyond the matters expressly so stated.

Except as set forth in the following sentence, this opinion is being furnished solely for the benefit of you and your successors and assigns, and your and their respective counsel, in connection with the transactions contemplated by the Documents. The Administrative Agent and the Collateral Agent, and their respective successors and assigns and each Lender (whether a party to the Loan Agreement on the date hereof or becoming a party in the future) may rely on this opinion to the same extent as if it were addressed and delivered to such person on the date hereof. No other use of this opinion may be made without our approval. Our opinions represent our reason and judgment as to certain matters of law based upon facts presented or presumed and are not and should not be considered or construed as a guaranty. The liability of FRIDAY, ELDREDGE & CLARK, LLP is limited to the fullest extent possible under Act 661 of 1987.

Sincerely,

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FRIDAY, ELDREDGE & CLARK, LLP

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INTER-LENDER AGREEMENT

THIS INTER-LENDER AGREEMENT (this "Agreement") dated as of November 5, 2007 between WELLS FARGO FOOTHILL, INC. ("Foothill"), a California corporation, and BANC OF AMERICA LEASING & CAPITAL, LLC, a Delaware limited liability company, in its capacity as collateral agent (in such capacity, the "Term Agent") under that certain Term Loan Agreement (herein defined).

WITNESSETH:

WHEREAS, pursuant to a Term Loan Agreement dated as of November 2, 2007 (the "Term Loan Agreement"), by and among LSB Industries, Inc. ("Parent"), ThermaClime, Inc. ("ThermaClime"), and certain of ThermaClime's subsidiaries, and one affiliate of ThermaClime that is also a subsidiary of Parent (the subsidiaries and affiliate of ThermaClime, together with ThermaClime, each a "Term Loan Borrower" and collectively, the "Term Loan Borrowers"), the lenders party thereto (the "Term Loan Lenders"), the Term Agent, Bank of Utah as payment agent, and Banc of America Leasing & Capital LLC as administrative agent, the Term Loan Lenders will make loans to the Term Loan Borrowers;

WHEREAS, to secure the obligations due under the Term Loan Agreement by the Term Loan Borrowers, the Term Loan Borrowers have granted to the Term Agent liens on and security interests in certain personal and real property (the "Term Collateral"), including, but not limited to, mortgages listed on Schedule 1 hereto (the "Mortgages"), covering the real property located at the respective addresses set forth on Exhibit A-1 and Exhibit A-2 attached hereto, as more fully described in Exhibit B-1 and Exhibit B-2 attached hereto and made a part hereof (the "Premises");

WHEREAS, reference is hereby made to that certain Amended and Restated Loan and Security Agreement (the "Revolving Loan Agreement"), dated as of November 5, 2007, by and among Parent, ThermaClime and certain of its subsidiaries (together with Parent and ThermaClime, the "Loan Parties"), the persons from time to time party thereto as lenders (the "Revolver Lenders"), Foothill, as administrative agent for the Lenders (in such capacity, the "Revolver Agent");

WHEREAS, pursuant to the Revolving Loan Agreement, the Loan Parties have granted to Revolver Agent a security interest in certain of their present and future personal property (as more fully described therein), wherever located, excluding equipment but including their inventory located on a Premises (the "Revolver Collateral"), to secure the Loan Parties' obligations under or in connection with the Revolving Loan Agreement;

WHEREAS, the Revolver Agent and the Term Agent desire to establish certain procedures and confirm certain rights relating to Revolver Agents' access to a portion of the Term Collateral in order for Revolver Agent to dispose of the Revolver Collateral; and

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WHEREAS, the execution and delivery of this Agreement is a condition to providing loans and extensions of credit pursuant to the Revolving Loan Agreement and the Term Loan Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which consideration is hereby acknowledged by each party, and intending to be legally bound, each party hereto hereby agrees as follows:

Section 1. DEFINED TERMS.

(a) As used herein, the following terms have the following respective meanings:

“**Accounts Receivable**” means all the Loan Parties’ rights to payment for the sale of Inventory or rendition of services, whether or not earned by performance, now existing or hereafter arising prior to the Trigger Date or arising out of the sale of Applicable Inventory before or after the Revolver Trigger Date and which is part of the Revolver Collateral.

“**Agents**” means the Revolver Agent and the Term Agent, and “**Agent**” means either of them, together with their respective successors, assigns, or replacements in such capacity.

“**Applicable Inventory**” means, with respect to a Premises, Inventory of any Borrower that on the Revolver Trigger Date is located at or in-transit to such Premises.

“**Disposition Period**” means, with respect to a Premises the period commencing on the occurrence of the Term Trigger Date applicable to such Premises and ending on the date that is the earliest of: (a) 120 days following such Term Trigger Date (except that such 120 day period shall be reduced by the number of days, if any, that Revolver Agent has entered such Premises or used the Term Collateral as described in Section 4(a), to the extent prior to the date that Term Agent or any Term Loan Lender has control or possession of such Term Collateral, or has sold such Term Collateral to a Successor Operator), or (b) the day on which all Applicable Inventory (other than Inventory abandoned by the Revolver Agent) has been sold or otherwise removed from such Premises.

“**Closing Date License**” has the meaning given in Section 5(a).

“**Collateral**” means, collectively, the Revolver Collateral and the Term Collateral.

“**Enforcement Action**” means any of the following actions when taken by the Revolver Agent, the Term Agent, or any Lender;

(a) enforcement of a Lien in full or partial satisfaction of any Revolver Obligation or Term Obligation, as the case may be, secured thereby;

(b) (i) commencement of legal action against any Obligor or the Revolver Collateral or Term Collateral, as applicable for foreclosure or replevin or other enforcement of a Lien on the Collateral, or (ii) bidding on all or substantially all of the Revolver Collateral or the Term Collateral, or both, at a foreclosure or like sale;

- (c) notification of account debtors of any Obligor to make payment directly to it, as secured party under Revolver Security Agreements or Term Security Agreements, as the case may be;
- (d) joining any petition for the involuntary bankruptcy of any Obligor; or
- (e) written notification of: (i) default and demand for payment; or (ii) acceleration.

“**Lenders**” means, collectively, the Revolver Lenders and the Term Lenders and “**Lender**” means either of them.

“**Lien**” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority, or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effects as any of the foregoing).

“**Loan Documents**” means, collectively, the Revolver Loan Documents and the Term Loan Documents.

“**Notice of Enforcement**” has the meaning given in [Section 2](#).

“**Obligations**” means collectively, the Revolver Obligations and the Term Obligations.

“**Obligor**” means a Borrower under the Term Loan Documents or Loan Party under the Revolver Loan Documents.

“**Propriety Rights**” means all of each Obligor’s now owned and hereafter arising or acquired: (a) licenses, franchises, and permits; (b) patents and patent rights; (c) copyrights and works that are the subject matter of copyrights; (d) trademarks, service marks, trade names, trade styles; (e) patent, trademark, and service mark applications and all licenses and rights related to any of the foregoing; and (f) all other rights under any of the foregoing, together with all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present, and future infringement of any of the foregoing.

“**Proprietary Rights Collateral**” has the meaning given in [Section 5\(a\)](#).

“**Requesting Agent**” has the meaning given in [Section 3](#).

“**Responding Agent**” has the meaning given in [Section 3](#).

“**Revolver Agent**” has the meaning given in the Third Recital.

“**Revolver Collateral**” has the meaning given in the Fourth Recital.

“**Revolver Liens**” means the Liens of the Revolver Agent and the Revolver Lenders securing the Revolver Obligations pursuant to the Revolver Loan Documents.

**“Revolver Loan Documents”** means the “Loan Documents” as defined in the Revolving Loan Agreement.

**“Revolver Trigger Date”** means, with respect to a Premises, the date that the Revolver Agent or a Revolver Lender notifies the Term Agent of its intent to access such Premises for the purpose of enforcing its rights and remedies, as a secured creditor, either by legal process or otherwise with respect to the Inventory and other Revolver Collateral located thereon.

**“Successor License”** has the meaning given in Section 5(b).

**“Successor Operator”** means any third party purchaser to whom a Premises is sold by Term Agent.

**“Successor Revolver Agent”** has the meaning given in Section 6(b).

**“Term Collateral”** has the meaning given in the Second Recital.

**“Term Liens”** means the Liens of the Term Agent and the Term Lenders securing the Term Obligations pursuant to the Term Security Agreements.

**“Term Loan Documents”** means the “Loan Documents” as defined in the Term Credit Agreement and includes the Term Credit Agreement and the Term Security Agreements.

**“Term Obligations”** means the “Obligations” as defined in the Term Credit Agreement.

**“Term Security Agreements”** means those certain security agreements executed by Obligors and delivered to the Term Agent, pursuant to which the respective Obligors have granted liens and security interests to the Term Agent (for the benefit of the Term Agent and the Term Lenders) in certain of their respective assets, as more specifically described in therein.

**“Term Trigger Date”** means, with respect to a Premises, the date that Term Agent provides written notice to the Revolver Agent of the occurrence of a Trigger Event with respect thereto.

**“Term Trigger Event”** means, with respect to a Premises, the Term Agent takes possession of such Premises pursuant to or following an Enforcement Action, whether before or after a foreclosure proceeding of action.

**“Termination Activities”** has the meaning given in Section 6(b).

**“Uniform Commercial Code”** or **“UCC”** means the Uniform Commercial Code as from time to time in effect in the State of California.

(a) Unless otherwise expressly provided herein, references to agreements and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements, and other modifications thereto.

(b) Capitalized terms used but not defined herein shall have the meaning given in the UCC.

(c) Any use of the term "including" herein shall mean, "including, without limitation".

Section 2. NOTICE OF ENFORCEMENT. The Term Agent agrees to give to the Revolver Agent written notice of any Enforcement Action pursuant to the Term Loan Documents (each such notice, a "Notice of Enforcement"). Notices of Enforcement shall be given in the manner and to the respective addresses set forth in Section 10 of this Inter-Lender Agreement, or to such other address specified by any party by written notice to any other party. Notice of Enforcement shall be given prior to or concurrent with the relevant Enforcement Action, except that Term Agent may give a Notice of Enforcement promptly after taking the relevant Enforcement Action if it in good faith believes that immediate Enforcement Action is or may be required to protect its interest in the property subject to its Liens. No liability or defense shall ever arise, no Lien shall ever be lost, invalidated, or impaired, and no action taken in enforcement of a Lien shall ever be annulled, set aside, affected, or impaired solely as a result of the failure to give any notice required by this Section 2 in accordance with this Inter-Lender Agreement. The Revolver Agent agrees to give prompt written notice to the Term Agent of the occurrence of each Revolver Trigger Date.

Section 3. ACCESS TO DOCUMENTS AND RECORDS. Subject to confidentiality restrictions imposed by law, contract, or agreement, if either Agent takes actual possession of any documentation of any Obligor (whether such documentation is in the form of a writing or is stored in any data equipment or data record in the physical possession of such Agent), then upon request of either Agent (the "Requesting Agent") and reasonable advance notice, the other Agent (the "Responding Agent") will permit the Requesting Agent or its representatives to inspect and copy such documentation if and to the extent the Requesting Agent certifies to the Responding Agent that:

(a) such documentation contains or may contain information necessary or useful, in the good faith opinion of the Requesting Agent, to the enforcement of Requesting Agent's Liens upon any Revolver Collateral or Term Collateral, as the case may be; and

(b) the Requesting Agent and the Revolver Lenders or Term Lenders, as the case may be, are entitled to receive and use such information as against the applicable Obligor or its suppliers, customers, and contracts and under applicable law, and, in doing so, will comply with all obligations imposed by law or contract in respect of the disclosure or use of such information.

Section 4. ACCESS TO PREMISES.

(a) During the Disposition Period for a Premises, if so requested by the Revolver Agent and upon reasonable advance notice, the Term Agent will allow the Revolver Agent and its officers, employees, and agents, at the sole risk, cost, and expense of the Revolver Agent and the Revolver Lenders, reasonable and nonexclusive access to and use of such Premises as necessary or useful in repossessing, removing, manufacturing, completing,



preparing for sale, marketing, selling, or otherwise disposing of, in any lawful manner, any Applicable Inventory upon which the Revolver Agent holds a Lien under the Revolver Loan Documents, or to collect or realize upon Accounts Receivable, and to examine all books, records, and documents in connection with any Revolver Collateral, subject, however, in all cases, to the covenants, conditions, and limitations set forth in Section 4(c). If any Applicable Inventory will remain at such Premises at the end of such Disposition Period, then, as soon as possible but in no event later than the end of such Disposition Period, the Revolver Agent shall provide the Term Agent with written notice that the Revolver Agent and the Revolver Lenders elect to abandon such Inventory. If the Revolver Agent fails to give any such notice required by this Section 4(a), the Revolver Agent shall be deemed to have abandoned the remaining Applicable Inventory at such Premises as of the end of the Disposition Period. Upon the abandonment of any Applicable Inventory pursuant to this Section 4(a), the Revolver Liens therein shall be deemed released and the Term Agent shall have the authority to release such Liens in the abandoned Applicable Inventory.

(b) Notwithstanding anything in this Section 4 to the contrary, if the Term Agent has entered into an agreement for the sale of all or substantially all of the Term Collateral relating to a Premises in a bona fide arm's length transaction with a Successor Operator, the rights of the Revolver Agent set forth in Section 4(a) above shall continue until the later of (i) the date ninety (90) days after the date the Revolver Agent receives notice from the Term Agent of such agreement or (ii) the date that the Successor Operator shall require as a condition of such sale that possession of the Term Collateral be given by the Term Agent or Term Loan Lender to such Successor Operator. In connection with any such sale, Term Agent shall use reasonable efforts to cause such purchaser to not require as a condition of the sale that possession of the Term Collateral be given by Term Agent to such Successor Operator prior to the end of the Disposition Period, or if such period is not acceptable to the Successor Operator, then the longest period equal to or greater than the ninety (90) day period provided for in this Section 4(b) which may be acceptable (provided that such efforts by Term Agent and Term Loan Lenders shall not be required if, in the reasonable judgment of Term Agent or the Term Loan Lenders, such efforts could result in adverse terms or term relating to the proposed sale (including a lower purchase price or less favorable payment terms) to Successor Operator or could have a reasonable likelihood of causing the sale not to occur or to be delayed). The obligations imposed on Term Agent by this Section 4(b) and Section 5(b) below shall not apply with respect to sale to a Successor Operator which purchase takes place at a foreclosure sale or a sale by operation of law or court order.

(c) In connection with the exercise of its or their rights under Section 4(a), the Revolver Agent and the Revolver Lenders shall comply with the following with respect to each Premises to the extent the Revolver Agent wishes to access such Premises:

(i) All activities of the Revolver Agent, any Revolver Lender, or their respective officers, employees, and agents in connection with any obligation of the Term Agent or any Successor Operator set forth in Section 4(a), subject to Section 4(b): (A) will be permitted, lawful, and enforceable as against each Obligor and its suppliers, customers, and contracts and under applicable law and will be conducted in accordance with prudent manufacturing practices; and (B) will not impose upon the Term Agent (or any holder of the

Term Obligations), any Term Lender, or any Successor Operator any legal duty, legal liability, or risk of uninsured loss.

(ii) With respect to any liability coverage then being maintained by Revolver Agent, individually or in its capacity as agent, with respect to the Revolver Collateral or with respect to the activities described in Section 4(c)(i) above, the Revolver Agent will deliver to the Term Agent a certificate of insurance naming Term Agent and each of the Term Lenders as additional insureds thereunder.

(iii) The Revolver Agent and the Revolver Lenders shall cooperate with the Term Agent or any Successor Operator of such Premises so as to minimize any interference with the use and operation of such Premises by the Term Agent or any Successor Operator thereof while permitting the Revolver Agent and the Revolver Lenders to obtain the benefit of their rights under Section 4(a).

(iv) The Revolver Agent and the Revolver Lenders shall follow all reasonable procedures and regulations imposed by the Term Agent or the Successor Operator with respect to such Premises.

(v) The Revolver Agent and the Revolver Lenders shall pay to the Term Agent, the Term Lenders, or Successor Operator of such Premises, as applicable, all costs and expenses incurred by the Term Agent, the Term Lenders, or such Successor Operator, respectively, in connection with, or reasonably attributable to, the Revolver Agent's and the Revolver Lenders' or their agents' storage, examination, processing, shipping, production, completion, supply, sale, or other disposition of the Applicable Inventory or collection, repossession or sale of the Revolver Collateral at or with respect to such Premises.

(vi) The Revolver Agent and the Revolver Lenders, at their expense, shall repair any damage to such Premises caused by their exercise of the rights contained in Section 4(a).

(vii) The Revolver Agent's use of such Premises to process, ship, produce, store, complete, supply, sell, or otherwise dispose of any Applicable Inventory shall be limited to only those activities generally conducted at such Premises on or prior to the applicable Revolver Trigger Date (e.g., the Revolver Agent may not produce or process a product at a Premises that is not being regularly produced at such Premises on or prior to such date).

Section 5. LICENSES OF PROPRIETARY RIGHTS.

(a) The Term Agent: (i) acknowledges and consents to the grant to the Revolver Agent by the Obligors on the date hereof of a limited, non-exclusive royalty-free license in the form of Annex A hereto (the "Closing Date License"); and (ii) agrees that its Liens in the Term Collateral of the type described in the Closing Date License (the "Proprietary Rights Collateral") shall be subject to the Closing Date License.

(b) If the Term Agent becomes the owner of any Proprietary Rights as a result of the exercise of remedies by Term Agent or Term Lender with respect to its Lien on

such Proprietary Rights, then upon request of the Revolver Agent, the Term Agent shall promptly provide written confirmation of the grant to the Revolver Agent of, and does hereby irrevocably grant to the Revolver Agent, a limited, non-exclusive royalty-free license in the form of the Closing Date License (a "Successor License") to use any such Proprietary Rights. Any license so granted by the Term Agent or the applicable Term Lender shall be binding on its successors and assigns. Furthermore, to the extent the Term Agent becomes the owner of any Proprietary Rights as a result of the exercise of remedies by the Term Agent with respect to its Lien on such Proprietary Rights, the Term Agent shall not make any subsequent sale or transfer of such Proprietary Rights unless the purchaser or transferee thereof agrees in writing to provide a Successor License to the Revolver Agent upon request.

(c) Each of the Closing Date License, any Successor License, and any obligations of the Term Agent in this Section 5 shall expire at the end (or earlier termination) of the Disposition Period.

Section 6. HOLD HARMLESS.

(a) Each Obligor consents to the performance of by the Term Agent, and to the extent applicable, the Term Lenders, and any Successor Operator, of the obligations set forth in this Section 6 and acknowledges and agrees that neither the Term Agent nor any Term Lender shall ever be accountable or liable for any action taken or omitted by the Revolver Agent, the Revolver Lenders, or their officers, employees, and agents in connection therewith or incidental thereto or in consequence thereof, including any improper use or disclosure of any proprietary information or other intellectual property by the Revolver Agent, the Revolver Lenders, or their officers, employees, agents, successors, or assigns, or any other damage to or misuse or loss of any property of the Obligors or the Term Collateral or Revolver Collateral as a result of any action taken or omitted by the Revolver Agent, the Revolver Lenders, or their respective officers, employees, agents, successors, or assigns. Foothill, in its individual capacity and in its capacity as Revolver Agent, on behalf of the Revolver Lenders, hereby agrees to indemnify and hold harmless the Term Agent and the Term Lenders and any Successor Operator for any losses, liabilities, claims, damages, penalties, demands, actions, judgments, suits, costs, expenses, and disbursements (collectively, "Losses") to the extent resulting from any action taken or omitted by the Revolver Agent, the Revolver Lenders, or their respective officers, employees, agents, successors, or assigns in the exercise of their rights described in Section 4 or Section 5(b), provided that if such Losses result from the gross negligence or willful misconduct of one or more of the Term Agent or any Term Lender, the Term Agent and/or Term Lender(s) committing such gross negligence or willful misconduct will not have the benefit of the foregoing indemnity in respect of any Losses attributable to such gross negligence or willful misconduct.

(b) If Revolver Agent, any Revolver Lenders or any other person acting through or on their behalf have exercised any rights under Section 4 or Section 5(b) or entered upon either Premises pursuant thereto, then prior to any resignation or removal of Revolver Agent as "Agent", the Revolver Agent shall either (i) complete all Termination Activities (as herein defined) or (ii) cause the Successor Revolver Agent (as herein defined) to provide Term Agent with an indemnification from such Successor Revolver Agent consistent with that provided pursuant to Section 6(a) hereof, and, if so requested by Term Agent, insurance

coverage satisfactory to Term Agent (collectively, the “Successor Indemnity.”) (the date on which the earlier of (i) and (ii) occurs is the “Indemnity Limitation Date”). Following the Indemnity Limitation Date, the indemnification obligations of Foothill individually and as Revolver Agent under Section 6(a) shall terminate with respect to Losses to the extent such Losses result from any action taken or omitted by a Successor Revolver Agent, or its respective officers, employees, agents, successors, or assigns following the Indemnity Limitation Date; provided, however, that nothing herein shall relieve Foothill and the Revolver Agent of its indemnification obligations under Section 6(a) with respect to any Losses resulting, in whole or in part, with respect to any acts or omissions subject to the indemnification provisions under Section 6(a) which occur on or prior to the Indemnity Limitation Date, including without limitation the carrying out of any Termination Activities, whether or not claims for any such Losses occur following the Indemnity Limitation Date. “Successor Revolver Agent” shall mean the successor agent appointed upon the resignation or removal of Revolver Agent as “Agent” as described in Section 11(a). “Termination Activities” shall mean the termination and unwinding of all activities of the Revolver Agent, the Revolver Lenders and their respective officers, employees, and agents in connection with the exercise of rights granted to Revolver Agent or the Revolver Lenders under Section 4 and Section 5(b) or any activities conducted by any of them on either of the Premises during the exercise of such rights, including removal of the Revolver Agent, any Revolver Lender, and their respective officers, employees, and agents from both of the Premises, the return of any information, documents or data made available pursuant to Section 4 and Section 5(b), and the completion of all restoration activities and payment of costs as set forth in Section 4(c)(v) and (vi). Nothing in this Section 6(b), including Revolver Agent’s performance of the Termination Activities and the delivery of the Successor Indemnity, shall be deemed to toll the running of or otherwise extend the Disposition Period. In addition, nothing in this Section 6 shall be deemed to limit the rights or remedies of either Agent arising from a breach by any party of its obligations under this Agreement.

Section 7. NO IMPAIRMENT.

(a) Nothing herein is intended to limit or otherwise impair any right which the Revolver Agent might otherwise have with respect to the Revolver Collateral, this Agreement being intended to provide to the Revolver Agent rights in addition thereto. Nothing herein is intended to limit or otherwise impair the Term Agent's rights in the Term Collateral or to commence and prosecute an action or proceeding to enforce its security interests in and liens on the Term Collateral or with respect to or against any Obligor. Except as expressly set forth in this Inter-Lender Agreement, the Revolver Agent does not have any obligation to pay the Term Agent any amounts due under the Term Loan Agreement or with respect to a Premises or otherwise.

(b) The Revolver Agent acknowledges and agrees that it has no lien or security interest on or in the Term Collateral. The Term Agent acknowledges and agrees that it has no lien or security interest on or in the Revolver Collateral.

Section 8. Amendments to Loan Documents. The Revolver Agent and the Revolver Lenders may enter into renewals and extensions of, amendments to, and waivers under, the Revolver Loan Documents to which they are parties without the consent of the Term Agent or the Term Lenders, and the Term Agent and the Term Lenders may enter into renewals and

extensions of, amendments to, and waivers under, the Term Loan Documents to which they are parties without the consent of the Revolver Agent or the Revolver Lenders. Nothing in this Section 8 shall affect any covenants of any Obligor under the Revolver Loan Documents or the Term Loan Documents that restricts such Obligor's ability to amend, renew, or extend any Revolver Loan Document or Term Loan Document.

Section 9. Relationship Between Parties. Nothing in this Inter-Lender Agreement may be construed to create a partnership or joint venture between any of the parties to this Inter-Lender Agreement. No party to this Inter-Lender Agreement has any implied duty under this Inter-Lender Agreement to any other party.

Section 10. Notices. Any notice or other communication required or permitted pursuant to this Inter-Lender Agreement shall be deemed given: (a) when personally delivered to any officer of the party to whom it is addressed; (b) on the earlier of actual receipt thereof or three (3) days following posting thereof by certified or registered mail, postage prepaid; (c) upon actual receipt thereof when sent by a recognized overnight delivery service; or (d) upon actual receipt thereof when sent by telecopier to the number set forth below with telephone communication confirming receipt and subsequently confirmed by registered or certified mail, postage prepaid, or overnight delivery to the address set forth below, in each case addressed to each party at its address set forth below or at such other address as has been furnished in writing by a party to the other by like notice:

If to the Revolver Agent: Wells Fargo Foothill, Inc.  
2450 Colorado Avenue  
Suite 3000 West  
Santa Monica, California 90404  
Attn: Business Finance Division Manager  
Fax No. (310) 478-9788

If to the Term Agent: Banc of America Leasing & Capital LLC, as Collateral Agent  
Mail Code: GA3-003-04-01  
Northeast Center Building  
2059 Northlake Pkwy  
Tucker, GA 30084-5399  
Attn: Shelley B. LaCagnin, Vice President - Operations Manager  
Tel No. (770) 270-8590  
Fax No. (770) 270-8638

Section 11. Resignation of or Removal as Agent.

(a) In the event that the Revolver Agent resigns or is removed as "Agent" pursuant to the Revolving Loan Agreement, the successor agent appointed pursuant to the Revolving Loan Agreement shall, upon the effectiveness of such appointment, be constituted as the Revolver Agent hereunder and the agent for the Revolver Lenders under the Revolver Loan Documents. No such Successor Agent shall be entitled to exercise any rights under Section 4 or Section 5(b) until such time as it shall deliver to Term Agent an indemnity consistent with Section 6(a) and insurance coverage, reasonably satisfactory to Term Agent.

(b) In the event that the Term Agent resigns or is removed as "Agent" pursuant to the Term Credit Agreement, the successor agent appointed pursuant to the Term Credit Agreement to be Collateral Agent shall, upon the effectiveness of such appointment, be constituted as the Term Agent hereunder and the agent for the Term Lenders under the Term Security Agreements.

Section 12. Miscellaneous.

(a) The rights and obligations contained herein (i) shall bind and inure to the benefit of the parties hereto and their successors, assignees, nominees and designees, [including, without limitation, any receiver appointed at the request of the Term Agent] and (ii) may not be assigned by Revolver Agent except to a successor Revolver Agent as provided herein.

(b) The rights of each Agent or any Lender to enforce the provisions of this Inter-Lender Agreement shall not be prejudiced or impaired by any act or omission of any Obligor or the other Agent or other Lenders, including forbearance, waiver, consent, compromise, amendment, extension, renewal, or taking or release of security in respect of any Revolver Obligations or Term Obligations, as the case may be, or noncompliance by any Obligor with such provisions, regardless of the actual or imputed knowledge of either Agent or any Lender.

(c) This Inter-Lender Agreement shall continue in full force and effect after the filing of any petition by or against any Obligor under the United States Bankruptcy Code and all converted or succeeding cases in respect thereof. All references herein to an Obligor shall be deemed to apply to any Obligor as debtor-in possession and to any trustee for such Obligor.

(d) The headings in this Inter-Lender Agreement are for convenience of reference only, and shall not alter or otherwise affect the meaning hereof.

(e) No amendment, modification, or waiver of any of the provisions of this Inter-Lender Agreement by any Agent or Lender shall be deemed to be made unless the same shall be in writing and signed on behalf of the party making the same or its authorized agent, and each waiver, if any, shall be a waiver only with respect to the specific instance involved and shall in no way impair the rights of the parties making such waiver or the obligations of the other parties under this Inter-Lender Agreement in any other respect or at any other time. No Obligor shall have any right to consent to or approve any consent or waiver of any provisions of this Inter-Lender Agreement given by the Term Agent or the Term Lenders to the Revolver Agent or the Revolver Lenders, nor to any consent or waiver given by the Revolver Agent or the Revolver Lenders to the Term Agent or the Term Lenders. No Obligor shall have any right to consent to or approve any amendment or modification of any provision of this Inter-Lender Agreement except to the extent such amendment expressly purports to impose specific additional obligations on it.

(f) Each Agent, on behalf of itself and the applicable Lenders, agrees that each of them shall take such further action and shall execute and deliver to each other such

additional documents and instruments (in recordable form, if requested) as the other may reasonably request, and as the cost of Obligors or, to the extent Obligors fail to pay promptly following demand therefore, the Requesting Agent, to effectuate the terms of and the lien priorities contemplated by this Inter-Lender Agreement.

(g) Each Agent represents and warrants to the other Agent that it has full right, power, and authority to enter into and perform this Inter-Lender Agreement. In no event shall Term Agent, either in its capacity as agent or in its individual capacity, or any Term Lender, including their respective officers, directors, employees or shareholders, have any liability hereunder for, and Revolver Agent and Revolver Lenders shall not have any claim against the assets of Term Agent, Term Lender or other such person, or the Term Collateral for, any breach or omission under this Inter-Lender Agreement and Revolver Agent's and Revolver Lenders' sole remedy hereunder shall be specific performance of the duties and obligations set forth in this Inter-Lender Agreement.

(h) If any person or entity hereafter becomes an Obligor, the other Obligors shall cause such Obligor to deliver a joinder agreement or other agreement with respect to this Inter-Lender Agreement, in form and substance reasonably satisfactory to each of the Term Agent and the Revolver Agent pursuant to which such person or entity shall acknowledge, accept and agree to the terms of this Inter-Lender Agreement.

(i) EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(j) EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS INTER-LENDER AGREEMENT OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT

PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS INTER-LENDER AGREEMENT SHALL AFFECT ANY RIGHT THAT ANY AGENT OR ANY LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS INTER-LENDER AGREEMENT OR ANY OTHER LOAN DOCUMENTS AGAINST ANY OBLIGOR OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(k) EACH BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (j) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(l) EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW

(m) This Agreement may be executed in any number of counterparts, and by each party in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

(n) THIS AGREEMENT SHALL BE DEEMED TO BE CONSUMMATED IN THE STATE OF NEW YORK AND SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(o) If any provision of this Inter-Lender Agreement is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

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Each of the parties hereto has caused a counterpart of this Inter-Lender Agreement to be duly executed and delivered as of the date first written above.

WELLS FARGO FOOTHILL, INC.

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

BANK OF AMERICA LEASING & CAPITAL, LLC, as Term Agent

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

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Acknowledged, accepted and agreed as of the date first written above.

**CHEROKEE NITROGEN HOLDINGS, INC.,**  
an Oklahoma corporation

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

**NORTHWEST FINANCIAL CORPORATION,**  
an Oklahoma corporation

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

**CHEROKEE NITROGEN COMPANY,**  
an Oklahoma corporation

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

**DSN CORPORATION,**  
an Oklahoma corporation

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

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

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

**THERMACLIME, INC.,**  
an Oklahoma corporation

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

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**CHEROKEE NITROGEN COMPANY,**  
an Oklahoma corporation

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

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

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

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

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

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

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

**INTERNATIONAL ENVIRONMENTAL CORPORATION,**  
an Oklahoma corporation

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

**THERMACLIME TECHNOLOGIES, INC.,**  
an Oklahoma corporation

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

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**KOAX CORP.**, an Oklahoma corporation

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

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

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

**XPEDIAIR, INC.**, an Oklahoma corporation.

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

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

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

**CHEMEX I CORP.**, an Oklahoma corporation

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

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

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

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**CHEMEX II CORP.,**  
an Oklahoma corporation

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

Title:

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EXHIBIT A-1

Address of Alabama (Cherokee) Site

1080 Industrial Drive, Cherokee, AL 35616

Exhibit A-1

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EXHIBIT A-2

Address of El Dorado (Arkansas) Site

4500 North West Avenue, El Dorado, Arkansas 71730-2548

Exhibit A-2

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EXHIBIT B-1

Legal Property Description of Alabama (Cherokee) Site

The tract or lot of land lying in the County of Colbert, State of Alabama, known and described as follows, to wit:

PARCEL I:

Begin at the Northwest corner of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, and run thence South 0 degrees 36 minutes 44 seconds West 2621.36 feet with the westerly boundary line of said Section 7 to a point on said boundary line; thence run North 88 degrees 55 minutes 46 seconds West 990.00 feet to a point; thence run South 0 degrees 35 minutes 43 seconds West 2623.55 feet parallel with the westerly boundary line of said Section 7, to a point on the northerly boundary line of Section 13, Township 3 South, Range 14 West; thence run South 0 degrees 46 minutes 39 seconds West a distance of 5329.16 feet to a point on the southerly boundary of Section 13, Township 3 South, Range 14 West; thence run South 87 degrees 49 minutes 42 seconds East 1000.47 feet to the Southwest corner of Section 18, Township 3 South, Range 13 West; thence run South 89 degrees 14 minutes 26 seconds East 1397.26 feet to the Southwest corner of the Southeast quarter of the Southeast quarter of said Section 18, which section is a fractional section; thence run North 0 degrees 21 minutes 39 seconds East a distance of 46.5 feet to a concrete monument on the north right-of-way margin of Lile Academy Road; thence south 89 degrees 08 minutes 27 seconds east along said north right-of-way margin a distance of 1,281.76 feet to a concrete monument; thence south 88 degrees 50 minutes 29 seconds east a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 474.74 feet; thence north 12 degrees 06 minutes 31 seconds east a distance of 784.37 feet; thence north 12 degrees 02 minutes 41 seconds east a distance of 51.11 feet; thence south 89 degrees 59 minutes 07 seconds west a distance of 726.65 feet; thence north 00 degrees 00 minutes 42 seconds east a distance of 414.62 feet; thence north 84 degrees 05 minutes 23 seconds east a distance of 780.35 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 816.26 feet to the south right-of-way margin of a 200 foot railroad right-of-way; thence north 88 degrees 03 minutes 37 seconds west along said south right-of-way margin a distance of 1,193.19 feet; thence westerly along the curving south right-of-way margin a distance of 347.85 feet (said curve concave south, having a radius of 1,046.00 feet, a chord bearing of south 82 degrees 24 minutes 48 seconds west, a chord length of 346.25 feet); thence north 02 degrees 12 minutes 51 seconds west a distance of 205.80 feet to the north right-of-way margin of a 200 foot railroad right-of-way; thence easterly along the curving north right-of-way margin a distance of 361.43 feet (said curve concave south, having a radius of 1,246.00 feet, a chord bearing north 83 degrees 37 minutes 48 seconds east, a chord distance of 360.16 feet); thence south 88 degrees 03 minutes 37 seconds east a distance of 1,188.82 feet; thence north 00 degrees 41 minutes 22 seconds east a distance of 310.14 feet; thence south 89 degrees 24 minutes 33 seconds east a distance of 240.77 feet to U.S.-T.V.A. Monument No. 50 (being a concrete monument capped by a bronze tablet showing said monument number and also "T.3S.R.13W.", and all other references to U.S.-T.V.A. monuments herein shall refer to monuments of like character); thence north 00 degrees 24 minutes 16 seconds east a distance of 420.42 feet to U.S.-T.V.A. Monument No. 51; thence run north 33 degrees 37 minutes west 2,733.00 feet to U.S.-T.V.A. Monument No. 52 in the north line of Section 17, which is in the



south line of Section 8; thence north 37 degrees 38 minutes west 416.00 feet to U.S.-T.V.A. Monument No. 53 at the northwest corner of the Southwest Quarter of the Southwest Quarter of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 01 degree 35 minutes east 977.00 feet to U.S.-T.V.A. Monument No. 54 at the northwest corner of the Southeast Quarter of the Southwest Quarter of Section 8; thence north 35 degrees 59 minutes west 1,633.00 feet to U.S.-T.V.A. Monument No. 55 at the southeast corner of the Southwest Quarter of the Southwest Quarter of the Southwest Quarter of the Northwest Quarter of Section 8; thence north 88 degrees 50 minutes west 332.00 feet to U.S.-T.V.A. Monument No. 56 at the southwest corner of the Northwest Quarter of Section 8; thence with the south line of the Northeast Quarter of Section 7 north 88 degrees 50 minutes west 330.00 feet to U.S.-T.V.A. Monument No. 57; thence leaving the said south line north 01 degree 23 minutes 15 seconds east 1,966.31 feet to U.S.-T.V.A. Monument No. 58; thence run north 88 degrees 35 minutes west 336.33 feet to U.S.-T.V.A. Monument No. 59; thence run south 68 degrees 55 minutes 24 seconds west 1,751.46 feet, more or less, to a point on the south line of the north half of the north half of Section 7, Township 3 South, Range 13 West, which point is to be found by finding the intersection of said south line of said north half of the north half of said Section 7 with a line run south 00 degrees 39 minutes 12 seconds west a distance of 45 feet from U.S.-T.V.A. Monument No. 60; thence run north 00 degrees 39 minutes 12 seconds east 659.42 feet; thence run north 56 degrees 58 minutes 57 seconds east 1,150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62 which is located in the north boundary of said Section 7 at a point 1,399.63 feet easterly from the northwest corner thereof; thence run north 88 degrees 39 minutes 30 seconds west with said section line 1,399.63 feet to the POINT OF BEGINNING.

LESS AND EXCEPT FROM THE FOLLOWING PARCELS: III, IV, V, VI, AND VII:

Parcel III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North 89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North 89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.00 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning of the tract herein described.

Parcel IV

Commence at the Southwest corner of the said Section 7, Township 3 South, Range 13 West, Colbert County, Alabama; thence North 0 degrees 36 minutes 44 seconds east along the west line of the said Section 7 a distance of 2621.68 feet to the northwest corner of the Southwest 1/4 of the said Section 7 and the point of beginning of the tract herein described; thence continuing north 0 degrees 36 minutes 44 seconds east a distance of 200.00 feet to a point; thence south 89 degrees 23 minutes 16 seconds east a distance of 1500.00 feet to a point; thence south 0 degrees 36 minutes 44 seconds west a distance of 600.0 feet to a point; thence north 89 degrees 23 minutes 16 seconds west a distance of 1500.0 feet to a point on the west line of said Section 7; thence north 0 degrees 36 minutes 44 seconds east a distance of 400.0 feet to the point of beginning of the tract herein described.

Parcel V

A parcel of land located in Section 18, Township 3-South, Range 13-West in Colbert County, State of Alabama, said parcel lying east of a right of way for a proposed road approximately 3 miles north of Cherokee, and being more particularly described as follows: Commencing at a point in the east line of Section 18, said point being 1276.0 feet south of the northeast corner of said section; thence due west, 620.9 feet to the POINT OF BEGINNING at the northeast corner of the parcel of land herein described; thence due south 600.0 feet to a point; thence due west, 500.0 feet to a point; thence with a line 132.0 feet east of and parallel to the east line of the right of way of a proposed road due north, 600.0 feet to a point; thence due east, 500.0 feet to the point of beginning.

Parcel VI

Also for the point of beginning, commence at the intersection of the South line of North half of North half of Section 7, Township 3 South, Range 13 West, Colbert County, Alabama, with a line run South 0 degrees 39 minutes 12 seconds West from U.S.-T.V.A. Monument No. 60; thence run North 0 degrees 39 minutes 12 seconds East 659.42 feet to the point of beginning; from said point of beginning run thence North 56 degrees 58 minutes 57 seconds E 1150.50 feet, more or less, to U.S.-T.V.A. Monument No. 62, which is located in the North boundary of Section 7 at a point of 1399.63 feet easterly from the Northwest corner thereof; from said Monument No. 62 run thence South 58 degrees 53 minutes 18 seconds West 1126.17 feet to U.S.-T.V.A. Monument No. 61; thence run South 0 degrees 39 minutes 12 seconds West to the point of beginning.

Parcel VII:

Commence at the southwest corner of Section 18, Township 3 South, Range 13 West, Colbert County, Alabama; thence south 89 degrees 14 minutes 26 seconds east along the South boundary of said Section 18 a distance of 1,397.26 feet; thence run North 00 degrees 21 minutes 39 seconds East a distance of 825.71 feet to the POINT OF BEGINNING; continue thence North 00 degrees 21 minutes 39 seconds East a distance of 505.52 feet; thence South 89 degrees 22 minutes 51 seconds East

a distance of 1,116.70 feet; thence South 66 degrees 13 minutes 10 seconds West along said southeasterly right of way margin a distance of 1,223.71 feet to the POINT OF BEGINNING, containing 6.48 acres, more or less, and then being that same parcel of land described in Deed Book 264, Page 560 as recorded in the Probate Office of Colbert County, Alabama.

PARCEL II:

A tract of land lying in Colbert County, State of Alabama, in the East half of East half of Northeast quarter, Section 7, the West half of Northwest quarter and Southwest quarter of Section 8, and the Northeast quarter and East half of Northwest quarter of Section 17, Township 3 South, Range 13 West on the southwest shore of Pickwick Landing Lake opposite Kogor's Island and approximately 4 miles northeast of Cherokee, Alabama, and being more particularly described as follows:

Beginning at U.S.-T.V.A. Monument 51 in the Southwest quarter of Southwest quarter of Northeast quarter of Section 17 and in the boundary of true United States of America's land at a corner of the land of Mrs. F.W. Benson and S.W. Frierson & C.W. Watts' thence with the United States of America's boundary North 33 degrees 37' West 2733.00 feet to the U.S.-T.V.A. Monument 52 in the north line of Section 17, which is the south line of Section 8; thence North 37 degrees 38' West, 416.00 feet to U.S.-T.V.A. Monument 53 at the northwest corner of the Southwest quarter of the Southwest quarter of the Southeast quarter of Southwest quarter, Section 8; thence North 1 degree 35' East, 977.00 feet to U.S.-T.V.A. Monument 54 at the northwest corner of the Southeast quarter of the SW 1/4 Section 8, thence North 35 degrees 59' West, 1633.00 feet to U.S.-T.V.A. Monument 55 at the southeast corner of the Southwest quarter of the Southwest quarter of Southwest quarter of Northwest quarter, Section 8; thence North 88 degrees 50' West, 332.00 feet to U.S.-T.V.A. Monument 56 at the southwest corner of the Northwest quarter of Section 8; thence with the south line of the Northeast quarter, Section 7 North 88 degrees 50' West, 330.00 feet to U.S.-T.V.A. Monument 57; thence leaving the said South line, North 1 degree 23 minutes 15 seconds East, 1966.31 feet to U.S.-T.V.A. Monument 58; thence, leaving the United States of America's boundary South 89 degrees 59 minutes 29 seconds East, 410 feet, passing a metal marker at 385.00 feet, to a point in the 423-foot contour on the shore of Pickwick Landing Lake; thence with the 423-foot contour as it meanders in a southeasterly direction to a point; thence, leaving the contour, South 61 degrees 19 minutes 05 seconds West, 534.50 feet, passing a metal marker at 17 feet, to U.S.-T.V.A. Monument 49 in the south line of the Northeast quarter of Section 17 and in the boundary of the United States of America's land; thence with the United States of America's boundary and the south line of the Northeast quarter of Section 17, North 89 degrees 19 minutes West, 260.20 feet to U.S.-T.V.A. Monument 50; thence leaving the said south line, North 0 degrees 24 minutes 16 seconds East, 420.42 feet to the point of beginning.

PARCEL III:

Commencing at the Southwest corner of Section 18, T-3-S, R-13-W, Colbert County, Alabama, thence North 0 degrees 48 minutes East along the West line of said Section 18 a distance of 4085.36 feet to a point; thence North 89 degrees 58 minutes East a distance of 2003.88 feet to a concrete monument and the point of beginning of the tract herein described; thence North 0 degrees 02 minutes West a distance of 450.00 feet to a point on a chain link fence; thence North 89 degrees 58 minutes East with chain link fence a distance of 298.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 116.50 feet to a point; thence North

89 degrees 58 minutes East with chain link fence a distance of 52.00 feet to a point; thence South 0 degrees 02 minutes East with chain link fence a distance of 333.50 feet to a point; thence leaving said chain link fence South 89 degrees 58 minutes West a distance of 2.0 feet to a concrete monument; thence continuing South 89 degrees 58 minutes West a distance of 348.00 feet to the concrete monument at the point of beginning at the tract herein described.

PARCEL VIII:

A parcel of land lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County road and the POINT OF BEGINNING; thence north 12 degrees 05 minutes 42 seconds east a distance of 761.78 feet; thence south 70 degrees 57 minutes 14 seconds east a distance of 233.95 feet to a Point of Curve; thence southeasterly along a curve concave north a distance of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord bearing of south 79 degrees 59 minutes 24 seconds east, a chord distance of 635.97 feet) to the Point of Tangency; thence south 89 degrees 01 minute 08 seconds east a distance of 517.34 feet to a Point of Curve; thence southeasterly along said curve concave southwesterly a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of south 71 degrees 56 minutes 27 seconds east, a chord distance of 557.98 feet) to a Point of Reverse Curve; thence southwesterly along a curve a distance of 108.67 feet (said curve concave northeasterly having a chord bearing of south 25 degrees 43 minutes 19 seconds east, a chord distance of 88.51 feet) to a point; thence south 00 degrees 41 minutes 33' west a distance of 360.35 feet; thence north 89 degrees 04 minutes 24 seconds west a distance of 1,995.46 feet; thence north 00 degrees 46 minutes 28 seconds east a distance of 30.00 feet; thence north 88 degrees 59 minutes 48 seconds west a distance of 94.09 feet to the POINT OF BEGINNING.

PARCEL IX:

A parcel of land lying in Section 17, Township 3 South, Range 13 West and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 south, Range 13 West, Colbert County, Alabama; thence north 00 degrees 44 minutes 27 seconds west a distance of 44.05 feet to a concrete monument on the north right-of-way of Lile Academy Road; thence south 88 degrees 50 minutes 29 seconds east along the north right-of-way of an unnamed County road a distance of 2,191.21 feet; thence south 89 degrees 04 minutes 39 seconds east a distance of 535.94 feet to the east right-of-way of a County Road; thence north 12 degrees 05 minutes 42 seconds east along said east right-of-way a distance of 812.15 feet to the POINT OF BEGINNING; thence north 12 degrees 05 minutes 22 seconds east along said right-of-way a distance of 204.63 feet; thence north 01 degree 53 minutes 39 seconds east along said right-of-way a distance of 310.69 feet; thence south 89 degrees 07 minutes 03 seconds east a distance of 1,802.58 feet to T.V.A. Monument #48; thence south 42 degrees 56 minutes 26 seconds east a distance of 310.99 feet; thence south 56 degrees 00 minutes 16 seconds west a

distance of 808.14 feet to a point of curve; thence northwesterly along a curve concave southwesterly a distance of 43.45 feet (said curve having a radius of 1,000.00 feet, a chord bearing of N 87 deg 46 min 18 sec West a arc length of 43.45 feet) to the point of tangency; thence north 89 degrees 01 minutes 16 seconds West a distance 516.26 feet to the Point of a Curve; thence northwesterly along a curve concave north a distance of 622.86 feet (said curve having a radius of 1,975 feet, a chord bearing of North 79 degrees 59 minutes 24 seconds West, a chord distance of 620.28 feet) to the Point of Tangency; thence North 70 degrees 57 minutes 14 seconds West a distance of 240.04 feet to the POINT OF BEGINNING.

All the foregoing being the same property conveyed by LaRoche Industries, Inc. to Cherokee Nitrogen Company, by deed dated October 31, 2000, filed for record in the Office of the Judge of Probate of Colbert County, Alabama, on November 7, 2000, at 1:37 p.m., and recorded on Microfiche 2000 25, Frames 133-141.

Less and except therefrom property conveyed by Cherokee Nitrogen, Inc., to National Telephone Company of Alabama, by corrective warranty deed dated April 2, 2001 and recorded on Fiche 2001 09 Frame 748, being more particularly described as follows, to-wit:

Commence at a cotton spindle on the SW corner of Section 18, T-3-S, R-12-W, Colbert County, Alabama; then run S 89 degrees 14' 26" E for 1397.26' to a spike found; then run N 0 degrees 21' 39" E for 46.4' to a 6" concrete monument, the point of beginning; then run N 0 degrees 21' 39" E for 50.0' to an iron pin; then run S 89 degrees 14' 26" E for 50.0' to an iron pin; then run S 0 degrees 21' 39" W for 50.0' to an iron pin; then run N 89 degrees 14' 26" W for 50.0' to the point of beginning.

#### **Non-Exclusive Easement for Private Road**

A fifty (50) foot wide private road lying in Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, and being more particularly described as follows: Commence at the southwest corner of Section 17, Township 3 South, Range 13 West, Colbert County, Alabama, thence North 00 degrees 44 minutes 27 seconds West a distance of 44.05 feet to a concrete monument on the northern right-of-way margin of Lile Academy road; thence South 88 degrees 50 minutes 29 seconds East along the northern right-of-way margin of a gravel road a distance of 2,191.21 feet; thence South 89 degrees 04 minutes 39 seconds East a distance of 535.74 feet to the east right-of-way margin of a County Road; thence North 12 degrees 05 minutes 42 seconds East a distance of 761.78 feet to the POINT OF BEGINNING; thence continue North 12 degrees 05 minutes 42 seconds East a distance of 50.37 feet; thence South 70 degrees 57 minutes 14 seconds East a distance of 240.04 feet to the P.C. of a curve; thence southeasterly a curve concave northerly a distance of 622.86 feet (said curve having a radius of 1,975.00 feet, a chord distance of 620.28 feet, a chord bearing of South 79 degrees 59 minutes 24 seconds East) to the P.T. of said curve; thence South 89 degrees 01 minute 16 seconds East a distance of 516.26 feet to the P.C. of a curve; thence southeasterly along a curve concave southwesterly a distance of 648.77 feet (said curve having a radius of 1,000.00 feet, a chord distance of 637.45 feet, a chord bearing of South 70 degrees 26 minutes 42 seconds East) to the P.T. of said curve and the P.C. of a cul-de-sac; thence easterly, southerly, northwesterly along a curve (having a radius of 50.00 feet; a chord bearing of South 82 degrees 09 minutes 16 seconds West, a chord distance of 70.63

feet) a distance of 234.31 feet to the P.T. of said curve; thence northwesterly along a curve concave southwest a distance of 566.33 feet (said curve having a radius of 950.00 feet, a chord bearing of North 71 degrees 56 minutes 27 seconds West, a chord distance of 557.98 feet) to the P.T. of said curve; thence North 89 degrees 01 minute 08 seconds West a distance of 517.34 feet to the P.C. of a curve; thence northwesterly along a curve concave northerly of 638.62 feet (said curve having a radius of 2,025.00 feet, a chord distance of 635.97 feet, a chord bearing of 79 degrees 59 minute 24 seconds west) to the P.T. of said curve, thence North 70 degrees 57 minutes 14 seconds West) to the P.T. of said curve; thence North 70 degrees 57 minutes 14 seconds West a distance of 233.95 feet to the POINT OF BEGINNING.

Legal Property Description of El Dorado (Arkansas) Site

The land referred to herein below is all situated in Union County, Arkansas

**Tract 1:**

The South Half of Section 6, and the North Half of Section 7, and the Northwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, and the following described tract:

Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of Section 8 to the intersection with the South right-of-way line of the access road as now located, said right-of-way line being 50 feet perpendicular distance from the center line of said access road;  
thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom to the intersection with the South right-of-way line for the railroad spur herein above described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

**LESS AND EXCEPT THE FOLLOWING TRACTS:**

1. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, and thence run North 88 degrees 53 minutes 44 seconds West 1772.43 feet;  
thence North 01 degree 03 minutes 47 seconds East 576.89 feet for a POINT OF BEGINNING;  
thence North 88 degrees 56 minutes 13 seconds West 134.0 feet;  
    thence North 01 degree 03 minutes 47 seconds East 40.00 feet;  
    thence North 88 degrees 56 minutes 13 seconds West 16.00 feet;  
    thence North 01 degree 03 minutes 47 seconds East 40.0 feet;  
    thence South 88 degrees 56 minutes 13 seconds East 150.00 feet;  
thence South 01 degree 03 minutes 47 seconds West 80.00 feet to the POINT OF BEGINNING.

**AND**

2. Commencing at the Southeast Corner of Section 6, Township 17 South, Range 15 West, run thence North 88 degrees 53 minutes 44 seconds West 2341.68 feet; thence North 01 degree 05 minutes 46 seconds East 545.52 feet for a POINT OF BEGINNING; thence North 88 degrees 54 minutes 14 seconds West 240.00 feet; thence North 01 degree 05 minutes 46 seconds East 30.00 feet; thence North 88 degrees 54 minutes 14 seconds West 96.71 feet; thence North 01 degree 05 minutes 46 seconds East 118.10 feet; thence South 88 degrees 54 minutes 14 seconds East 336.71 feet; thence South 01 degree 05 minutes 46 seconds West 85.72 feet; thence South 88 degrees 54 minutes 14 seconds East 59.31 feet; thence South 01 degree 05 minutes 46 seconds West 40.58 feet; thence North 88 degrees 54 minutes 14 seconds West 59.31 feet; thence South 01 degree 05 minutes 46 seconds West 21.80 feet to the POINT OF BEGINNING.

**Tract 2:**

Commencing at the North Quarter Corner of Section 1, Township 17 South, Range 16 West, thence South 88 degrees 46 minutes East, 282.7 feet; thence South 01 degree 14 minutes West, 269.2 feet to the POINT OF BEGINNING; thence South 88 degrees 46 minutes East, 150.0 feet; thence South 01 degree 14 minutes West, 150.0 feet; thence North 88 degrees 46 minutes West, 150.0 feet; thence North 01 degree 14 minutes East, 150.0 feet to the POINT OF BEGINNING.

**Tract 3:**

Beginning at the Southwest Corner of the Northeast Quarter of Section 31, Township 16 South, Range 15 West; thence North 00 degrees 07 minutes East 150 feet to a stake; thence South 88 degrees 37 minutes East 150 feet to a stake; thence South 00 degrees 07 minutes West 150 feet to a stake on South line of the Northeast Quarter; thence North 88 degrees 37 minutes West 150 feet to POINT OF BEGINNING.

**Tract 4:**

Beginning at the Southeast Corner of the Southwest Quarter of Section 30, Township 16 South, Range 15 West, at a iron pipe Corner; thence North 88 degrees 38 minutes West 150 feet along the South line of said Section 30 to a stake; thence North 00 degrees 07 minutes East 150 feet to a stake; thence South 88 degrees 38 minutes East to a stake on the East line of said Southwest Quarter; thence South 00 degrees 07 minutes West 150 feet to POINT OF BEGINNING.



**Tract 5:**  
Commencing at the Northwest Corner of the South Half of the Northeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence South 00 degrees 04 minutes East, 469.0 feet;  
thence North 53 degrees 09 minutes East, 126.45 feet;  
thence North 61 degrees 26 minutes East, 239.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 118.7 feet;  
thence North 89 degrees 56 minutes East, 150.0 feet;  
thence South 00 degrees 04 minutes East, 150.0 feet;  
thence South 89 degrees 56 minutes West, 150.0 feet;  
thence North 00 degrees 04 minutes West, 31.3 feet to the POINT OF BEGINNING.

**Tract 6:**  
Beginning at a point which is South 00 degrees 18 minutes East 223.2 feet and North 89 degrees 42 minutes East 273.1 feet distance from the Northwest Corner of the Southwest Quarter of Section 9, Township 17 South, Range 15 West;  
thence North 00 degrees 18 minutes West 150 feet;  
thence North 89 degrees 42 minutes East 150 feet;  
thence South 00 degrees 18 minutes East 150 feet;  
thence South 89 degrees 42 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 7:**  
Beginning at the Southwest Corner of the Southeast Quarter of Section 2, Township 17 South, Range 16 West;  
thence North 150 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake on South line of said Section 2;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

**Tract 8:**  
Beginning at the Southwest Corner, Section 2, Township 17 South, Range 16 West;  
thence North along Section line 150 feet to a stake;  
thence South 88 degrees 56 minutes East 150 feet to a stake;  
thence South 150 feet to a stake;  
thence North 88 degrees 56 minutes West 150 feet to POINT OF BEGINNING.

**Tract 9:**  
Commencing at the Southwest Corner of the Southeast Quarter of Section 12, Township 17 South, Range 16 West;  
thence North 00 degrees 04 minutes West, 276.7 feet;  
thence North 89 degrees 56 minutes East, 271.8 feet to the POINT OF BEGINNING;  
thence North 00 degrees 04 minutes West, 150 feet;  
thence North 89 degrees 56 minutes East, 150 feet;  
thence South 00 degrees 04 minutes East, 150 feet;  
thence South 89 degrees 56 minutes West, 150 feet to the POINT OF BEGINNING.

**Tract 10:**

Commencing at the Southwest Corner of Southeast Quarter of Section 7, Township 17 South, Range 15 West;  
thence South 88 degrees 25 minutes East 155.4 feet;  
thence North 01 degree 35 minutes East 308.5 feet to the POINT OF BEGINNING;  
thence continuing North 01 degree 35 minutes East 150 feet;  
thence South 88 degrees 25 minutes East 150 feet;  
thence South 01 degree 35 minutes West 150 feet;  
thence North 88 degrees 25 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 11:**

Beginning at the Northwest Corner of the Southeast Quarter, Section 18, Township 17 South, Range 15 West;  
thence South 88 degrees 21 minutes East 150 feet along the North line of the said Southeast Quarter to a stake;  
thence South 00 degrees 11 minutes East 150 feet to a stake;  
thence North 88 degrees 21 minutes West 150 feet to a stake on the West line of the said Southeast Quarter;  
thence North 00 degrees 11 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 12:**

Beginning at a point on the West line of the Southeast Quarter of Section 18, Township 17 South, Range 15 West, located North 00 degrees 11 minutes West 150 feet from the Southwest Corner of said Southeast Quarter;  
thence North 00 degrees 11 minutes West 100 feet along the West line of said Southeast Quarter to a stake;  
thence South 88 degrees 17 minutes East 150 feet to a stake;  
thence South 00 degrees 11 minutes East 100 feet to a stake;  
thence North 88 degrees 17 minutes West 150 feet to the POINT OF BEGINNING.

**Tract 15:**

Beginning at the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence North 89 degrees 25 minutes West along the South line of said Section 1, 4830.14 feet to POINT OF BEGINNING;  
thence North 00 degrees 04 minutes East 150 feet;  
thence North 89 degrees 25 minutes West 150 feet;  
thence South 00 degrees 04 minutes West 150 feet to the intersection of South line of Section 1;  
thence South 89 degrees 25 minutes East along Section line 150 feet to POINT OF BEGINNING.

**Tract 16:**

Beginning at a point 10.4 feet North of the Southwest Corner of Section 5, Township 17South, Range 15 West;  
thence East 29.5 feet;  
thence North 150.0 feet;  
thence West 29.5 feet;  
thence South 150.0 feet to the POINT OF BEGINNING.

**Tract 17:**

Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence West 25.00 feet;  
thence South approximately 134.83 feet;  
thence East 25.00 feet;  
thence North to the PLACE OF BEGINNING.

**The exclusive right to produce water from any horizon lying under the following described Tract 18 in Union County, Arkansas, at and below a depth of 350 feet below the surface:**

**Tract 18:**

The East Half of Section 1 and the East Half of Section 12, all in Township 17 South, Range 16 West,

**And**

The South Half of Section 7 and all of Section 8, all in Township 17 South, Range 15 West,

**And**

All that part of the West Half of the West Half of Section 9, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all that part of the Southwest Quarter of the Southwest Quarter of Section 4, Township 17 South, Range 15 West, lying West of the El Dorado-Smackover Highway and all of Section 5 and the North Half of Section 6, all in Township 17 South, Range 15 West, **EXCEPT the following described tracts, lettered (a) through (k), both inclusive, to-wit:**

- (a) The Northwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West.
  
- (b) Beginning at the Northwest Corner of the Northeast Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence South along the West line of said Northeast Quarter of the Northwest Quarter of said Section 8 to the intersection with the South right-of-way line of the Access Road as now

located said right-of-way line being 50 feet perpendicular distance from the center line of said Access Road;  
thence in a Northeasterly direction along said right-of-way line to the intersection with the South line of the right-of-way of the railroad spur, said right-of-way line for the railroad spur being 50 feet perpendicular distance from the center line of said railroad spur;  
thence along said South right-of-way line for the railroad spur to a point which is 750 feet South of the North line of said Section 8;  
thence East along a line which is parallel to the North line of said Section 8, and 750 feet distant therefrom, to the intersection with the South right-of-way line for the railroad spur hereinabove described;  
thence in a Southeasterly direction along the said South right-of-way line to the intersection with the West right-of-way line of the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along the West right-of-way line of said El Dorado-Smackover Highway to the North line of Section 9, Township 17 South, Range 15 West;  
thence West along the North line of said Section 9 and the North line of said Section 8 to the POINT OF BEGINNING.

(c) Commencing at the Northwest Corner of Section 5, Township 17 South, Range 15 West;  
thence South 88 degrees 24 minutes East 4060.30 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 00 degrees 40 minutes West 1213.20 feet;  
thence South 88 degrees 10 minutes East 1200.33 feet to the El Dorado-Smackover Highway;  
thence in a Northwesterly direction along said Highway to the North line of said Section 5;  
thence in a Westerly direction to the POINT OF BEGINNING.

(d) Commencing at the Northeast Corner of Section 6, Township 17 South, Range 15 West;  
thence North 88 degrees 23 minutes West 1327 feet to the POINT OF BEGINNING of this excepted tract;  
thence South 01 degree 37 minutes West 90 feet;  
thence North 88 degrees 23 minutes West 990 feet;  
thence North 01 degree 37 minutes East 90 feet;  
thence South 88 degrees 23 minutes East 990 feet to the POINT OF BEGINNING.

(e) Tract 2 described above.

(f) Tract 5 described above.

(g) Tract 6 described above.

(h) Tract 9 described above.

(i) Tract 10 described above.

(j) Tract 16 described above.

(k) Tract 17 described above.

**TOGETHER WITH** all of the rights of the United States of America as granted to Lion Oil Company in an instrument entitled "Quitclaim Deed, Assignment and Bill of Sale" which was

filed March 5, 1948 in Record Book 511, Page 405 to maintain, repair, replace and operate each electrical transmission line, telephone line, water line gas line, sanitary sewer, drainage sewer, drainage ditch, road, trail or railroad upon any of the land which constitutes a part of Tract 18 described above or which leads from Tract 18 described above to Tracts 3, 4, 7, 8, 11, 12 and 15 described above, and the right-of-way in connection therewith, all as is more fully set forth in said Quitclaim Deed, Assignment and Bill of Sale.

**TOGETHER WITH** such water rights as were reserved by Monsanto Company in a Quitclaim Deed in favor of J. L. Lee which was filed February 23, 1981 in Record Book 1459, Page 601, of the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 417.4 feet;  
thence East 417.4 feet;  
thence South 417.4 feet;  
thence West 417.4 feet to the POINT OF BEGINNING.

**ALSO**

Commencing at the Southeast Corner of the Southeast Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West;  
thence North 01 degree 06 minutes East 274.0 feet to the POINT OF BEGINNING;  
thence North 88 degrees 54 minutes West 69.8 feet;  
thence North 01 degree 06 minutes East 150.0 feet;  
thence South 88 degrees 54 minutes East 69.8 feet;  
thence South 01 degree 06 minutes West 150.0 feet to the POINT OF BEGINNING.

**TOGETHER WITH** such water rights as were reserved in a Quitclaim Deed in favor of Louis Knox White et al which was filed September 10, 1982 in Record Book 1521, Page 257, in the Union County Deed Records describing the following tract:

Beginning at the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 9, Township 17 South, Range 15 West;

and run North 00 degrees 38 minutes East 1729.4 feet to the South right-of-way line of the Missouri-Pacific Railroad;

thence in a Southeasterly direction along said right-of-way for 547.8 feet to the West line of Highway No. 7B;  
thence South 08 degrees 29 minutes East along said line 21.8 feet;  
thence South 05 degrees 24 minutes East along said line 1444.0 feet;  
thence South 02 degrees 50 minutes East along said line 96.57 feet;  
thence North 88 degrees 14 minutes West 675.4 feet to the POINT OF BEGINNING.

**Tract 41-1 (25):**

The West Half of the Southeast Quarter of the Southeast Quarter and the Northeast Quarter of the Southeast Quarter of Section 7, and the Southwest Quarter of the Northwest Quarter of Section 8, all in Township 17 South, Range 15 West, Union County, Arkansas, **EXCEPTING THE FOLLOWING DESCRIBED TRACT:**

Beginning at a point 600.0 feet North of the Northwest Corner of the Southwest Quarter of said Section 8;  
thence North 435.6 feet;  
thence East 100.0 feet;  
thence South 435.6 feet;  
thence West 100.0 feet to the POINT OF BEGINNING.

**Tract 41-2 (20):**

The North Three-Quarters of the North Half of the Northwest Quarter of the Southeast Quarter (N 3/4 N/2 NW/4 SE/4) of Section 7, Township 17 South, Range 15 West, **LESS** three (3) acres in the form of a square in the Northeast Corner thereof.

**Tract 41-4 (22):**

Three acres in the form of a square out of the Northeast Corner of the Northwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

(Same Property as the exception in 41-2 (20) above)

**Tract 41-4 (23):**

Beginning at a point 600 feet North of the Southwest Corner of the Southwest Quarter of the Northwest Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian;  
thence East 100.0 feet;  
thence North 435.6 feet;  
thence West 100.0 feet;  
thence South 435.6 feet to the PLACE OF BEGINNING.

(Same Property as the exception in 41-1 (25) above)

**Tract 41-4 (24):**

A part of the Southwest Quarter of the Southeast Quarter of Section 8, Township 17 South, Range 15 West of the Fifth Principal Meridian, described as follows:

Beginning at a point 417.4 feet North of the Southwest Corner of the said Southwest Quarter of the Southeast Quarter of Section 8 and running thence North 208.71 feet;  
thence East 208.71 feet;  
thence South 208.71 feet;  
thence West 208.71 feet to the PLACE OF BEGINNING,

**EXCEPT** that part of the Southwest Quarter of the Southeast Quarter of Section 8 contained within the following parcel of land, described as:

Commencing at the Southwest Corner of said Southwest Quarter of the Southeast Quarter of said Section 8;  
thence South 88 degrees 54 minutes East, 80.2 feet;  
thence North 01 degree 06 minutes East, 274.0 feet to the POINT OF BEGINNING of said parcel;  
thence North 88 degrees 54 minutes West, 150.0 feet;  
thence North 01 degree 06 minutes East, 150.0 feet;  
thence South 88 degrees 54 minutes East, 150.0 feet;  
thence South 01 degree 06 minutes West, 150.0 feet to the POINT OF BEGINNING.

**Tract 41-5 (19):**

The South Five-Eighths of the Northwest Quarter of the Southeast Quarter and the North Three-Eighths of the Southwest Quarter of the Southeast Quarter of Section 7, Township 17 South, Range 15 West of the Fifth Principal Meridian.

**Tract 41-7:**

The Southwest Quarter of the Northeast Quarter and the Southeast Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-9:**

The Northwest Quarter of the Southwest Quarter of Section 5, Township 17 South, Range 15 West,

**AND**

The East Half of the Northeast Quarter of Section 6, Township 17 South, Range 15 West.

**Tract 41-10:**

The Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, **LESS AND EXCEPT** the following tract:

Commencing at the Northeast Corner of the Northwest Quarter of the Northeast Quarter of Section 6, Township 17 South, Range 15 West, and run thence South 90 feet;  
thence West 990 feet;  
thence North 90 feet;  
thence East 990 feet to the POINT OF BEGINNING.

**Tract 41-11:**

The Southeast Quarter of the Northeast Quarter of Section 1, Township 17 South, Range 16 West,

**ALSO**

The Southwest Quarter of the Northwest Quarter of Section 6, Township 17 South, Range 15 West,

**LESS AND EXCEPT THE FOLLOWING TRACTS:**

1. All that part of the Southeast Quarter of the Northeast Quarter (SE/4 NE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335,
2. All that part of the Southwest Quarter of the Northwest Quarter (SW/4 NW/4) of Section 6, Township 17 South, Range 15 West, Union County, Arkansas, lying North and West of Arkansas State Highway #335.

**Tract 41-12:**

The East Quarter of the Southwest Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West

**AND**

the Southeast Quarter of the Southeast Quarter of Section 1 Township 17 South, Range 16 West of the Fifth Principal Meridian, **LESS THE FOLLOWING TRACTS:**

1. A tract described as:

Commencing 70 yards North of the Southeast Corner of the Southeast Quarter of the Southeast Quarter of Section 1, Township 17 South, Range 16 West, as a BEGINNING POINT;  
thence South 70 yards;  
thence West 330 yards;  
thence North 61.5 yards;  
thence in a straight line to a POINT OF BEGINNING.

2. A tract described as:

Beginning at a point 70 yards North of the Southeast Corner of Section 1, Township 17 South, Range 16 West;  
thence North 15.17 feet;  
thence West 25.00 feet;  
thence South 15.17 feet;  
thence East to the POINT OF BEGINNING.

3. A tract described as:

Commencing at the Southeast Corner (SECor) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 24 minutes 22 seconds West along the South line of said Section 1 a distance of 1172.08 feet, more or less, to the center line of a county road for the point of beginning;  
thence run North 33 degrees 28 minutes 58 seconds East 432.00 feet;  
thence North 89 degrees 21 minutes 48 seconds West 715.87 feet;  
thence South 00 degrees 16 minutes 35 seconds West 363.30 feet to the South line of Section 1;  
thence South 89 degrees 24 minutes 22 seconds East 479.28 feet to the point of beginning.



4. (Monsanto to Gardner)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 199.7 feet to the POINT OF BEGINNING;  
thence North 00 degrees 15 minutes East 150.9 feet;  
thence North 89 degrees 25 minutes West 543.7 feet to the center of State Highway No. 335;  
thence South 33 degrees 55 minutes West along said Highway for 422.4 feet;  
thence South 89 degrees 25 minutes East 184.0 feet;  
thence North 00 degrees 15 minutes East 184.5 feet;  
thence North 89 degrees 00 minutes East 593.5 feet to the POINT OF BEGINNING.

5. (Monsanto to Haney)

Commencing at the Southeast Corner of Section 1, Township 17 South, Range 16 West, and run North 89 degrees 25 minutes West 400.0 feet;  
thence run North 00 degrees 15 minutes East 350.6 feet to the POINT OF BEGINNING;  
thence run North 00 degrees 15 minutes East 819.7 feet to the center of State Highway No. 335;  
thence run South 33 degrees 55 minutes West along said Highway for 979.8 feet;  
thence run South 89 degrees 25 minutes East 543.7 feet to the POINT OF BEGINNING.

6. (NWF to Cole Timber)

The East Quarter of the Southwest Quarter of the Southeast Quarter (E/4 SW/4 SE/4) and all that part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, Township 17 South, Range 16 West, Union County, Arkansas, lying West of Arkansas State Highway #335.

**Tract 41-12A:**

1. (Gardner to Monsanto)

Beginning at the Northeast Corner (NECor) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run South 00 degrees 15 minutes West 330.0 feet;  
thence North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 529.7 feet;  
thence North 89 degrees 00 minutes East 375.0 feet;  
thence South 00 degrees 15 minutes West 134.85 feet;  
thence South 89 degrees 25 minutes East 25.0 feet;  
thence South 00 degrees 15 minutes West 75.05 feet to the POINT OF BEGINNING, and being part of the Southeast Quarter of the Southeast Quarter (SE/4 SE/4) of Section 1, and part of the Northeast Quarter of the Northeast Quarter (NE/4 NE/4) of Section 12, all in Township 17 South, Range 16 West.

2. (Haney to Monsanto)

Beginning at the Southeast Corner of the Northeast Quarter of the Northeast Quarter (SECor NE/4 NE/4) of Section 12, Township 17 South, Range 16 West, Union County, Arkansas, and run North 89 degrees 25 minutes West 400.0 feet;  
thence North 00 degrees 15 minutes East 990.0 feet;  
thence South 89 degrees 25 minutes East 400.0 feet;  
thence South 00 degrees 15 minutes West 990.0 feet to the POINT OF BEGINNING.

**Tract 41-16:**

The North Half of the Southwest Quarter of Section 7, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-17:**

The Northwest Quarter of the Southwest Quarter of Section 8, Township 17 South, Range 15 West, Union County, Arkansas.

**Tract 41-18:**

The Southwest Quarter of the Southwest Quarter (SW1/4 SW 1/4) and the West Half of the Southeast Quarter of the Southwest Quarter (W1/2 SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas

**AND**

Beginning at the Northeast Corner of the Southeast Quarter of the Southwest Quarter (SE1/4 SW1/4) of Section 5, Township 17 South, Range 15 West, Union County, Arkansas, and run North 88 degrees 53 minutes West 695.0 feet;  
thence South 00 degrees 11 minutes West 1326.0 feet to the South line of said forty;  
thence South 88 degrees 53 minutes East along said South line 347.5 feet;  
thence North 00 degrees 11 minutes East 1290.4 feet;  
thence South 88 degrees 53 minutes East 347.5 feet;  
thence North 00 degrees 11 minutes East 26.0 feet to the POINT OF BEGINNING.

**Railroad Right-of-Way:**

Railroad right-of-way extending 50 feet on each side of the centerline of the railroad track as the same is now located, on, over and across the North Half of Section 8, the North Half of Section 9, and the North Half of Section 10, all in Township 17 South, Range 15 West.

Schedule 1

List of Mortgages

1. Mortgage, Assignment of Rents and Security Agreement and Fixture Filing Statement (Alabama), dated as of November 2, 2007, between Cherokee Nitrogen Holdings, Inc. and Banc of America Leasing & Capital LLC, as collateral agent for the Lenders.
  2. Mortgage, Assignment of Rents and Security Agreement and Fixture Filing Statement (Arkansas), dated as of November 2, 2007, between Northwest Financial Corporation and Banc of America Leasing & Capital LLC, as collateral agent for the Lenders.
-

ANNEX A

Form of Closing Date License

**Closing Date License**

**LICENSE TO USE INTELLECTUAL PROPERTY RIGHTS**

For the purpose of enabling Wells Fargo Foothill, Inc., as administrative agent (in such capacity, the "Revolver Agent") under that certain Amended and Restated Loan and Security Agreement, dated as of November 5, 2007 (as the same may be amended, restated, supplemented, modified, refinanced, replaced or renewed from time to time, the "Revolving Loan Agreement") among LSB Industries, Inc. (the "Parent"), ThermaClime, Inc. ("ThermaClime") and certain of its subsidiaries, together with the Parent and ThermaClime, the "Loan Parties"), the financial institutions from time to time parties thereto as lenders (the "Revolver Lenders") and the Revolver Agent, to enforce any Lien held by the Revolver Agent upon any of the Revolver Collateral (as such terms are defined in the Inter-Lender Agreement, dated as of even date herewith (the "Inter-Lender Agreement"), by and among the Revolver Agent, Banc of America Leasing & Capital, LLC, as collateral agent for the Term Loan Lenders (as defined therein) under the Term Loan Agreement (as defined therein) (in such capacity and together with any successor agent, the "Term Agent")), and to the extent appropriate, in the good faith opinion of the Revolver Agent, to process, ship, produce, store, complete, supply, lease, sell, or otherwise dispose of any of the Revolver Collateral or to collect or otherwise realize upon any Accounts or Receivables (as defined in the Revolving Loan Agreement) comprising Revolver Collateral, at such time as the Revolver Agent shall be lawfully entitled to exercise such rights and remedies, each of the Loan Parties hereby grant to the Revolver Agent, for the benefit of the Revolving Lenders, and only to the extent set forth above, an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Obligors (as defined in the Inter-Lender Agreement) to use, license, or sublicense] any intellectual property rights now owned or hereafter acquired by the Loan Parties (except to the extent the terms of any of the foregoing proprietary rights or any agreements relating thereto prohibit such grant of license to Agent), and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof. The Loan Parties hereby agree and acknowledge that no further performance is required of the Revolver Agent under the terms of the license granted pursuant hereto and that this license shall not constitute an executory contract. Capitalized terms not otherwise defined herein shall have the meanings given thereto in the Inter-Lender Agreement. This License Agreement shall be subject in all cases to the terms, conditions and limitations set forth in the Inter-Lender Agreement.

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THIS LICENSE TO USE INTELLECTUAL PROPERTY RIGHTS SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES THEREOF (OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

Dated: October \_\_, 2007

Parent:

**LSB INDUSTRIES, INC.,**  
an Delaware corporation

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

Borrowers:

**THERMACLIME, INC.,**  
an Oklahoma corporation

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

**CHEROKEE NITROGEN COMPANY,** an Oklahoma corporation

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

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

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

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

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

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

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

**INTERNATIONAL ENVIRONMENTAL  
CORPORATION,** an Oklahoma corporation

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

**THERMACLIME TECHNOLOGIES, INC.,**  
an Oklahoma corporation

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

**KOAX CORP.,** an Oklahoma corporation

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

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

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

**XPEDIAIR, INC.,** an Oklahoma corporation.

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

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

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

**CHEMEX I CORP.,** an Oklahoma corporation

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

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

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

**CHEMEX II CORP.,**  
an Oklahoma corporation

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

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**EXHIBIT L**

RECORDING REQUESTED BY )  
AND WHEN RECORDED MAIL TO: )  
Banc of America Leasing & Capital LLC )  
Bank of America )  
MA5-100-32-01 )  
100 Federal St. )  
Boston, MA 02110 )  
Attn.: Annemarie L. Warren, VP )  
Group Operations Manager )  
Loan No.: \_\_\_\_\_ )  
)

Space above for Recorder's Use

**ASSIGNMENT OF LEASES AND RENTS, SUBORDINATION [AND NONDISTURBANCE] AGREEMENT**

**THIS ASSIGNMENT OF LEASES AND RENTS, SUBORDINATION [AND NONDISTURBANCE] AGREEMENT** (this "Assignment") is made as of \_\_\_\_\_, by and among \_\_\_\_\_, a \_\_\_\_\_ as assignor ("Assignor"), with a mailing address at 16 S. Pennsylvania, Oklahoma City, Oklahoma 73107, Attention: \_\_\_\_\_, and \_\_\_\_\_ [name of lessee under subject existing permitted lease], a \_\_\_\_\_ ("Lessee"), with a mailing address at \_\_\_\_\_, Attention \_\_\_\_\_ in favor of Banc of America Leasing & Capital LLC, as collateral agent for the Lenders (hereinafter called the "Assignee" or the "Collateral Agent"), whose address is c/o Annemarie L. Warren, VP; Group Operations Manager, Bank of America, MA5-100-32-01, 100 Federal St., Boston, MA 02110.

**RECITALS:**



A. **WHEREAS**, upon the terms and conditions of a certain Term Loan Agreement, dated as of the date hereof (collectively, such agreement, as amended, restated, supplemented or otherwise modified from time to time, being hereinafter referred to as the "Loan Agreement"), by and among ThermaClime, Inc., an Oklahoma corporation ("ThermaClime"), Cherokee Nitrogen Holdings, Inc., an Oklahoma corporation, Northwest Financial Corporation, an Oklahoma corporation, Chemex I Corp., an Oklahoma corporation, Chemex II Corp, an Oklahoma corporation, Cherokee Nitrogen Company, an Oklahoma corporation, ClimaCool Corp., an Oklahoma corporation, ClimateCraft, Inc., an Oklahoma corporation, Climate Master, Inc., a Delaware corporation, DSN Corporation, an Oklahoma corporation, El Dorado Chemical Company, an Oklahoma corporation, International Environmental Corporation, an Oklahoma corporation, Koax Corp., an Oklahoma corporation, LSB Chemical Corp., an Oklahoma corporation, The Climate Control Group, Inc., an Oklahoma corporation, Trison Construction, Inc., an Oklahoma corporation, ThermaClime Technologies, Inc., an Oklahoma corporation, and XpediAir, Inc., an Oklahoma corporation, as borrowers (individually and collectively, jointly and severally, "Borrower" or "Borrowers"), LSB Industries, Inc., as guarantor, Banc of America Leasing & Capital, LLC, as administrative agent (the "Administrative Agent"), the Collateral Agent and the Lenders from time to time party thereto (the "Lenders"; collectively with the Administrative Agent and the Collateral Agent, the "Secured Parties"), Secured Parties have agreed to provide certain financial accommodations (the "Loan") to Borrowers, upon the terms and conditions set forth in the Loan Agreement and the other Loan Documents.

B. The Loan is secured by that certain Mortgage, Assignment of Rents and Security Agreement and Fixture Filing (the "Mortgage"), dated as of the date of this Agreement, from Assignor, as 'mortgagor', for the benefit of Assignee, as "mortgagee, encumbering real property located in the County of Colbert, State of Alabama, as described on Exhibit A attached hereto, and all buildings and other improvements now or hereafter located thereon (collectively, the "Improvements") (the real property and the Improvements are hereinafter sometimes collectively referred to as the "Property");

C. The Loan Documents (as defined in the Loan Agreement) include the Mortgage, one or more promissory note(s) (each and collectively, the "Note") and all other documents evidencing, securing or otherwise pertaining to the Loan. This Agreement is one of the Loan Documents;

D. Assignor (or Assignor's predecessor-in-interest) and Lessee are parties to the following lease agreement:

\_\_\_\_\_ [i]  
identify subject Exhibiting Permitted Lease  
\_\_\_\_\_ dated \_\_\_\_\_, \_\_\_\_\_ (the "Lease"), pursuant to which Lessee leases from Assignor certain real property legally described on the attached Exhibit A and certain improvements located thereon (the "Premises"). The Premises is or will be encumbered by the Mortgage securing the Loan in favor of Assignee. Lessee has agreed to recognize the rights of Assignee in accordance with the terms and provisions of this Agreement; and

E. As a condition to making the Loan to Borrowers, Assignee has required that Assignor and Lessee execute and deliver this Agreement to further secure payment and performance of Assignor's obligations under the Loan Documents.

NOW, THEREFORE, to induce Assignee to enter into the Loan Documents and to make the Loan, and in consideration thereof and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Lessee hereby covenant and agree for the benefit of Assignee, as follows:

Covenants of Assignor with respect to Assignment:

1. Absolute Assignment. Assignor hereby absolutely and presently assigns to Assignee the following:

(a) All of Assignor's right, title and interest in, to and under the Lease, including (i) all guaranties of and security for Lessee's performance under the Lease, and (ii) all amendments, extensions, renewals or modifications to the lease; and

(b) All deposits (whether for security or otherwise), rents, issues, profits, revenues, royalties, rights, benefits and income of and from the Property, including liquidated damages following default and all proceeds payable under any policy of insurance covering loss of rents, together with the continuing right to collect and receive the same, and together with all rights and claims that Assignor may have against any party under the Lease or against any other occupant of the Property (collectively, the "Rents").

THIS IS AN ABSOLUTE ASSIGNMENT, NOT AN ASSIGNMENT FOR SECURITY ONLY.

2. Grant of License. Assignee hereby confers upon Assignor a license (the "License") to collect and retain the Rents as they become due and payable, so long as no Event of Default (as defined in the Mortgage) shall exist and be continuing. If an Event of Default has occurred and is continuing, Assignee shall have the right, which it may choose to exercise in its sole discretion, to terminate the License without notice to or demand upon Assignor, and without regard to the adequacy of Assignee's security under the Loan Documents.

3. Collection and Application of Rents. Subject to the License granted to Assignor under Section 2 above, Assignee has the right, power and authority to collect any and all Rents after the occurrence and during the continuance of an Event of Default. Assignor hereby appoints Assignee its attorney-in-fact, which power of attorney is with full power of substitution and coupled with an interest, after the occurrence and during the continuance of an Event of Default to perform any and all of the following acts as Assignee, in its sole discretion, may elect:

(a) Demand, receive and enforce payment of any and all Rents;

(b) Give receipts, releases and satisfactions for any and all Rents; or

(c) Sue either in the name of Assignor or in the name of Assignee for any and all Rents.

Assignee may, in its sole discretion, choose to collect Rents either with or without taking possession of the Property. Even if Assignee is collecting and applying Rents as permitted under this Assignment, Assignee shall still be entitled, upon an Event of Default, to exercise and invoke every right and remedy provided to it under this Agreement, the Mortgage, or under any of the other Loan Documents.

Covenants of Lessee, Assignee and Assignor with respect to Subordination:

4. Subordination. Notwithstanding anything to the contrary contained in the Lease, the Lease and the leasehold estate created thereby are hereby declared to be, and hereafter shall continue at all times to be, junior, subject and subordinate, in each and every respect, to the Mortgage, including, without limitation, (i) any and all increases, renewals, modifications, extensions, substitutions,

replacements and or consolidations of the Note or the Mortgage and (ii) any future mortgage or encumbrance affecting the Premises held by or made for the benefit of Assignee and/or its successors and assigns. The foregoing subordination is effective and self-operative without the necessity for execution of any further instruments. Lessee hereby covenants with Assignee that Lessee will not cause the Lease to be subordinated to any interests other than those held by or made for the benefit of Assignee and/or its successors and assigns without prior written notice to and prior written consent of Assignee. At any time at the election of Assignee, Assignee shall have the right to declare the Lease superior to the lien, provisions, operation and effect of the Mortgage.

5. Attornment; Nondisturbance.

a) Notwithstanding the foregoing subordination, if the interest of Assignor under the Lease shall be transferred by reason of foreclosure or other proceedings (judicial or non judicial) for enforcement of the Mortgage or by reason of a deed in lieu of foreclosure, Lessee, at the election of the transferee and its successors and assigns (the "Purchaser") acquiring said interests, shall be bound to the Purchaser pursuant to all of the terms, covenants and conditions of the Lease for the balance of the term of the Lease then remaining and any extensions or renewals thereof which may be effected in accordance with any option therefor in the Lease, with the same force and effect as if the Purchaser were the original Assignor under the Lease, and Lessee does hereby attorn to and agree to attorn to the Purchaser, as its Assignor, said attornment to be effective and self-operative without the necessity for execution of any further instruments, upon Purchaser's election after succeeding to the interest of the Assignor under the Lease.

b) Notwithstanding the provisions of Section 4 and provided that Lessee is not in default under the Lease, Purchaser shall be bound to Lessee and its successors and assigns pursuant to all of the terms, covenants and conditions of the Lease for the balance of the term of the Lease then remaining and any extensions or renewals thereof which may be effected in accordance with any option set forth in the Lease, with the same force and effect as if Purchaser were the original Assignor under the Lease, and provided that Lessee is not in default under the Lease beyond any applicable cure periods, the Lease shall not be terminated, nor shall Lessee's use, possession or enjoyment of the Premises be interfered with, nor shall the leasehold estate granted by the Lease be affected in any other manner, in any foreclosure or any action or proceeding instituted under or in connection with the Mortgage.

6. Further Acts. Notwithstanding any provisions contained in Sections 4 and 5 above which state that the attornment and subordination by Lessee to Assignee and Purchaser are effective and self-operative without the execution of any further instrument, Lessee agrees that, upon request of Assignee and/or Purchaser, it will execute such written agreement to evidence and affirm any and all of Lessee's obligations under this Agreement, and further, Lessee agrees that it will execute from time to time such further assurances and estoppel certificates as may reasonably be requested by Assignee and Purchaser. Without limiting the generality of the foregoing, if and to the extent that Assignor rejects the Lease in any federal or state proceeding, Lessee will, upon the request of Assignee or Purchaser after exercise by Assignee of its remedies in enforcement of the Mortgage, immediately enter into a new lease directly with the Assignee or Purchaser on the same terms as the Lease (for the then-unexpired term of the Lease), provided execution of such new lease does not violate any bankruptcy law or related court order.

7. Limitation. Neither Assignee nor any Purchaser shall be (a) liable for any act or omission of Assignor or any prior Assignor (including the loss or misappropriation of any rental payments or security deposits); (b) subject to any credits, claims, setoffs, offsets or defenses which Lessee may have against Assignor or any prior Assignor; (c) bound by (or responsible for) any advance payment of rent or any other monetary obligations under the Lease to Assignor in excess of one month's prepayment thereof in the case of rent, or in excess of one periodic payment in advance in the case of

any other monetary obligations under the Lease; (d) responsible for any security deposit not actually received by Assignee or any Purchaser; (e) bound by any amendment, assignment (in whole or in part), subletting, extension, renewal or modification of the Lease to which Assignee or Purchaser has not consented in writing (to the extent such consent by Assignee is required under the Loan Documents), and any attempted amendment, assignment (in whole or in part), subletting, extension, renewal or modification of the Lease without said consent (to the extent such consent by Assignee is required under the Loan Documents) shall be null and void and of no force and effect; provided, however, that the consent of the Assignee or Purchaser is not required for (i) an assignment or subletting entered into pursuant to such provision of the Lease as shall expressly provide that Lessee may effect such assignment or subletting without the consent of Assignor or (ii) an extension of the term of such Lease; (f) liable for latent and/or patent defects in the construction of the Premises; (g) liable for any breach of any warranty in the Lease by Assignor or a prior Assignor; (h) bound by any obligation to repair, replace, rebuild or restore the Premises, or any part thereof, in the event of damage by fire or other casualty, or in the event of partial condemnation, beyond such repair, replacement, rebuilding or restoration as may be required of the Assignor under the Lease and as can reasonably be accomplished with the use of the net insurance proceeds or the net condemnation award actually received by or made available to Assignee (as successor in interest to Assignor) or Purchaser; (i) required to remove any person occupying the Premises or any part thereof; or (j) bound by any right of first refusal or right of first offer set forth in the Lease. Neither Assignee nor any Purchaser shall be liable for any reason for amounts in excess of the value of its interest in the Premises, or for consequential or punitive damages of any kind

8. Notice; Cure; Waivers. Lessee agrees to give prompt written notice to Assignee (and to any successor in interest to Assignee of which Lessee has been notified) of any default of the Assignor under the Lease if such default is of such a nature as to give Lessee a right to terminate the Lease, reduce rent or to credit or offset any amounts against future rents. If, within thirty (30) days after receipt of written notice from Lessee, Assignee, at Assignee's sole option, cures (or commences and is diligently pursuing the cure of) a default of Assignor under the Lease that is capable of being cured by Assignee, Lessee agrees not to terminate the Lease, reduce rent, credit or offset against future rents, consent or acquiesce in the termination of the Lease or surrender the Premises and agrees to continue to be bound by the terms of the Lease and this Agreement. To the extent that Assignee is only able to effect cure of such default after taking possession of the Premises or exercising its right to foreclosure under the mortgage, Lessee agrees that the time for cure of such default by Assignee shall be extended for the time reasonably required to obtain such possession or effect such foreclosure.

9. Payments of Rent to Assignee. Assignor absolutely assigns to Assignee all payments of rent as the same are due under the Lease (the "Rent") and Lessee agrees that within thirty (30) days after notice delivered to Lessee of an uncured Event of Default (as defined in the Mortgage) by the Assignee and until such time as all of Assignor's monetary obligations to Assignee pursuant to the Note and the Loan Agreement between Assignee and Borrowers have been fully paid or such Event of Default has been cured (and Assignee and Lessee shall have notice of such cure), Lessee will pay the Rent directly to Assignee. All such rental payments received by Assignee shall be credited against Assignor's obligations to Assignee. Assignor, by its execution hereof, agrees that this Agreement does not constitute a waiver by Assignee of any of Assignee's rights under the Mortgage and any assignment of leases or rents contained therein, or in a separate instrument or in any way release the Assignor from any of the terms, conditions, obligations, covenants and agreements of the Mortgage.

10. Notices. All notices, consents, approvals or other instruments required or permitted to be given by any party pursuant to this Agreement shall be in writing and given by (i) hand delivery, (ii) express overnight delivery service or (iii) certified or registered mail, return receipt requested, and shall be deemed to have been delivered upon (a) receipt, if hand delivered, (b) the next business day, if delivered by express overnight delivery service, or (c) the third business day following the day of deposit of such notice with the United States Postal Service, if sent by certified or registered mail, return receipt

requested. Notices shall be provided to the parties and addresses (or facsimile numbers, as applicable) as set forth in the introductory paragraph hereto.

11. **Remedies of Assignee.** Upon or at any time after the occurrence and during the continuance of an Event of Default, Assignee may, at its option, without waiving such Event of Default and without regard to the adequacy of Assignee's security under the Loan Documents, either in person, by agent, or by a receiver appointed by a court, take possession of the Property and hold, manage, lease and operate the Property on such terms and for such period of time as provided in the Mortgage. Assignee may, with or without taking possession of the Property, in its own name, demand, sue for or otherwise collect and receive all Rents, including those past due and unpaid. Assignee shall have full power to make all alterations, renovations, repairs or replacements and to do any and all other things which it may in its sole discretion consider necessary or appropriate to protect the security of this Agreement and under the Mortgage. Assignee may apply the Rents to pay any of the following amounts and in such order as provided in the Mortgage: (a) the Secured Obligations (as defined in the Mortgage); (b) all expenses of the Property, including the salaries, fees, commissions and wages of a managing agent and such other employees, agents or independent contractors as Assignee deems necessary or desirable; (c) all taxes, charges, claims, assessments, or any other liens against the Property; (d) all premiums for all insurance Assignee deems necessary or desirable; (e) the cost of all alterations, renovations, repairs or replacements; and (f) all expenses incident to taking and retaining possession of the Property. Neither the demand for nor collection of Rents by Assignee shall constitute any assumption by Assignee of any obligation under the lease. Assignee is obligated to account only for such Rents as are actually collected or received by Assignee. For purposes of this Section, Assignor grants to Assignee its irrevocable power of attorney, with full power of substitution and coupled with an interest, to take any and all of the aforementioned actions and any or all other actions designated by Assignee for the proper management and preservation of the Property. Assignee shall, as a matter of absolute right, be entitled, upon application to a court of applicable jurisdiction, to the appointment of a receiver to obtain and secure the rights of Assignee hereunder and the benefits intended to be provided to Assignee under this Agreement. The exercise by Assignee of the option granted it in this Section and the collection of the Rents and the application thereof as provided in this Agreement shall not be considered a waiver of any Event of Default by Assignor under the note(s), the Mortgage, this Agreement or the other Loan Documents. This Agreement shall remain in full force and effect during any period of foreclosure and/or redemption with respect to the Property.

12. **No Liability of Assignee.** Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure to lease any part of the Property or from any other act or omission of Assignee in managing the Property after an Event of Default, other than acts or omissions of Assignee constituting willful misconduct or gross negligence of Assignee. Assignee shall not be responsible for performing any of Assignor's obligations under the lease by reason of this Agreement. Assignor hereby agrees to indemnify, defend and hold Assignee harmless for, from and against any and all liability, loss or damage which may be incurred under the lease or by reason of this Agreement and from any and all claims and demands whatsoever, including the defense of any such claims or demands which may be asserted against Assignee by reason of any alleged obligations and undertakings on its part to perform or discharge any of the terms, covenants or agreements contained in the lease. Should Assignee incur any such liability, Assignor shall reimburse Assignee promptly upon demand. This Agreement shall not operate to place any obligation or liability for the control, care, management or repair of the Property upon Assignee, nor shall it operate to make Assignee responsible or liable for any waste committed on the Property by any lessee or any other party, any dangerous or defective condition of the Property, including, without limitation, the presence of any Hazardous Substances (as defined in the Loan Agreement), or for any negligence in the management, upkeep, repair or control of the Property resulting in loss or injury or death to any lessee, licensee, employee or stranger, other than acts or omissions of Assignee constituting gross negligence or willful misconduct of Assignee.

13. **Other Security.** Assignee may take or release other security for the payment of the Secured Obligations, may release any party primarily or secondarily liable therefor and may apply any other security held by it to the reduction or satisfaction of the Secured Obligations without prejudice to any of its rights under this Agreement.
14. **Other Remedies.** Assignor has executed the Mortgage which contains an Assignment of Rents and Leases assigning to Assignee all of Assignor's right, title and interest, as Assignor, in and to the lease. All rights and remedies granted to Assignee under the Assignment of Rents and Leases contained in the Mortgage shall be in addition to all rights and remedies granted to Assignee under this Agreement. The right of Assignee to collect the Secured Obligations and to enforce any other security held by Assignee may be exercised by Assignee either prior to, simultaneously with, or subsequent to any action taken by it under this Agreement.
15. **No Mortgagee in Possession.** Nothing contained in this Agreement shall be construed as constituting Assignee a "mortgagee in possession" for any purpose.
16. **Conflict of Terms.** In case of any conflict between the terms of this Agreement and the terms of the Mortgage, the terms of the Mortgage shall prevail.
17. **Non-Waiver.** Each waiver by any Assignee must be in writing, and no waiver shall be construed as a continuing waiver. No waiver shall be implied from any delay or failure by Assignee to take action on account of any default of Assignor. Consent by Assignee to any act or omission by Assignor shall not be construed as a consent to any other or subsequent act or omission or to waive the requirement for Assignee's consent to be obtained in any future or other instance. No collection by Assignee of any Rents pursuant to this Agreement shall constitute or result in a waiver of any default then existing under this Agreement or under any of the other Loan Documents.
18. **Invalid Provisions.** A determination that any provision of this Agreement is unenforceable or invalid shall not affect the enforceability or validity of any other provision, and any determination that the application of any provision of this Agreement to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to any other persons or circumstances.
19. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the state where the Property is located, except to the extent any of such laws may now or hereafter be preempted by Federal law.
20. **Termination of Assignment.** Upon payment in full of the Secured Obligations and the delivery and recording of a satisfaction, release, reconveyance or discharge of the Mortgage duly executed by Assignee, this Agreement shall become and be void and of no effect.
21. **Successors in Interest; Transfer of Loan.** The terms, covenants and conditions of this Agreement shall be binding upon and inure to the benefit of the heirs, successors and assigns of the parties. Assignee and any successor may, at any time, sell, transfer, or assign the Loan, this Agreement and the other Loan Documents, and any or all servicing rights with respect thereto, or grant participations therein or issue mortgage pass-through certificates or other securities evidencing a beneficial interest in a rated or unrated public offering or private placement (the "Securities"). Assignee may forward to each Assignee, transferee, assignee, servicer, participant, investor in such Securities or any rating agency (a "Rating Agency") rating such Securities (all of the foregoing entities collectively referred to as an "Investor") and each prospective Investor, all documents, financial and other information which Assignee now has or may hereafter acquire relating to (a) the Loan; (b) the Property and its operation (including, without limitation, copies of all leases, subleases or any other agreements

concerning the use and occupancy of the Property); and/or (c) any party connected with the Loan (including, without limitation, Assignor, any partner or member of Assignor, any constituent partner or member of Assignor, and any guarantor). In connection with such Securities, Assignor further agrees that the Loan Documents shall be sufficient evidence of the obligations of Assignor to each Investor. Assignor shall, within fifteen (15) days after request by Assignee, deliver an estoppel certificate verifying for the benefit of Assignee and any other party designated by Assignee the status and the terms and provisions of the Loan in form and substance acceptable to Assignee. The representations, warranties, obligations, covenants, and indemnity obligations of Assignor under the Loan Documents shall also benefit and apply with respect to any Assignee, transferee, assignee, participant, servicer or investor.

22. Attorneys' Fees. If any lawsuit, suit or proceeding is commenced which arises out of or relates to the Loan Agreement, this Agreement, the other Loan Documents or the Loan, the prevailing party shall be entitled to recover from each other party such sums as the court may adjudge to be reasonable attorneys' fees in the action, in addition to costs and expenses otherwise allowed by law. In all other situations, including any matter arising out of or relating to any proceeding under any Debtor Relief Law (as defined in the Mortgage), Assignor agrees to pay all of Assignee's costs and expenses, including attorneys' fees, which may be incurred in enforcing or protecting Assignee's rights or interests. From the time(s) incurred until paid in full to Assignee, all such sums shall bear interest at the Default Rate. Whenever Assignor is obligated to pay or reimburse Assignee for any attorneys' fees, those fees shall include the allocated costs for services of in-house counsel.

23. WAIVER OF TRIAL BY JURY. ASSIGNOR HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THE LOAN, THE LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY ASSIGNOR, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. ASSIGNEE IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY ASSIGNOR.

IN WITNESS WHEREOF, Assignor, Lessee and Assignee have executed this Agreement as of the day and year first above written.

ASSIGNOR:

\_\_\_\_\_  
a \_\_\_\_\_

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

LESSEE:

\_\_\_\_\_  
a \_\_\_\_\_

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

ASSIGNEE:  
BANC OF AMERICA LEASING & CAPITAL, LLC,

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



EXHIBIT A

LEGAL DESCRIPTION

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**TRADEMARK SECURITY AGREEMENT**

This TRADEMARK SECURITY AGREEMENT, dated as of October \_\_\_\_, 2007, is made by EL DORADO CHEMICAL COMPANY, an Oklahoma corporation, 16 South Pennsylvania Avenue, Oklahoma City, Oklahoma 73107 ("Grantor"), in favor of BANC OF AMERICA LEASING & CAPITAL, LLC, a \_\_\_\_\_ limited liability company, as Administrative Agent and Collateral Agent for the other Lenders (in such capacity, "Agent") that are now or hereafter at any time parties to the Term Loan Agreement (as defined below).

**WITNESSETH:**

WHEREAS, pursuant to that certain Loan Agreement, dated as of October \_\_\_\_, 2007, by and among Grantor, as Borrowers, the Agent and the Lenders party thereto (including all annexes, exhibits and schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Loan Agreement"), Lenders have agreed to make the Term Loans to Borrowers;

WHEREAS, in connection with the Loan Agreement and the Other Agreements, Grantor, as Borrowers shall have executed and delivered to Agent, for the benefit of itself and the Lenders, that certain Security Agreement dated as of the date hereof (including all annexes, exhibits or schedules thereto, as from time to time amended, restated, supplemented or otherwise modified, the "Security Agreement");

WHEREAS, pursuant to the Security Agreement, Grantor is required to execute and deliver to Agent, for the benefit of itself and the other Lenders, this Trademark Security Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor hereby agrees as follows:

1. **DEFINED TERMS.** All capitalized terms used but not otherwise defined herein have the meanings given to them in the Loan Agreement.
  2. **GRANT OF SECURITY INTEREST IN TRADEMARK COLLATERAL.** Grantor hereby grants to Agent, on behalf of itself and the other Lenders, a continuing security interest in all of Grantor's right, title and interest in, to and under the following, whether presently existing or hereafter created or acquired (collectively, the "Trademark Collateral") subject only to the Permitted Liens:
    - (a) all of its Trademarks and Trademark Licenses to which it is a party including those referred to on Schedule I hereto;
    - (b) all renewals or extensions of the foregoing;
    - (c) all goodwill of the business connected with the use of, and symbolized by, each Trademark and each Trademark License; and
    - (d) all products and proceeds of the foregoing, including, without limitation, any claim by Grantor against third parties for past, present or future (i) infringement or dilution of
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any Trademark or Trademark licensed under any Trademark License or (ii) injury to the goodwill associated with any Trademark or any Trademark licensed under any Trademark License.

3. **SECURITY AGREEMENT.** The security interests granted pursuant to this Trademark Security Agreement are granted in conjunction with the security interests granted to Agent, for the benefit of itself and the other Lenders, pursuant to the Security Agreement. Grantor hereby acknowledges and affirms that the rights and remedies of Agent with respect to the security interest in the Trademark Collateral made and granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

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Signatures continued on next page.

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**SCHEDULE I**  
**to**  
**TRADEMARK SECURITY AGREEMENT**

**TRADEMARK REGISTRATIONS**

U.S. Federal Trademark Registrations

<u>Mark</u>	<u>Reg. No.</u>	<u>Date</u>
EL DORADO (& Design)	1,427,064	02/03/87
E-2	833,891	08/22/67

**TRADEMARK APPLICATIONS**

None

**TRADEMARK LICENSES**

None





**EXHIBIT 10.1b**

**Exhibits and Disclosure Letters to the Asset Purchase Agreement, dated as of December 6, 2002 by and among Energetic Systems Inc. LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc. LLC, Energetic Properties, LLC, Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp., LSB Industries, Inc. and Slurry Explosive Manufacturing Corporation, LLC, which Asset Purchase Agreement the Company filed as Exhibit 2.1 to the Company's Form 8-K, dated December 12, 2002.**

**EXHIBITS TO ASSET PURCHASE AGREEMENT**

Exhibit 2.1	Allocation of Assets Among the Buyers
Exhibit 2.1(d)	Accounts Receivable
Exhibit 2.2(n)	Excluded Seller Contracts
Exhibit 2.2(o)	Excluded Property and Assets
Exhibit 2.3	Prepaid Lease Obligations
Exhibit 2.4(a)	Allocation of Responsibility for the Assumed Liabilities Among the Buyers
Exhibit 2.7(a)(i)	Bill of Sale
Exhibit 2.7(a)(ii)	Assignment and Assumption Agreement
Exhibit 2.7(a)(iv)	Assignment of Marks, Patents and Copyrights
Exhibit 2.7(a)(vi)	Noncompetition Agreements
Exhibit 2.7(a)(vii)	Escrow Agreement
Exhibit 2.7(a)(xi)	Transitional Services Agreement
Exhibit 2.7(a)(xii)	Use and License Agreement
Exhibit 2.8	Inventory Adjustment Amount Calculation
Exhibit 2.9	(intentionally left blank)
Exhibit 7.3	Material Consents
Exhibit 7.4(a)	Legal Opinion - Sellers
Exhibit 7.7	Assignment and Assumption of Lease Agreement
Exhibit 7.8	Orica Noncompetition Agreement
Exhibit 7.11	Key Employees
Exhibit 7.13	Environmental Questionnaire
Exhibit 8.3	Consents
Exhibit 8.4	Legal Opinion - Buyers

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Part 2.1(b)	Tangible Personal Property
Part 2.1(k)	Indemnification Rights Relating to Assets/Assumed Liabilities
Part 3.1	Sellers' Jurisdiction of Incorporation/Qualification to Do Business
Part 3.2(b)	Adverse Effects of Execution of Agreement by Sellers
Part 3.2(c)	Required Notices and Consents
Part 3.6	Description of Owned Real Property
Part 3.7	Description of Leased Real Property
Part 3.8(a)	Real Estate Encumbrances and Permitted Real Estate Encumbrances
Part 3.8(b)	Non-Real Estate Encumbrances and Permitted Non-Real Estate Encumbrances
Part 3.9(a)	Encroachments
Part 3.9(b)	Tangible Personal Property Not in Possession of Sellers
Part 3.10	Accounts Receivable as of Interim Balance Sheet Date
Part 3.15(a)	Employee Plans
Part 3.16(a)	Exceptions to Compliance with Legal Requirements
Part 3.16(b)	Governmental Authorizations; Exceptions to Compliance
Part 3.17(a)	Legal Proceedings
Part 3.17(b)	Orders
Part 3.19(a)	Seller Contracts
Part 3.19(c)	Exceptions to Compliance with Seller Contracts
Part 3.20(a)	Insurance Policies
Part 3.20(b)	Self Insurance Arrangements
Part 3.21	Exceptions to Representations on Environmental Matters
Part 3.21 (g)	List of Environmental Reports, Studies, Analyses, Tests and Monitoring Data
Part 3.22(a)	Employee Information
Part 3.23(b)	Exceptions to Representations Concerning Labor Disputes
Part 3.24(d)	Patents; Exceptions to Representations; Assignment of

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Exhibit 2.1

Energetic Systems Inc., LLC.

Summary Asset Distribution

	DetaCorp	SEC	UTeC	Properties	Value Dec 1 2002
Leases				123,000.00	123,000.00
Magazines	90,000.00				90,000.00
Oklahoma Office		8,900.00			8,900.00
Pryor Mine Services	333,000.00				333,000.00
Retail		90,000.00			90,000.00
Rail Site	176,500.00				176,500.00
Retail		428,600.00			428,600.00
Detagel Buildings	1,095,275.00				1,095,275.00
Common Equipment	266,500.00				266,500.00
Detagel Plant	2,071,525.00				2,071,525.00
Kinepak	914,700.00				914,700.00
Energetics Plant	1,176,500.00				1,176,500.00
Underwater Test Facility			91,500.00		91,500.00
Pruf Plant			103,000.00		103,000.00
Jayhawk R & D			187,500.00		187,500.00
Patents			17,500.00		17,500.00
Accounts Receivable - Trade		1,253,612.00			1,253,612.00
Accounts Receivable - Employees	4,500.00	12,275.00	8,500.00		25,275.00
Inventory	1,409,519.00				1,409,519.00
Inventory: capital spares	251,000.00				251,000.00
Prepaid Lease Payments		51,988.00			51,988.00
	<b>7,789,019.00</b>	<b>1,845,375.00</b>	<b>408,000.00</b>	<b>123,000.00</b>	<b>10,165,394.00</b>

DetaCorp Inc., LLC.

			Value
			Dec 1 2002
		Size	
<b>Manufacturing Magazines</b>			
M-1	steel	8 x 38	6,000
M-2	steel	10 x 35	6,000
M-2A	steel	8 x 22	4,000
M-4	steel	8 x 20	4,000
L-1 propellant	steel frame / sheeting	50 x 80	70,000
			90,000

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DetaCorp Inc., LLC.

**Pryor Mine Services (contractors equipment)**

		Value Dec 1 2002
office computers		2,500
general office equipment		5,500
telephone system		3,500
		11,500
1993 Peterbilt	SN 5591	15,000
1989 kenworth	SN 7743	10,000
1989 Kenworth	SN 4943	9,000
1984 Fruehuaf tanker	SN 8113	15,000
8 ft van body w/ime 22 Cat Box		2,000
shop crane		1,000
Alph seismograph 3ND digital	SN 581	6,500
ANFO bulk bed foe SEC trailer		8,000
ANFO bin 45T		15,000
1978 drill: Reed		20,000
Lincoln welder		2,000
Sullair compressor		5,000
ANFO bin 40T		15,000
3/4 ton pick up (diesel)		2,500
trailer: tri axle low boy		15,000
Bobcat loader		18,000
bulk truck		40,000
shop service tools		-
1 ton delivery truck		8,500
3/4 to 4-wheel drive		4,000
3/4 ton service unit		4,000
trailer equipment		3,000
seismograph recorcding unit	SN 561	2,500
Reed track drill	SN 1060007-76	25,000
portable compressor 175 psi		5,000
3 drills and spare parts		50,000
		301,000
magazine	6 x 7 x 16	2,500
trailer magazine	40 ft	8,000
magazine	20 case	1,000
magazine	60 case	2,000
cap magazine	4 x 4 x 4	1,000
magazine	20 x 8 x 7	6,000
		20,500
<b>Total</b>		<b>333,000</b>

**Deta Corp Inc, LLC.**

<b>Rail Site Assets</b>	<b>Construction</b>	<b>Size</b>	<b>Value Dec 1 2002</b>
scale house	timber	6 x 10	2,000
removeable equipment			114,500
leasehold improvements			60,000
			<b>176,500</b>

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**Deta Corp Inc., LLC.**

Detagel Buildings Complex: Hallowell KS

Building Name	Description	Dimension	Sq Ft	Value	
				Dec 1 2002	
Solution mix area	brick block with transite roof	120 x 65	7800	62,400	
Packaging / east w/house extention	steel frame / sheeting	130 x 50	6500	65,000	
West w/house extention	steel frame / sheeting	120 x 50	6000	60,000	
NW extention	steel frame / sheeting	44 x 36	1584		
South bulk extention		20 x 30	600	40,500	
Valeron storage		72 x 40	2880		
					227,900
<b>Services Group</b>					
Electrical switchgear building	block	18 x 16	288	6,300	
Air compressor building	steel frame / sheeting	25 x 12	300	4,500	
Old changehouse	block / composite roof	34 x 33	1122	8,975	
North boiler building	steel frame / sheeting	25 x 15	3000	33,000	
Water pump building	block / composite roof	10 x 10	100	1,600	
					54,375
<b>Other</b>					
Oxidizer building	timber frame / steel sheeting	150 x 48	7200	72,000	
Fuels w/house	timber frame / steel sheeting	150 x 48	7200	72,000	
X-Pak boiler building	timber	12 x 12	144	2,500	
Maintenance workshop	steel frame / sheeting	60 x 30	1800	14,400	
Guard house	timber / composite roof	10 x 15	150	15,000	
Drum crusher shelter	block / steel sheeting	15 x 15	225	2,600	
					178,500
Main office building	timber frame / shingle roof	80 x 40	3200	45,000	
Truck scale house	timber	6 x 10	60	1,200	
Truck service building	steel frame / sheeting	12 x 12	144	2,100	
					48,300





Deta Corp Inc., LLC.

		Qty	Value Dec 1 2002
<b>Common Equipment</b>			
<b>Utilities</b>			
fire alarm system		1	60,000
telephone / paging system		1	10,000
truck scale		1	30,000
gasoline storage tank		1	1,000
water wagon		1	2,000
			<u>103,000</u>
<b>Offices</b>			
computers / networks		1	10,000
software			5,000
office furniture			5,000
			<u>20,000</u>
<b>Warehouse / Magazines</b>			
fork lift truck		1	10,000
pallet jacks		2	1,000
			<u>11,000</u>
<b>Maintenance Shop</b>			
welder		1	500
band cut-off saw		1	500
industrial press		1	500
air compressor		1	1,000
5 x 5 portable fans		2	1,000
propane storage tank		1	2,000
			<u>5,500</u>
<b>Other</b>			
1996 Jeep Larado			12,000Clive Whiteside
1994 Chevy Pick Up	SN 4649		9,500
1998 Peterbilt	SN 46381		25,000
1980 Fruehuaf. AN tanker	SN 0011		15,000
1991 Ford F-150	SN 6465		2,000
1998 Chev 1/2 ton	SN 9167		10,000
1980 Fruehuaf. AN tanker	SN 2125		15,000
1993 Freightliner	SN 5833		8,500
1998 Chevy S10	SN 91772		8,500
1995 Volvo	SN 2120		15,000
1986 Monon	SN 8710		3,000
1987 Fruehuaf	SN 1852		3,500Joplin MO
			<u>127,000</u>
<b>Total</b>			<u><b>266,500</b></u>

## Energetics Plant

Value  
Dec 1 2002

## North End

AN bin	20,000
Hammermill	15,000
AN feed auger	5,000
propellant conveyor system	30,000
propellant hopper	10,000
empty can conveying system	10,000
mother liquor storage tank	15,000
solution transfer pump and piping	15,000
conical mixer	30,000
load cell system	10,000
mixer dust extraction system	27,000
propellant dust extraction system	18,000
product transfer pumo, hopper & piping	32,000
product holding tank & recycle pump	23,000
packaging feed pumps	60,000
packaging station piping	7,000
tipper-tie machines	14,000
Video Jet code data printer	7,000
finished product transfer conveyor system	6,000
sump recycle pump and piping	8,500
	362,500

## South End

AN bin TA 805	25,000
SN bin TA 804	25,000
AN feed auger SC 801	5,000
SN feed auger SC 802	5,000
nitrate hammer mill HM 801	40,000
AN secondary feed auger SC 803	5,000
SN secondary feed auger SC 804	5,000
hydraulic pump set	45,000
stainless feed hoppers TA 801 / TA 802	6,000
#1 solution tank TA 807	20,000
#2 solution tank TA 808	20,000
premix tank TA 806	5,000
solution transfer pumps P803 / 804 & piping	5,000
ribbon mixer RM 801 with load cells	30,000
product feed pump P 801 & piping	30,000
product feed tanks TA 809 / 810	10,000
packaging feed pump p802 & piping	30,000
product recycle tank	3,000
product recycle pump p 805 7 piping	5,000
sump recycle pump P806 & piping	3,000
Fillpack packaging machine	175,000
Video Jet Code date printers	7,000
	504,000

**Deta Corp Inc., LLC.****DetaGel Manufacturing Equipment**

	<u>Qty</u>	<u>Value Dec 1 2002</u>
<b>Raw Material Storage</b>		
nitric acid tank	1	15,000
nitric acid pump P105, motor, controls	1	10,250
nitric acid piping	1	8,200
dike liner	1	2,000
bulk AN bin - TA 301	1	41,000
bulk AN bin - TA 302	1	30,750
sodium perchlorate tank TA 106	1	41,000
ammonium perchlorate tank TA 105	1	41,000
perchlorate transfer pumps P 102, P 104	2	4,100
perchlorate transfer piping	1	10,250
Valeraon storage racking	1	10,250
		<u>213,800</u>
<b>Solution Make Up</b>		
solution mix tank TA - 104	1	41,000
solution holding tank TA 103	1	30,750
solution transfer pump P 103	1	1,000
solution piping	1	5,000
nitrate auger SC 102	1	5,000
hexamine auger SC 101	1	5,000
		<u>87,750</u>
<b>Mixing</b>		
nitrate hopper H 301 with load cells	1	20,500
hammer mill AM 301	1	24,500
nitrate feed auger SC 301	1	4,000
nitrate feed auger SC 302	1	4,000
premix tank TA 303	1	3,000
ribbon mixer RM 301 with hydrolic load cells	1	71,750
wet vent and recycle system	1	10,250
product recycle tank, pump & piping	1	10,250
sump water tank, pump & piping	1	10,250
mix transfer pump P301 & piping	1	20,500
aluminium feeder FE 301	1	61,500
aluminium drum handling equipment	1	30,750
aluminium dust handling system	1	20,500
aluminium room jib & hoist	1	3,000
mix room runway beam & hoist	1	4,000
		<u>298,750</u>
<b>Packaging</b>		
process feed tanks	3	17,875

process feed pumps & piping	3	12,300
K-P packaging machines	3	535,000
cord pullers	3	3,000
box scales	3	4,500
conveyor line	3	18,450
video jet Valeron printers	3	21,500
video jet box printers	3	43,050
banders	3	4,500
traymakers	2	60,000
shrink wrapping machine	1	20,000
		<u>740,175</u>

**Utilities and Common**

Cleaver Brooks steam boiler	1	164,000
Powermaster staem boiler	1	102,500
steam piping and condensate return system	1	50,000
plant air compressor	1	30,750
water pump and service piping	1	61,500
electrical switchgear & distribution system	1	200,000
QC testing equipment, scales, etc.	1	750
hydraulic pump set	1	30,750
fork lift truck	2	15,000 <sup>1</sup> leased
air conditioning unit & ductwork	1	41,000
fuel oil storage tank & associated equipment	1	20,500
propane storage tank	1	4,100
drum crusher	1	10,200
		<u>731,050</u>

**Total**

**2,071,525**

Deta Corp Inc., LLC

				Value	
				Dec 1 2002	
<b>Kinepak</b>					
Kinepak offices	single - wide trailer	14 x 60	840		10,000
Liquids building	steel frame / sheeting	40 x 31	1240		30,000
Solids building	steel frame / sheeting	61 x 70	4270		80,000
Warehouse	steel frame / sheeting	50 x 150	7500		100,000
Services building	steel frame / sheeting	11 x 10	110		15,000
					235,000
<b>Plant Equipment</b>					
<b>Liquids</b>					
Filmatic machine with conveyor					60,000
Kalix filling machine					50,000
hot glue system					4,000
drum handling equipment					2,000
exhaust fan & ductwork					9,000
air conditioning and ductwork					18,000
plant air compressor					6,000
electrical switchgear & distribution					47,000
					196,000
<b>Solids</b>					
microballoon pump					4,500
AN feeder hopper					10,600
AN mill					10,600
AN feed auger					11,000
primary blender					31,500
primary feed auger					11,200
secondary blender					31,200
1/3# Bottles packaging machine feed auger					10,300
form, fill & seal machine feed auger					11,400
1# Stick packaging machine feed auger					12,300
1/3 # Bottles packaging machine					55,000
form, fill & seal machine					45,000
1 # Stick packaging machine					37,000

box stitching machine	3,800
dust collection system	32,700
air conditioning & ducting	36,000
plant air compressors	9,000
electrical switchgear & distribution	65,000
	<hr/> 428,100
<b>Warehouse</b>	
pallet racking	9,600
fork lift truck	10,000
dehumidifier	36,000
	<hr/> 55,600
<b>Total</b>	<hr/> <b>914,700</b>

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Exhibit 2.1 (d)

Accounts Receivable

See attached schedule

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Table 1

Slurry Explosive Corporation  
Accounts Receivable Aging  
As of November 30, 2002

Cusno	Customer Name	Invoice #	Invoice Date	Due Date	Amount	Current	A30to60	A60to90	Over 90
10	ADAMS EXPLOSIVES	120832	10/18/2002	12/17/2002	\$2,250.00	\$0.00	\$2,250.00	\$0.00	\$0.00
15	ADRIAN ROCK, INC.	120930	11/11/2002	12/11/2002	\$2,480.27	\$2,480.27	\$0.00	\$0.00	\$0.00
78	ALASKA PACIFIC POWDER COM	120768	10/4/2002	12/3/2002	\$15,663.53	\$0.00	\$15,663.53	\$0.00	\$0.00
78	ALASKA PACIFIC POWDER COM	120787	10/9/2002	12/8/2002	\$324.00	\$0.00	\$324.00	\$0.00	\$0.00
78	ALASKA PACIFIC POWDER COM	120902	10/31/2002	12/30/2002	\$13,376.00	\$13,376.00	\$0.00	\$0.00	\$0.00
78	ALASKA PACIFIC POWDER COM	120932	11/11/2002	1/10/2003	\$15,283.06	\$15,283.06	\$0.00	\$0.00	\$0.00
78	ALASKA PACIFIC POWDER COM	120939	11/11/2002	1/10/2003	\$8,008.00	\$8,008.00	\$0.00	\$0.00	\$0.00
262	INTERMOUNTAIN WEST ENERGY	12700	9/20/2002	10/20/2002	(\$12,306.00)	\$0.00	\$0.00	(\$12,306.00)	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120701	9/20/2002	10/20/2002	\$11,750.40	\$0.00	\$0.00	\$11,750.40	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120906	11/5/2002	12/5/2002	\$5,994.00	\$5,994.00	\$0.00	\$0.00	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120918	11/5/2002	12/5/2002	\$30,030.00	\$30,030.00	\$0.00	\$0.00	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120929	11/8/2002	12/8/2002	\$1,088.00	\$1,088.00	\$0.00	\$0.00	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120976	11/18/2002	12/18/2002	\$7,975.00	\$7,975.00	\$0.00	\$0.00	\$0.00
262	INTERMOUNTAIN WEST ENERGY	120993	11/22/2002	12/22/2002	\$9,414.00	\$9,414.00	\$0.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120729	9/26/2002	11/25/2002	\$647.00	\$0.00	\$0.00	\$647.00	\$0.00
280	AUSTIN POWDER CO	120742	9/30/2002	11/29/2002	\$973.00	\$0.00	\$973.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120849	10/22/2002	12/21/2002	\$6,480.00	\$0.00	\$6,480.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120875	10/31/2002	12/30/2002	\$2,550.00	\$2,550.00	\$0.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120876	10/31/2002	12/30/2002	\$12,565.28	\$12,565.28	\$0.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120883	10/31/2002	12/30/2002	\$1,905.00	\$1,905.00	\$0.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120971	11/18/2002	1/17/2003	\$32,032.00	\$32,032.00	\$0.00	\$0.00	\$0.00
280	AUSTIN POWDER CO	120996	11/22/2002	1/21/2003	\$6,530.00	\$6,530.00	\$0.00	\$0.00	\$0.00
281	AUSTIN POWDER COMPANY	120762	10/4/2002	12/3/2002	\$10,208.00	\$0.00	\$10,208.00	\$0.00	\$0.00
281	AUSTIN POWDER COMPANY	120769	10/4/2002	12/3/2002	\$10,440.00	\$0.00	\$10,440.00	\$0.00	\$0.00
281	AUSTIN POWDER COMPANY	120909	11/5/2005	1/4/2003	\$10,440.00	\$10,440.00	\$0.00	\$0.00	\$0.00
282	AUSTIN POWDER COMPANY	120867	10/25/2002	12/24/2002	\$9,945.00	\$0.00	\$9,945.00	\$0.00	\$0.00
282	AUSTIN POWDER COMPANY	120992	11/18/2002	1/17/2003	\$9,945.00	\$9,945.00	\$0.00	\$0.00	\$0.00
282	AUSTIN POWDER COMPANY	121033	11/27/2002	1/26/2003	\$18,694.40	\$18,694.40	\$0.00	\$0.00	\$0.00
285	AUSTIN POWDER COMPANY	120829	10/18/2002	12/17/2002	\$9,299.00	\$0.00	\$9,299.00	\$0.00	\$0.00
285	AUSTIN POWDER COMPANY	120915	11/5/2002	1/4/2003	\$9,648.00	\$9,648.00	\$0.00	\$0.00	\$0.00
285	AUSTIN POWDER COMPANY	120917	11/5/2002	1/4/2003	\$9,450.00	\$9,450.00	\$0.00	\$0.00	\$0.00
289	AUSTIN POWDER CO	120854	10/25/2002	11/24/2002	\$9,450.00	\$0.00	\$9,450.00	\$0.00	\$0.00
357	BEACHNER CONSTR. CO., INC.	120987	11/18/2002	12/18/2002	\$3,698.00	\$3,698.00	\$0.00	\$0.00	\$0.00
425	BICHLER GRAVEL & CONCRETE	120927	11/8/2002	12/8/2002	\$3,484.00	\$3,484.00	\$0.00	\$0.00	\$0.00
440	BINNS & STEVENS EXPL. INC.	120882	10/31/2002	11/30/2002	\$2,640.00	\$2,640.00	\$0.00	\$0.00	\$0.00
440	BINNS & STEVENS EXPL. INC.	120943	11/11/2002	12/11/2002	\$2,502.50	\$2,502.50	\$0.00	\$0.00	\$0.00
440	BINNS & STEVENS EXPL. INC.	120988	11/18/2002	12/18/2002	\$5,720.00	\$5,720.00	\$0.00	\$0.00	\$0.00
440	BINNS & STEVENS EXPL. INC.	121003	11/22/2002	12/22/2002	\$16,452.08	\$16,452.08	\$0.00	\$0.00	\$0.00
445	BIRMINGHAM PWD & SUPPLY	120997	11/22/2002	12/22/2002	\$508.00	\$508.00	\$0.00	\$0.00	\$0.00
445	BIRMINGHAM PWD & SUPPLY	121027	11/26/2002	12/26/2002	\$3,999.00	\$3,999.00	\$0.00	\$0.00	\$0.00
461	BLUE CIRCLE INC	120934	11/11/2002	12/11/2002	\$384.00	\$384.00	\$0.00	\$0.00	\$0.00
461	BLUE CIRCLE INC	120936	11/11/2002	12/11/2002	\$4,970.00	\$4,970.00	\$0.00	\$0.00	\$0.00
461	BLUE CIRCLE INC	120979	11/18/2002	12/18/2002	(\$432.00)	(\$432.00)	\$0.00	\$0.00	\$0.00
461	BLUE CIRCLE INC	120980	11/18/2002	12/18/2002	(\$864.00)	(\$864.00)	\$0.00	\$0.00	\$0.00
461	BLUE CIRCLE INC	121007	11/22/2002	12/22/2002	\$3,789.50	\$3,789.50	\$0.00	\$0.00	\$0.00
480	BOREN/IRECO EXPLOSIVE COM	120872	10/29/2002	11/28/2002	\$18,000.00	\$18,000.00	\$0.00	\$0.00	\$0.00
480	BOREN/IRECO EXPLOSIVE COM	120892	10/31/2002	11/30/2002	\$30,800.00	\$30,800.00	\$0.00	\$0.00	\$0.00
495	BRAKEFIELD EQUIPMENT INC	120970	11/18/2002	12/18/2002	\$5,682.27	\$5,682.27	\$0.00	\$0.00	\$0.00
495	BRAKEFIELD EQUIPMENT INC	120983	11/18/2002	12/18/2002	\$2,295.00	\$2,295.00	\$0.00	\$0.00	\$0.00
495	BRAKEFIELD EQUIPMENT INC	121016	11/26/2002	12/26/2002	\$5,221.97	\$5,221.97	\$0.00	\$0.00	\$0.00
495	BRAKEFIELD EQUIPMENT INC	121018	11/26/2002	12/26/2002	\$495.00	\$495.00	\$0.00	\$0.00	\$0.00
610	BUCKLEY POWDER CO	120885	10/31/2002	11/30/2002	\$4,404.84	\$4,404.84	\$0.00	\$0.00	\$0.00
610	BUCKLEY POWDER CO	120908	11/5/2002	12/5/2002	\$3,967.74	\$3,967.74	\$0.00	\$0.00	\$0.00
610	BUCKLEY POWDER CO	120944	11/12/2002	12/12/2002	\$4,496.96	\$4,496.96	\$0.00	\$0.00	\$0.00
610	BUCKLEY POWDER CO	120994	11/22/2002	12/22/2002	\$4,395.44	\$4,395.44	\$0.00	\$0.00	\$0.00
610	BUCKLEY POWDER CO	121040	11/27/2002	12/27/2002	\$4,267.60	\$4,267.60	\$0.00	\$0.00	\$0.00
728	CARTER BLASTING	120966	11/18/2002	12/18/2002	\$3,280.98	\$3,280.98	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120833	10/18/2002	10/18/2002	\$2,685.00	\$0.00	\$2,685.00	\$0.00	\$0.00
754	CASH SALES BINARY	120887	10/31/2002	10/31/2002	\$623.00	\$623.00	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120920	11/8/2002	11/8/2002	\$705.96	\$705.96	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120926	11/8/2002	11/8/2002	\$857.00	\$857.00	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120928	11/8/2002	11/8/2002	\$368.21	\$368.21	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120961	11/15/2002	11/15/2002	\$601.65	\$601.65	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	120962	11/15/2002	11/15/2002	\$328.51	\$328.51	\$0.00	\$0.00	\$0.00
754	CASH SALES BINARY	121039	11/27/2002	11/27/2002	\$1,124.57	\$1,124.57	\$0.00	\$0.00	\$0.00
756	CASH SALES BINARY	121012	11/22/2002	11/22/2002	\$1,610.28	\$1,610.28	\$0.00	\$0.00	\$0.00
756	CASH SALES BINARY	121034	11/27/2002	11/27/2002	\$100.00	\$100.00	\$0.00	\$0.00	\$0.00
956	CLEMENS COAL COMPANY	106722	2/13/1997	3/15/1997	\$1,539.78	\$0.00	\$0.00	\$0.00	\$1,539.78
956	CLEMENS COAL COMPANY	106838	3/10/1997	4/9/1997	\$704.24	\$0.00	\$0.00	\$0.00	\$704.24
1035	COMPANIA INDUSTRIAL HANKA	120919	11/7/2002	12/7/2002	\$29,040.00	\$29,040.00	\$0.00	\$0.00	\$0.00
1040	BUCKLEY POWDER CO OF OKLA	120981	11/18/2002	12/18/2002	\$2,200.00	\$2,200.00	\$0.00	\$0.00	\$0.00
1071	CONTROLLED ENERGY SERVICE	115140	8/31/2000	9/30/2000	\$2,560.00	\$0.00	\$0.00	\$0.00	\$2,560.00
1071	CONTROLLED ENERGY SERVICE	115140	1/10/2001	9/30/2000	(\$366.30)	\$0.00	\$0.00	\$0.00	(\$366.30)
1071	CONTROLLED ENERGY SERVICE	115141	8/31/2000	9/30/2000	\$2,560.00	\$0.00	\$0.00	\$0.00	\$2,560.00
1071	CONTROLLED ENERGY SERVICE	115486	10/9/2000	11/8/2000	\$2,638.00	\$0.00	\$0.00	\$0.00	\$2,638.00
1075	COONIE'S EXPLOSIVES	121038	11/27/2002	12/27/2002	\$6.00	\$4,808.00	\$0.00	\$0.00	\$0.00
1280	DELTA SEABORD WELL SERV	120888	10/31/2002	11/30/2002	\$590.32	\$590.32	\$0.00	\$0.00	\$0.00
1390	DenAdel Enterprises	120851	10/25/2002	11/24/2002	\$1,659.46	\$0.00	\$1,659.46	\$0.00	\$0.00
1390	DenAdel Enterprises	120925	11/8/2002	12/8/2002	\$1,072.68	\$1,072.68	\$0.00	\$0.00	\$0.00
1430	DYKON, INC	121030	11/26/2002	12/26/2002	\$1,700.00	\$1,700.00	\$0.00	\$0.00	\$0.00



Cusno	Customer Name	Invoice #	Invoice Date	Due Date	Amount	Current	A30to60	A60to90	Over 90
1430	DYKON, INC.	121035	11/27/2002	12/27/2002	\$1,155.00	\$1,155.00	\$0.00	\$0.00	\$0.00
1445	RIMROCK EXPLOSIVES	120995	11/22/2002	12/22/2002	\$299.00	\$299.00	\$0.00	\$0.00	\$0.00
1560	ENERGY ENTERPRISES	120740	9/30/2002	10/30/2002	\$2,349.00	\$0.00	\$2,349.00	\$0.00	\$0.00
1566	E.E.I. (MO)	120819	10/16/2002	12/15/2002	\$3,897.00	\$0.00	\$3,897.00	\$0.00	\$0.00
1566	E.E.I. (MO)	120820	10/16/2002	12/15/2002	\$3,758.40	\$0.00	\$3,758.40	\$0.00	\$0.00
1650	EXPLOSIVES PRODUCTS	120998	11/22/2002	12/22/2002	\$230.00	\$230.00	\$0.00	\$0.00	\$0.00
1937	GREEN MOUNTAIN EXPLOSIVES	120984	11/18/2002	12/27/2002	\$13,882.32	\$13,882.32	\$0.00	\$0.00	\$0.00
1937	GREEN MOUNTAIN EXPLOSIVES	120984	11/27/2002	12/27/2002	(\$911.74)	(\$911.74)	\$0.00	\$0.00	\$0.00
1937	GREEN MOUNTAIN EXPLOSIVES	121004	11/22/2002	12/22/2002	\$4,070.00	\$4,070.00	\$0.00	\$0.00	\$0.00
1937	GREEN MOUNTAIN EXPLOSIVES	121036	11/27/2002	12/27/2002	\$1,430.00	\$1,430.00	\$0.00	\$0.00	\$0.00
2000	HEARTLAND CEMENT CO	120985	11/18/2002	12/18/2002	\$5,497.60	\$5,497.60	\$0.00	\$0.00	\$0.00
2000	HEARTLAND CEMENT CO	121002	11/22/2002	12/22/2002	\$7,257.03	\$7,257.03	\$0.00	\$0.00	\$0.00
2015	HEBER SPRINGS WATER DEPT	120848	10/22/2002	11/21/2002	\$8,394.73	\$0.00	\$8,394.73	\$0.00	\$0.00
2025	HERMITAGE EXPLOSIVES CORP	121006	11/22/2002	12/22/2002	\$1,847.69	\$1,847.69	\$0.00	\$0.00	\$0.00
2025	HERMITAGE EXPLOSIVES CORP	121010	11/22/2002	12/22/2002	\$8,560.00	\$8,560.00	\$0.00	\$0.00	\$0.00
2093	NELSON BROTHERS, LLC	120931	11/11/2002	12/11/2002	\$13,940.00	\$13,940.00	\$0.00	\$0.00	\$0.00
2225	INTERSTATE TRANS EQ CO	120533	8/9/2002	9/8/2002	\$487.50	\$0.00	\$0.00	\$0.00	\$487.50
2225	INTERSTATE TRANS EQ CO	120893	10/31/2002	11/30/2002	\$450.00	\$450.00	\$0.00	\$0.00	\$0.00
2225	INTERSTATE TRANS EQ CO	121041	11/27/2002	12/27/2002	\$300.00	\$300.00	\$0.00	\$0.00	\$0.00
2231	DYNO NOBEL INC.	120967	11/18/2002	1/17/2003	\$1,103.00	\$1,103.00	\$0.00	\$0.00	\$0.00
2456	JAY DEE CONTRACTORS	120922	11/8/2002	12/8/2002	\$348.94	\$348.94	\$0.00	\$0.00	\$0.00
2457	JERICO SERVICES INC.	121025	11/26/2002	12/26/2002	\$280.00	\$280.00	\$0.00	\$0.00	\$0.00
2457	JERICO SERVICES INC.	121026	11/26/2002	12/26/2002	\$280.00	\$280.00	\$0.00	\$0.00	\$0.00
2505	KENTUCKY POWDER COMPANY	120942	11/11/2002	12/11/2002	\$6,226.71	\$6,226.71	\$0.00	\$0.00	\$0.00
2505	KENTUCKY POWDER COMPANY	121024	11/26/2002	12/26/2002	\$11,602.22	\$11,602.22	\$0.00	\$0.00	\$0.00
2570	LABETTE CO HWY DEPT	120986	11/18/2002	12/18/2002	\$5,988.80	\$5,988.80	\$0.00	\$0.00	\$0.00
2603	LADSHAW EXPLOSIVES, INC.	120844	10/22/2002	11/21/2002	\$4,597.80	\$0.00	\$4,597.80	\$0.00	\$0.00
2603	LADSHAW EXPLOSIVES, INC.	120868	10/25/2002	11/24/2002	\$4,595.86	\$0.00	\$4,595.86	\$0.00	\$0.00
2735	POWDER FACTOR ENGINEERING	120963	11/15/2002	12/15/2002	\$3,745.00	\$3,745.00	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120761	9/30/2002	10/30/2002	\$6,541.59	\$0.00	\$6,541.59	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120852	10/25/2002	11/24/2002	\$3,097.71	\$0.00	\$3,097.71	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120866	10/25/2002	11/24/2002	\$1,700.49	\$0.00	\$1,700.49	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120879	10/31/2002	11/30/2002	\$2,921.82	\$2,921.82	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120910	11/5/2002	12/5/2002	\$4,168.89	\$4,168.89	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120923	11/8/2002	12/8/2002	\$2,663.43	\$2,663.43	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120933	11/11/2002	12/11/2002	\$3,610.53	\$3,610.53	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120957	11/14/2002	12/14/2002	\$4,358.31	\$4,358.31	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120975	11/18/2002	12/18/2002	\$4,077.15	\$4,077.15	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	120999	11/22/2002	12/22/2002	\$3,284.16	\$3,284.16	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	121005	11/22/2002	12/22/2002	\$4,370.52	\$4,370.52	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	121017	11/26/2002	12/26/2002	\$4,404.51	\$4,404.51	\$0.00	\$0.00	\$0.00
2750	LONE STAR INDUSTRIES	121031	11/27/2002	12/27/2002	\$5,415.30	\$5,415.30	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120483	7/31/2002	12/30/2002	\$10,675.62	\$0.00	\$0.00	\$0.00	\$10,675.62
2820	MAURER & SCOTT INC	120483	9/4/2002	12/30/2002	(\$10,675.62)	\$0.00	\$0.00	\$0.00	(\$10,675.62)
2820	MAURER & SCOTT INC	120483	11/15/2002	12/30/2002	(\$22.86)	\$0.00	\$0.00	\$0.00	(\$22.86)
2820	MAURER & SCOTT INC	16122	9/30/2002	11/14/2002	\$23.10	\$0.00	\$23.10	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120904	10/31/2002	12/15/2002	\$9,678.90	\$9,678.90	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120907	11/5/2002	12/20/2002	\$10,668.00	\$10,668.00	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120937	11/11/2002	12/26/2002	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120958	11/14/2002	12/29/2002	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120960	11/14/2002	12/29/2002	\$9,678.90	\$9,678.90	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120989	11/18/2002	1/2/2003	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	120990	11/18/2002	1/2/2003	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	121011	11/22/2002	1/6/2003	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00
2820	MAURER & SCOTT INC	121037	11/27/2002	1/11/2003	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00
2995	INDEPENDENT SALT COMPANY	120873	10/29/2002	11/28/2002	\$600.00	\$600.00	\$0.00	\$0.00	\$0.00
2995	INDEPENDENT SALT COMPANY	120889	10/31/2002	11/30/2002	\$20,632.00	\$20,632.00	\$0.00	\$0.00	\$0.00
2995	INDEPENDENT SALT COMPANY	121001	11/22/2002	12/22/2002	\$18,581.60	\$18,581.60	\$0.00	\$0.00	\$0.00
3025	MARTIN MARIETTA MATERIALS	120897	10/31/2002	11/30/2002	\$16,000.00	\$16,000.00	\$0.00	\$0.00	\$0.00
3085	NELSON BROTHERS, LLC	120692	9/20/2002	10/20/2002	\$1,971.75	\$0.00	\$0.00	\$1,971.75	\$0.00
3085	NELSON BROTHERS, LLC	120692	10/28/2002	10/20/2002	(\$1,893.00)	\$0.00	\$0.00	(\$1,893.00)	\$0.00
3090	NELSON BROTHERS QUARRY	120587	8/23/2002	9/22/2002	(\$216.00)	\$0.00	\$0.00	\$0.00	(\$216.00)
3090	NELSON BROTHERS QUARRY	121020	11/26/2002	12/26/2002	\$3,065.18	\$3,065.18	\$0.00	\$0.00	\$0.00
3160	NORTHAMERICAN IND. SERV	120831	10/18/2002	11/17/2002	\$6,477.78	\$0.00	\$6,477.78	\$0.00	\$0.00
3160	NORTHAMERICAN IND. SERV	120847	10/22/2002	11/21/2002	\$6,431.06	\$0.00	\$6,431.06	\$0.00	\$0.00
3160	NORTHAMERICAN IND. SERV	120921	11/8/2002	12/8/2002	\$6,208.14	\$6,208.14	\$0.00	\$0.00	\$0.00
3160	NORTHAMERICAN IND. SERV	120951	11/12/2002	12/12/2002	(\$3,216.00)	(\$3,216.00)	\$0.00	\$0.00	\$0.00
3181	OMNI DISTRIBUTING INC	120166	5/24/2002	6/23/2002	\$10,954.30	\$0.00	\$0.00	\$0.00	\$10,954.30
3181	OMNI DISTRIBUTING INC	120166	11/14/2002	6/23/2002	(\$2,000.00)	\$0.00	\$0.00	\$0.00	(\$2,000.00)
3191	ORICA CANADA INC	121043	11/27/2002	1/26/2003	\$33,770.00	\$33,770.00	\$0.00	\$0.00	\$0.00
3359	PHOENIX MINING COMPANY	120948	11/12/2002	12/12/2002	\$5,829.77	\$5,829.77	\$0.00	\$0.00	\$0.00
3365	PHILIP SERVICES	120821	10/16/2002	11/15/2002	\$2,040.00	\$0.00	\$2,040.00	\$0.00	\$0.00
3365	PHILIP SERVICES	120884	10/31/2002	11/30/2002	\$3,750.00	\$3,750.00	\$0.00	\$0.00	\$0.00
3410	PRYOR STONE INC	120924	11/8/2002	12/8/2002	\$184.85	\$184.85	\$0.00	\$0.00	\$0.00
3410	PRYOR STONE INC	120935	11/11/2002	12/11/2002	\$1,893.05	\$1,893.05	\$0.00	\$0.00	\$0.00
3410	PRYOR STONE INC	121032	11/27/2002	12/27/2002	\$504.21	\$504.21	\$0.00	\$0.00	\$0.00
3450	QUAPAW	120974	11/18/2002	1/17/2003	\$15,630.03	\$15,630.03	\$0.00	\$0.00	\$0.00
3450	QUAPAW	120991	11/18/2002	1/17/2003	\$17,091.00	\$17,091.00	\$0.00	\$0.00	\$0.00
3450	QUAPAW	121014	11/26/2002	1/25/2003	\$5,222.25	\$5,222.25	\$0.00	\$0.00	\$0.00
3450	QUAPAW	121015	11/26/2002	1/25/2003	\$15,318.60	\$15,318.60	\$0.00	\$0.00	\$0.00

Cusno	Customer Name	Invoice #	Invoice Date	Due Date	Amount	Current	A30to60	A60to90	Over 90
3599	RICHARDSON WELL DRLG	120680	9/17/2002	10/17/2002	\$936.78	\$0.00	\$0.00	\$936.78	\$0.00
3635	ROCK SERVICES	120977	11/18/2002	12/18/2002	\$9,609.60	\$9,609.36	\$0.00	\$0.00	\$0.00
3635	ROCK SERVICES	120978	11/18/2002	12/18/2002	\$15,615.60	\$156,915.60	\$0.00	\$0.00	\$0.00
3675	RONCO CONSULTING CORP	119510	1/24/2002	2/23/2002	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00
3675	RONCO CONSULTING CORP	119511	1/24/2002	2/23/2002	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00
3675	RONCO CONSULTING CORP	119595	2/8/2002	3/10/2002	\$1,716.00	\$0.00	\$0.00	\$0.00	\$1,716.00
3675	RONCO CONSULTING CORP	119663	2/22/2002	3/24/2002	(\$4,974.00)	\$0.00	\$0.00	\$0.00	(\$4,974.00)
3675	RONCO CONSULTING CORP	119955	4/17/2002	5/17/2002	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00
3870	AUSTIN POWDER COMPANY	120716	9/25/2002	11/24/2002	\$9,450.00	\$0.00	\$0.00	\$9,450.00	\$1.00
3870	AUSTIN POWDER COMPANY	120725	9/26/2002	11/25/2002	\$9,452.10	\$0.00	\$0.00	\$9,452.10	\$1.00
3870	AUSTIN POWDER COMPANY	120728	9/26/2002	11/25/2002	\$1,690.00	\$0.00	\$0.00	\$1,690.00	\$1.00
3870	AUSTIN POWDER COMPANY	120763	10/4/2002	12/3/2002	\$10,440.00	\$0.00	\$10,440.00	\$0.00	\$1.00
3870	AUSTIN POWDER COMPANY	120938	11/11/2002	1/10/2003	\$10,208.00	\$10,208.00	\$0.00	\$0.00	\$1.00
3870	AUSTIN POWDER COMPANY	120940	11/11/2002	1/10/2003	\$9,452.10	\$9,452.10	\$0.00	\$0.00	\$1.00
3870	AUSTIN POWDER COMPANY	121044	11/27/2002	1/26/2003	\$10,440.00	\$10,440.00	\$0.00	\$0.00	\$1.00
3870	AUSTIN POWDER COMPANY	121045	11/27/2002	1/26/2003	\$9,452.10	\$9,452.10	\$0.00	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	120658	9/13/2002	10/13/2002	\$5,914.23	\$0.00	\$0.00	\$5,914.23	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	120757	9/30/2002	10/30/2002	\$5,723.90	\$0.00	\$5,723.90	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	120781	10/9/2002	11/8/2002	\$6,963.25	\$0.00	\$6,963.25	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	120850	10/25/2002	11/24/2002	\$1,453.39	\$0.00	\$1,453.39	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	120874	10/29/2002	1/28/2003	\$5,464.32	\$5,464.32	\$0.00	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	121008	11/22/2002	12/22/2002	\$5,721.21	\$5,721.21	\$0.00	\$0.00	\$1.00
3887	PETE SAMS DBA SAMS EXPLOS	121022	11/26/2002	12/26/2002	\$2,400.84	\$2,400.84	\$0.00	\$0.00	\$1.00
3980	SOUTHARD CONSTRUCTION	121019	11/26/2002	12/26/2002	\$510.00	\$510.00	\$0.00	\$0.00	\$1.00
3980	SOUTHARD CONSTRUCTION	121021	11/26/2002	12/26/2002	\$2,220.00	\$2,220.00	\$0.00	\$0.00	\$1.00
4020	SOUTHWEST ELECTRIC CO-OP	120969	11/18/2002	12/18/2002	\$50.00	\$50.00	\$0.00	\$0.00	\$1.00
4020	SOUTHWEST ELECTRIC CO-OP	120973	11/18/2002	12/18/2002	\$1,162.00	\$1,162.00	\$0.00	\$0.00	\$1.00
4125	DYNO NOBEL MIDAMERICA	120828	10/18/2002	12/17/2002	\$10,395.00	\$0.00	\$10,395.00	\$0.00	\$1.00
4125	DYNO NOBEL MIDAMERICA	120891	10/31/2002	12/30/2002	\$10,395.00	\$10,395.00	\$0.00	\$0.00	\$1.00
4125	DYNO NOBEL MIDAMERICA	120941	11/11/2002	1/10/2003	\$9,900.00	\$99,010.00	\$0.00	\$0.00	\$1.00
4125	DYNO NOBEL MIDAMERICA	120950	11/12/2002	1/11/2003	\$9,900.00	\$9,900.00	\$0.00	\$0.00	\$1.00
4125	DYNO NOBEL MIDAMERICA	120959	11/14/2002	1/13/2003	\$10,395.00	\$10,395.00	\$0.00	\$0.00	\$1.00
4395	TPL INC.,	119662	2/22/2002	9/20/2002	\$1,386.62	\$0.00	\$0.00	\$0.00	\$1,386.62
4395	TPL INC.,	119662	7/22/2002	9/20/2002	(\$496.50)	\$0.00	\$0.00	\$0.00	(\$496.50)
4395	TPL INC.,	119851	3/28/2002	5/27/2002	\$24,811.92	\$0.00	\$0.00	\$0.00	\$24,811.92
4395	TPL INC.,	119928	4/12/2002	6/11/2002	\$19,673.85	\$0.00	\$0.00	\$0.00	\$19,673.85
4395	TPL INC.,	120894	10/31/2002	12/30/2002	\$2,716.80	\$2,716.38	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120895	10/31/2002	12/30/2002	\$2,815.20	\$2,815.20	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120896	10/31/2002	12/30/2002	\$2,872.80	\$2,872.80	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120952	11/12/2002	1/11/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120953	11/12/2002	1/11/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120954	11/12/2002	1/11/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120955	11/12/2002	1/11/2003	\$2,520.00	\$2,520.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120956	11/12/2002	1/11/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	120964	11/15/2002	1/14/2003	\$2,520.00	\$2,520.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	121028	11/26/2002	1/25/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	121029	11/26/2002	1/25/2003	\$3,519.00	\$3,519.00	\$0.00	\$0.00	\$0.00
4395	TPL INC.,	121046	11/27/2002	1/26/2003	\$1,023.50	\$1,023.50	\$0.00	\$0.00	\$0.00
4527	USDA APHIS WS	121000	11/22/2002	12/22/2002	\$508.00	\$508.00	\$0.00	\$0.00	\$0.00
4590	W.A. Murphy Inc.	120845	10/22/2002	11/21/2002	\$4,276.00	\$0.00	\$4,276.00	\$0.00	\$0.00
4590	W.A. Murphy Inc.	120886	10/31/2002	11/30/2002	\$4,276.00	\$4,276.00	\$0.00	\$0.00	\$0.00
4590	W.A. Murphy Inc.	121023	11/26/2002	12/26/2002	\$14,305.14	\$14,305.14	\$0.00	\$0.00	\$0.00
4694	WESCO, INC.	120862	10/25/2002	11/24/2002	\$12,150.00	\$0.00	\$12,150.00	\$0.00	\$0.00
4694	WESCO, INC.	120945	11/12/2002	12/12/2002	\$2,640.00	\$2,640.00	\$0.00	\$0.00	\$0.00
4694	WESCO, INC.	121009	11/22/2002	12/22/2002	\$3,520.00	\$3,520.00	\$0.00	\$0.00	\$0.00
4694	WESCO, INC.	121013	11/26/2002	12/26/2002	\$1,932.24	\$1,932.34	\$0.00	\$0.00	\$0.00
4699	WESTERN EXPLOSIVES, LTD	120877	10/31/2002	11/30/2002	\$43,683.75	\$43,683.75	\$0.00	\$0.00	\$0.00
					\$1,266,169.40	\$992,673.54	\$184,683.05	\$27,613.26	\$61,199.55

Table 1

Universal Tech Corp  
Accounts Receivable Aging (Excludes Intercompany)  
As of November 30, 2002

Cusno	Customer Name	Invoice #	Invoice Date	Due Date	Amount	Current	A30to60	A60to90	Over 90
243	ATLANTIC RESEARACH CORP	1312	11/22/2002	12/22/2002	\$2,585.00	\$51.60	\$0.00	\$0.00	\$0.00
420	BHT PRODUCTS	1284	11/11/2002	12/11/2002	\$890.00	\$890.00	\$0.00	\$0.00	\$0.00
1003	DYNO NOBEL INC.	1261	11/5/2002	12/5/2002	\$4,085.00	\$4,085.20	\$0.00	\$0.00	\$0.00
1007	EXPLOSIVOS DENORTEAMERICA	2041	11/21/2000	12/21/2000	\$32,175.00	\$0.00	\$0.00	\$0.00	\$32,175.00
1007	EXPLOSIVOS DENORTEAMERICA	2041	12/7/2000	12/21/2000	(\$32,278.00)	\$0.00	\$0.00	\$0.00	(\$32,278.00)
1007	EXPLOSIVOS DENORTEAMERICA	2148	5/7/2001	6/7/2001	\$4,741.40	\$0.00	\$0.00	\$0.00	\$4,741.40
1007	EXPLOSIVOS DENORTEAMERICA	2150	5/16/2001	6/16/2001	\$38,325.00	\$0.00	\$0.00	\$0.00	\$38,325.00
1007	EXPLOSIVOS DENORTEAMERICA	2150	9/11/2002	6/16/2001	(\$4,000.00)	\$0.00	\$0.00	\$0.00	(\$4,000.00)
1031	AUSTIN POWDER COMPANY	1346	11/27/2002	12/27/2002	\$6,083.35	\$6,083.35	\$0.00	\$0.00	\$0.00
1456	INDUSTRIA MILITAR	1302	11/15/2002	12/27/2002	\$25,774.60	\$25,774.60	\$0.00	\$0.00	\$0.00
1456	INDUSTRIA MILITAR	1302	11/27/2002	12/27/2002	(\$1,000.00)	(\$1,000.00)	\$0.00	\$0.00	\$0.00
1461	BAE SYSTEMS	1243	10/31/2002	11/30/2002	\$2,700.00	\$2,700.00	\$0.00	\$0.00	\$0.00
1484	D & G CONSULTING	1282	11/11/2002	12/11/2002	\$540.00	\$540.00	\$0.00	\$0.00	\$0.00
1484	D & G CONSULTING	1283	11/11/2002	12/11/2002	\$375.00	\$375.00	\$0.00	\$0.00	\$0.00
1485	SPECIALTY FERTILIZER	2369	5/6/2002	6/6/2002	\$3,450.00	\$0.00	\$0.00	\$0.00	\$3,450.00
1485	SPECIALTY FERTILIZER	1003	7/18/2002	8/17/2002	\$1,200.00	\$0.00	\$0.00	\$0.00	\$1,200.00
1486	ORICA	1242	10/31/2002	11/30/2002	\$2,200.00	\$2,200.00	\$0.00	\$0.00	\$0.00
1487	TAKATA SEAT BELTS, INC	1345	11/27/2002	12/27/2002	\$600.00	\$600.00	\$0.00	\$0.00	\$0.00
1488	EXPLO SYSTEMS, INC.	1347	11/27/2002	12/27/2002	\$3,041.65	\$3,041.65	\$0.00	\$0.00	\$0.00
1488	EXPLO SYSTEMS, INC.	1348	11/27/2002	12/27/2002	\$225.00	\$225.00	\$0.00	\$0.00	\$0.00
1491	BAKER ATLAS	476787	10/30/2002	11/29/2002	-\$462.00	(\$462.00)	\$0.00	\$0.00	\$0.00
2230	DYNO NOBEL INC.	1310	11/18/2002	12/18/2002	\$400.00	\$400.00	\$0.00	\$0.00	\$0.00
2640	LDE CORPORATION	1208	10/16/2002	11/15/2002	\$6,514.06	\$0.00	\$6,514.06	\$0.00	\$0.00
2640	LDE CORPORATION	1208	11/4/2002	11/15/2002	(\$6,250.00)	\$0.00	(\$6,250.00)	\$0.00	\$0.00
2640	LDE CORPORATION	1326	11/22/2002	12/22/2002	\$340.24	\$340.24	\$0.00	\$0.00	\$0.00
					\$92,255.50	\$48,378.04	\$264.06	\$0.00	\$43,613.40

**EXCLUDED SELLERS' CONTRACTS**

**Universal Tech Corporation**

1. Equipment Lease between United Leasing, Inc. and Universal Tech Corporation ("UTeC"), commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
  2. Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
  3. Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.
  4. Service Agreement between UTeC and LSB Industries, Inc. ("LSB") dated December 23, 1992, terminable (with notice) on December 23, 2004, or upon LSB giving 90 days notice to terminate at any time, regarding LSB's performance of certain administrative services for UTeC.
  5. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.
  6. Non-Qualified Stock Option Agreement – 1998 between LSB and Oldrich Machacek, dated April 22, 1998, expiring on April 22, 2008 regarding option on 5,000 shares of LSB stock.
  7. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated July 8, 1999, expiring July 8, 2009, regarding option on 5,000 shares of LSB stock.
  8. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated November 29, 2001, expiring on November 29, 2011, regarding option on 5,000 shares of LSB stock.
  9. Consent Agreement in The Matter of Pollution at Former Gulf Oil Company Jayhawk Plant, Galena, Kansas, Case No. 98-E-0109, Kansas Department of Health and Environment, last signed June 16, 1999, termination upon KDHE's notice that the terms have been satisfactorily completed.
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10. Phase IV Agreement, dated June 16, 1999, by and among Inspec USA, Inc., Chevron Chemical Company LLC, Chevron USA, Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.
11. Mortgage, Assignment of Rents and Security Agreement executed by UTeC in favor of Guggenheim Investment Management, LLC, et al. ("Guggenheim"), dated May 24, 2002, filed June 6, 2002 at 3:15 PM in Book 290 of Mortgages at Pages 217-243 in the office of the Register of Deeds, Cherokee County, Kansas.
12. Mortgage, Assignment of Rents and Security Agreement executed by UTeC, in favor of Foothill Capital Corporation, et al. ("Foothill"), dated May 24, 2002, filed June 6, 2002 at 3:25 PM in Book 290 of Mortgages at Pages 244-272 in the office of the Register of Deeds, Cherokee County, Kansas.
13. Mortgage Subordination and Standstill Agreement in favor of Guggenheim, executed by Foothill, Guggenheim and UTeC, filed June 6, 2002 at 3:35 PM in Book 92 of Miscellaneous at Pages 673-686 in the office of the Register of Deeds, Cherokee County, Kansas.
14. All title documents, including those listed in Part 3.6 (which Part is incorporated herein by reference) associated with any Real Property owned UTeC, as such terms are defined in the Agreement.
15. Lease and Operating Agreement (With Right of First Refusal and Option to Purchase), dated September 25, 1990, from IRECO Incorporated to UTeC, regarding UTeC's Underwater Lab, Hallowell, Kansas.

Slurry Explosive Corporation

1. Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
2. Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
3. O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.
4. Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.

5. Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
6. Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
7. Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hallowell, Kansas Facility.
8. Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
9. Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
10. Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
11. Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
12. Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
13. Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
14. Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.
15. Lease between R.K. Black, Inc. and SEC, commencing February 23, 1998, and continuing for 60 months, regarding two (2) Lanier copiers for SEC's Oklahoma City, Oklahoma office.

16. Master Services Agreement dated March 14, 2002 for SCS Engineers to perform Comprehensive Investigation/Corrective Action Study for SEC and its counsel, Shook Hardy & Bacon LLP.
17. Service Agreement, between SEC and LSB, dated January 1, 1992, terminating upon notice on January 1, 2004, or upon LSB giving 90 days notice of termination at anytime, regarding LSB's performance of certain administrative service for SEC.
18. Asset Sale and Purchase agreement between SEC and ICI Explosives USA, Inc. ("ICI"), dated as of November 30, 2000, regarding SEC's acquisition of ICI's Kinepak Business and Kinepak Assets.
19. Consent Order entered in The Matter of Pollution at Slurry Explosive Corporation, Hallowell, Kansas, Case No. 02-E-0049, Kansas Department of Health and Environment ("KDHE"), dated April 22, 2002, terminating upon KDHE's notice that terms have been satisfactorily completed.
20. Confidentiality Agreement between SEC and Wimase Limited ("Wimase"), dated June 18, 2002, expiring June 18, 2004, regarding SEC's information provided to Wimase for purpose of evaluating the possible acquisition of SEC's Hallowell, Kansas Facility.
21. Incentive Stock Option Agreement between LSB and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
22. Non-Qualified Stock Option Agreement – 1998 between LSB and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
23. Incentive Stock Option Agreement between LSB and Paul Keeling, dated July 8, 1999, expiring on July 8, 2009, regarding option on 10,000 shares of LSB stock.
24. Incentive Stock Option Agreement between LSB and Paul Keeling, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
25. Incentive Stock Option Agreement between LSB and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
26. Non-Qualified Stock Option Agreement - 1998, between LSB and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.

27. Incentive Stock Option Agreement between LSB and William Manion, dated July 8, 1999, expiring on July 8, 2009, regarding option on 15,000 shares of LSB stock.
28. Incentive Stock Option Agreement between LSB and William Manion, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
29. Lease from Prime Financial Corporation to SEC, dated February 15, 1995, regarding SEC's Pryor, Oklahoma Facility.
30. Stipulation for Compromise Settlement in United States of America v. L.S. Blasting Agents, et al., Civil Case No. 0201096-WEB, U.S.D.C., District of Kansas dated October, 2002, consenting to the forfeiture of product seized by the ATF.
31. Trademark Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain trademarks.
32. Patent Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain patents.
33. All title documents, including those listed in Part 3.6 (which Part is incorporated herein by reference) associated with any Real Property owned SEC, as such terms are defined in the Agreement.

Agreements between SEC & UTeC

1. Asset Purchase and Sale Agreement between SEC and UTeC, dated May 14, 2002, regarding UTeC's purchase of SEC's assets related to Hallowell, Kansas Facility.
2. Services Agreement between SEC and UTeC, dated August 23, 2002, expiring August 23, 2005, upon thirty days notice, regarding SEC providing certain administrative and human resource services.
3. Supply Agreement between SEC and UTeC, dated August 30, 2002, terminating August 30, 2003, upon thirty day notice, regarding UTeC's manufacture of certain product for SEC.
4. \$5,000.00 monthly fee paid by SEC to UTeC for Research, Development and Quality Control work for SEC's Kinepak plant business, effective March, 2002, and continuing until terminated.



5. Contribution Agreement between UTeC, SEC and other affiliates, dated April 13, 2001, addressing contribution relating to the obligations under the Foothill Second Amendment.
6. Industrial Lease from UTeC to SEC, dated May 14, 2002, regarding the Hallowell, Kansas Facility.

Both UTeC and SEC are Parties

1. Loan and Security Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding working capital line of credit (the "Foothill Loan").
2. First Amendment to Loan and Security Agreement, dated August 3, 2001, amending the Foothill Loan.
3. Second Amendment to Loan and Security Agreement, dated May 24, 2002, amending the Foothill Loan.
4. Lockbox Operating Procedural Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding operation of lockbox for receivables.
5. Securities Purchase Agreement between Guggenheim and UTeC and SEC dated May 24, 2002, regarding the purchase by Guggenheim of certain Notes (the "Securities Purchase Agreement").
6. Guaranty by SEC and UTeC, et al. to Guggenheim, dated May 24, 2002, regarding debt created by Securities Purchase Agreement.
7. Intercreditor Agreement between Foothill, Guggenheim, UTeC and SEC, et al., regarding priorities of security interests of Guggenheim and Foothill.
8. Indenture between ClimaChem, Inc. ("CCI"), Ban One, NA ("BankOne"), UTeC and SEC, et al., as Guarantors, dated November 26, 1997, regarding the issuance of Senior Notes (the "Indenture").
9. Guaranty by UTeC and SEC and other affiliates with respect to the Indenture.
10. First Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated February 8, 1999, amending and supplementing the Indenture.
11. Second Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated June 25, 1999, amending and supplementing the Indenture.

12. Third Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated August 10, 2000, amending and supplementing the Indenture.
13. Fourth Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated May 30, 2001, amending and supplementing the Indenture.
14. Fifth Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated May 24, 2002, amending and supplementing the Indenture.
15. All rights of UTeC and SEC under those Seller Contracts, as such term is defined in the Agreement, as contemplated by and executed in connection with the Agreement.

**EXCLUDED PROPERTY AND ASSETS**

1. All Real Property, as such term is defined in the Agreement owned by Universal Tech Corporation ("UTeC") and/or Slurry Explosive Corporation ("SEC").
2. All business records and transactional documents required by the Bureau of Alcohol, Tobacco and Firearms to be maintained by UTeC and/or SEC.
3. All the equipment, vehicles and/or other property (personal and real) that are the subject of the following agreements:

a. Universal Tech Corporation

- (1) Equipment Lease between United Leasing, Inc. and UTeC, commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
- (2) Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
- (3) Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.
- (4) Lease and Operating Agreement (With Right of First Refusal and Option to Purchase), dated September 25, 1990, from IRECO Incorporated to UTeC, regarding UTeC's Underwater Lab, Hallowell, Kansas.

b. Slurry Explosive Corporation

- (1) Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
  - (2) Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
  - (3) O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.
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- (4) Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.
- (5) Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
- (6) Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
- (7) Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hallowell, Kansas Facility.
- (8) Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
- (9) Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
- (10) Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
- (11) Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
- (12) Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
- (13) Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
- (14) Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.



Prepaid Lease Obligations

See attached schedule

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AP0125 256	Sferguson	PCACT13B	Universal Tech Corporation					
Bank Code	111 First American Bank		Disbursements Journal				10:30:21	11/23/2002
Payment Code	Checks							Page 1
Payment Number	Payment Date	Invoice Number	Invoice Date	Due Before Payment	Gross Amount	Discount Taken	Payment Amount	
15593	337718 GE Capital Modular Space 12/1/2002	LESE021231 Payment	12/1/2002	417.20	417.20	0	417.20	
		15593 Total			417.20	0	417.20	
15594	356180 Wells Fargo Financial 12/1/2002	3595021231 Payment	12/1/2002	181.12	181.12	0	181.12	
		15594 Total			181.12	0	181.12	
15595	542905 Midwest Leasing Co. 12/1/2002	PURCO21231 Payment	12/1/2002	1000.00	1000.00	0	1000.00	
		15595 Total			1000.00	0	1000.00	
15596	788878 Preston Forest Assoc LTD 12/01/2002	RENT021231 Payment	12/1/2002	758.79	758.79	0	758.79	
		15596 Total			758.79	0	758.79	
15597	838770 United Leasing Co. 12/1/2002	0001021231 Payment	12/1/2002	467.42	467.42	0	467.42	
		15597 Total			467.42	0	467.42	
15598	0002021231	0002021231 Payment	12/1/2002	361.25	361.25	0	361.25	
		15598 Total			361.25	0	361.25	
		Disbursement Totals			3185.78	0	3185.78	

Payment Number	Payment Date	Invoice Number	Invoice Date	Due Before Payment	Gross Amount	Discount Taken	Payment Amount
181788	CITICAPITAL						
36854	12/1/2002	Lese021231	12/1/2002	5740.00	5740.00	0	5740.00
		Payment			5740.00	0	5740.00
36855	12/1/2002	RENT021231	12/1/2002	6650.00	6650.00	0	6650.00
		Payment			6650.00	0	6650.00
647260	PITNEYWORKS						
36856	12/1/2002	4025021231	12/1/2002	325.00	325.00	0	325.00
		Payment			325.00	0	325.00
36857	12/1/2002	9625021231	12/1/2002	50.00	50.00	0	50.00
		Payment			50.00	0	50.00
652950	Amerian Heart Assoc DBA						
36858	12/1/2002	LESE021231	12/1/2002	988.75	988.75	0	988.75
		Payment			988.75	0	988.75
658890	Premium Financing						
36859	12/1/2002	5453021231	12/1/2002	17018.30	17018.30	0	17018.30
		Payment			17018.30	0	17018.30
838770	United Leasing Co.						
36860	12/1/2002	D885021231	12/1/2002	3288.46	3288.46	0	3288.46
		Payment			3288.46	0	3288.46
36861	12/1/2002	0001021231	12/1/2002	760.76	760.76	0	760.76
		Payment			760.76	0	760.76
36862	12/1/2002	0002021231	12/1/2002	1118.38	1118.38	0	1118.38
		Payment			1118.38	0	1118.38
36863	12/1/2002	0005021231	12/1/2002	1212.97	1212.97	0	1212.97
		Payment			1212.97	0	1212.97
36864	12/1/2002	0006021231	12/1/2002	643.80	643.80	0	643.80
		Payment			643.80	0	643.80



Payment Number	Payment Date	Invoice Number	Invoice Date	Due Before Payment	Gross Amount	Discount Taken	Payment Amount
36865	12/1/2002	0007021231	12/1/2002	643.80	643.80	0	643.80
		Payment	36865 Total		643.80	0	643.80
36866	12/1/2002	0008021231	12/1/2002	880.97	880.97	0	880.97
		Payment	36866 Total		880.97	0	880.97
36867	12/1/2002	0010021231	12/1/2002	574.23	574.23	0	574.23
		Payment	36867 Total		574.23	0	574.23
845590	U.S. BANCORP EQUIPMENT						
36868	12/1/2002	LESE021231	12/1/2002	8907.08	8907.08	0	8907.08
		Payment	36868 Total		8907.08	0	8907.08
		Disbursement Totals			48802.50	0	48802.50

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**Allocation of Responsibility for Assumed Liabilities Among Buyers**

**UTeC Corporation, LLC:**

1. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 17, 1999, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at the Pruf Plant, Hallowell, Kansas.
  2. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 1, 1995, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at UTeC's Underwater Lab, Hallowell, Kansas.
  3. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated September 27, 1985, continuing on a 6 months by 6 months basis until terminated, regarding water cooler at UTeC's R&D Lab, Riverton, Kansas.
  4. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, dated June 28, 1995, renewed through June, 2003, regarding two (2) tying machines at UTeC's Pruf Plant, Hallowell, Kansas.
  5. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, renewed through January, 2003, regarding a tying machine at UTeC's Underwater Lab, Hallowell, Kansas.
  6. Month to month Q.C. Testing Fee Agreement between UTeC and Ireco (now Dyno Nobel, Inc.), dated October 14, 1991, regarding quality control testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
  7. Testing Fee Agreement between UTeC and Nelson Brothers LLC, dated September 27, 2002, regarding specifically delineated testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
  8. Quote from UTeC to Industria Militar for \$453,717.51 (US) in sales of raw materials during first half of 2003.
  9. Technology and Know-How License Agreement between UTeC and Explosivos de Norteamerica S.A. de C.V., dated January 1, 1997, terminating on January 1, 2007, regarding use of UTeC technology and know-how to manufacture and sell product in Mexico on an exclusive basis so long as a 2,000 metric tons per year volume is sustained.
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10. Listing of UTeC employees and their repayment obligations who have received advances made by UTeC.
11. Consulting Agreement between UTeC and Pieter de Wit, dated January 1, 1996, as orally amended and extended to December 31, 2002, regarding the providing of consulting services related to demilitarization projects.
12. Confidentiality Agreement, last signed October 16, 2001, and continuing for five (5) years, by and between UTeC and Aliachem a.s., regarding confidential information provided for discussion of the possible sale of a business owned by Aliachem a.s.
13. Lease from PLP Investment, Inc. (assigned to Preston Forest Associates, Ltd.) to UTeC, dated June 5, 1992, on UTeC's Dallas office space, as amended on August 30, 1993, March 21, 1996 and August 1, 1998.

**SEC Investment Corp., LLC:**

1. License and Processing Agreement between SEC and TPL, Inc., dated December 9, 1999, for continuing one year terms until 12 months notice is given, regarding the use of SEC's Technical Information to produce product solely for SEC.
2. Proprietary Information Disclosure Agreement between SEC and TPL, Inc., dated October 3, 1999, terminating October 3, 2004, regarding each party's Proprietary Information.
3. Purchase Agreement between General Dynamics Ordnance and Tactical Systems and SEC, dated March 11, 2002, final payment due October 15, 2002, regarding watergel slurry production equipment purchased from Marion, Illinois.
4. Emergency Response Telecommunication Service Agreement between Chem-Tel, Inc. and SEC dated March 25, 1997, renewed through December 31, 2002, regarding 24-hour emergency phone answering services.
5. Contract Service Agreement between Midwest Leasing Co. and SEC, dated May 2, 1997, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0049, 1995 Kenworth.
6. Contract Service Agreement between Midwest Leasing Co. and SEC, dated September 18, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0055, 1999 Peterbilt.
7. Contract Service Agreement between Midwest Leasing Co. and SEC, dated June 25, 1999, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0058, 2000 Peterbilt.

8. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 23, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0053, 1999 Peterbilt.
9. Contract Service Agreement between Explo-Transport Co. and SEC, dated September 14, 2000, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0059, 2001 Peterbilt.
10. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 13, 2001, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0060, 2000 Peterbilt.
11. Rental Agreement between Pitney Bowes, Inc. and SEC, dated April 4, 1989, expired April 4, 1989, but now paid quarterly, in advance, regarding postage meter for SEC's Oklahoma City, Oklahoma office.
12. Construction Agreement between SEC and Mid Central Contract Services, Inc., dated August 7, 2002, regarding construction efforts at Hallowell, Kansas Facility for \$208,721.00, which has been paid in full.
13. Service Agreement between SEC and U.S. Cellular dated September 23, 2002, expiring September 23, 2003, for cell phone services at Pryor, Oklahoma Facility.
14. Pricing Agreement between SEC and Heartland Cement through January 31, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.
15. Pricing Agreement between SEC and Lone Star Industries through January 1, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.
16. Wireless Services Agreement between SEC and AT&T Wireless, expiring April, May (two phones) and December, 2003, regarding four cell phone services at Hallowell, Kansas Facility.
17. Marketing and Supply Agreement between SEC and Austin Powder Company dated October 5, 1994, terminated as to exclusivity only effective October 5, 1997, but otherwise terminable upon sixty days notice prior to the October 5 automatic annual renewal, regarding Austin Powder Company's marketing and distributing efforts of watergel products for forest fire fighting and timber boundary demarcation applications.
18. Non-exclusive License Agreement between SEC and Total Energy Systems Limited ("TES"), dated October 1, 1996, as amended and assigned in that Assignment and Amendment of the Slurry Explosive Corporation License Agreement between SEC, TES and Quantum Explosives Pty. Ltd., dated August 2, 1999, continuing through end of use or breach, regarding use of SEC's patent

rights or technical information to manufacture and sell specific products in plants in Australia, New Zealand, New Guinea, Fiji, Myanmar and Soloman Islands.

19. Letter reflecting SEC's November 6, 2000, offer of employment to Bob Le Blanc, commencing January 1, 2001, including commissions, with expectations of a one to two year employment period.
20. Listing of SEC employees and their repayment obligations who have received advances made by SEC.
21. SEC Employees signature pages exhibiting their agreement to the Assignment of Invention, Confidentiality and Non-Compete provisions of the SEC Employee Handbook.
22. Confidentiality Agreement between SEC and KESCO, Inc. ("KESCO"), dated September 19, 1994, with no expiration date, regarding information received from KESCO for purposes of evaluating the possible acquisition of KESCO by SEC.
23. Confidentiality Agreement between SEC and Union Espanola de Explosivos, S.A. ("UEE"), dated May 10, 2002, expiring May 10, 2007, regarding SEC's information provided to UEE for purposes of evaluating the possible acquisition of SEC's Hallowell, Kansas Facility.
24. Lease Agreement between SEC and Conseco Finance Vendor Services Corporation, dated December 22, 2000, continuing for 24 months, with \$1.00 purchase option, regarding computers at SEC's Oklahoma City, Oklahoma office.
25. Office Lease Agreement from Nations Bank N.A. (assigned to American Heart Association) to SEC, dated September 15, 1997, regarding SEC's Portland Plaza, Oklahoma City, Oklahoma administrative office space.

**Energetic Systems Inc., LLC:**

1. Employment Agreement between UTec and Oldrich Machacek dated June 5, 1990, terminating upon 60 days notice.
2. 1993 Severance Agreement between LSB Industries, Inc. ("LSB") and Bill Manion, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
3. 1993 Severance Agreement between LSB and Paul Keeling, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.

**DetaCorp Inc., LLC:**

1. Postage Meter Rental Agreement between UTec and Pitney Bowes, dated September 23, 2002, continuing for one year, regard UTec's assumption of SEC's obligations for a postage meter at the Hallowell, Kansas Facility.
2. Confidential Rail Transportation Contract between SEC and Union Pacific Railroad Company ,dated effective January 1, 2002, expiring July 31, 2002 but informally continuing, regarding line-haul transportation.
3. Equipment Lease between Midwest Leasing Co. and SEC, dated May 6, 2002, and continuing for 12 months (at which time SEC becomes owner), regarding 1986 Tempe Reefer Cooling Unit for Kinepak Plant located at Hallowell, Kansas Facility.
4. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 9, 2002, regarding security patrol at Hallowell, Kansas Facility.
5. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 22, 2002, regarding telephone for security patrol at Hallowell, Kansas Facility.
6. Cleaning Service Contract between SEC and Safety-Kleen Systems, Inc., dated May 2, 2002, expires May 2, 2003, regarding cleaning/services provided to SEC at Hallowell, Kansas Facility.
7. Lease Agreement between Farmer's Co-op Association and SEC, dated November 28, 2001, regarding property adjacent to railroad at or near Hallowell, Kansas.
8. SEC's rights under Industry Track Lease Agreement between South Kansas and Oklahoma Railroad and El Dorado Chemical Company, dated as of August 1, 1998, regarding railroad track at or near Hallowell, Kansas.

## Bill of Sale

This Bill of Sale ("**Bill of Sale**") is made and entered into on December 6, 2002, by and among Universal Tech Corporation, an Oklahoma corporation ("**Seller**"), and \_\_\_\_\_, a Nevada limited liability company ("**Buyer**").

WHEREAS, Buyer and Seller are parties to that certain Asset Purchase Agreement dated December 6, 2002 (the "**Purchase Agreement**"); and

WHEREAS, pursuant to the Purchase Agreement, Seller has agreed to sell, assign, transfer and convey certain Assets to Buyer, as set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. *Capitalized Terms.* Capitalized terms used but not defined herein shall have the meanings for such terms that are set forth in the Purchase Agreement.
  2. *Sale and Transfer of Assets and Contract Rights.* Effective as of 12:01 a.m. C.S.T. on December 1, 2002 (the "**Effective Time**"), Seller hereby sells, transfers, assigns, conveys, grants and delivers to Buyer, all of Seller's right, title and interest in and to all of the assets (the "**Assets**") and contract rights ("**Rights**") described on Schedule A hereto (collectively, the Assets and the Rights being referred to as the "**Transferred Items**"). The Transferred Items do not include Excluded Assets. Further, Buyer acknowledges that, except as provided in the Purchase Agreement, Seller makes no representations or warranties as to the Transferred Items and, subject to any express representation or warranty made by any third-party that is being transferred in connection with the transactions contemplated by the Purchase Agreement, all of the Transferred Items are being conveyed on an "as is-where is" basis.
  3. *Further Actions.* Seller covenants and agrees to warrant and defend the title to the Transferred Items hereby made against all lawful claims of any person whomsoever, to take all steps reasonably necessary to establish the record of Buyer's title to the Transferred Items and, at the request of Buyer, to execute and deliver further instruments of transfer and assignment and take such other action as Buyer may reasonably request to more effectively transfer and assign to and vest in Buyer each of the Transferred Items, all at the sole cost and expense of Seller.
  4. *Power of Attorney.* Without limiting Section 2 hereof, Seller hereby constitutes and appoints Buyer the true and lawful agent and attorney in fact of Seller, with full power of substitution, in whole or in part, in the name and stead of Seller but on behalf and for the benefit of Buyer and its successors and assigns, from time to time:
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(a) to demand, receive and collect any and all of the Transferred Items and to give receipts and releases for and with respect to the same, or any part thereof, and

(b) to do all things legally permissible, required or reasonably deemed by Buyer to be required to recover and collect the Transferred Items,

Seller hereby declaring that the foregoing powers are coupled with an interest and are and shall be irrevocable by Seller.

5. *Terms of the Purchase Agreement.* The terms of the Purchase Agreement are incorporated herein by this reference. Seller acknowledges and agrees that the terms contained in the Purchase Agreement shall not be superseded hereby but shall remain in full force and effect to the full extent provided therein. In the event of any conflict or inconsistency between the terms of the Purchase Agreement and the terms hereof, the terms of the Purchase Agreement shall govern.

IN WITNESS WHEREOF, Seller has executed this Bill of Sale as of December 6, 2002.

SELLER:  
**Universal Tech Corporation**

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



**SCHEDULE A  
TO  
BILL OF SALE  
Description of Assets and Contract Rights**

[Insert specific language for each Buyer]

## Assignment and Assumption Agreement

This Assignment and Assumption Agreement ("**Assignment and Assumption Agreement**") is made and entered into on December \_\_, 2002, by and among Universal Tech Corporation, an Oklahoma corporation ("**Assignor**"), and \_\_\_\_\_, a Nevada limited liability company ("**Assignee**").

WHEREAS, Assignor and Assignee are parties to that certain Asset Purchase Agreement dated December \_\_, 2002 (the "**Purchase Agreement**"); and

WHEREAS, pursuant to the Purchase Agreement, Assignor has agreed to assign certain rights and agreements to Assignee, and Assignee has agreed to assume certain obligations of Assignor, as set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. *Capitalized Terms.* Capitalized terms used but not defined herein shall have the meanings for such terms that are set forth in the Purchase Agreement.
  2. *Assignment and Assumption.* Effective as of 12:01 a.m. C.S.T. on December 1, 2002 (the "**Effective Time**"), Assignor hereby assigns, sells, transfers and sets over (collectively, the "**Assignment**") to Assignee all of Assignor's right, title, benefit, privileges and interest in and to, and all of Assignor's burdens, obligations and liabilities in connection with, each of the Assumed Liabilities described on Schedule A hereto. Assignee hereby accepts the Assignment and assumes and agrees to observe and perform all of the duties, obligations, terms, provisions and covenants, and to pay and discharge all of the liabilities of Assignor to be observed, performed, paid or discharged from and after the Closing, in connection with such Assumed Liabilities. Assignee assumes no Retained Liabilities, and the parties hereto agree that all such Retained Liabilities shall remain the sole responsibility of Assignor.
  3. *Further Actions.* Each of the parties hereto covenants and agrees, at its own expense, to execute and deliver, at the request of the other party hereto, such further instruments of transfer and assignment and to take such other action as such other party may reasonably request to more effectively consummate the assignments and assumptions contemplated by this Assignment and Assumption Agreement.
  4. *Terms of the Purchase Agreement.* The terms of the Purchase Agreement and Disclosure Letter incorporated therein are incorporated herein by this reference. Assignor acknowledges and agrees that the terms contained in the Purchase Agreement shall not be superseded hereby but shall remain in full force and effect to the full extent provided therein. In the event of any conflict or inconsistency between the terms of the Purchase Agreement and the terms hereof, the terms of the Purchase Agreement shall govern.
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IN WITNESS WHEREOF, the parties have executed this Assignment and Assumption Agreement on the date first above written.

ASSIGNOR:  
**Universal Tech Corporation**

ASSIGNEE:  
\_\_\_\_\_

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

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

SCHEDULE A  
TO  
ASSIGNMENT AND ASSUMPTION AGREEMENT  
Description of Assumed Liabilities

[Insert specific language for each Buyer]

**Assignment of Servicemarks and Trademarks**

**ASSIGNMENT OF SERVICEMARKS AND TRADEMARKS** made and entered into on the 6<sup>th</sup> day of December 2002, by \_\_\_\_\_, an Oklahoma corporation ("**Assignor**"), to \_\_\_\_\_, a Nevada limited liability company ("**Assignee**").

**RECITAL**

Assignee and Assignor are parties to an Asset Purchase Agreement dated December 6, 2002 (the "**Agreement**"), pursuant to which Assignor has agreed to sell to Assignee and Assignee has agreed to buy from Assignor the Assets (as defined in the Agreement), including without limitation the servicemarks, trademarks and trade names of Assignor. Pursuant to the Agreement, Assignor has agreed to execute such instruments as the Assignee may reasonably request in order to more effectively assign, transfer, grant, convey, assure and confirm to Assignee and its successors and assigns, or to aid and assist in the collection of or reducing to possession by the Assignee of, all of such assets.

In accordance therewith, Assignor desires to transfer and assign to Assignee, and Assignee desires to accept the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under Assignor's registered and unregistered domestic and foreign servicemarks, trademarks, trademark applications and trade names, including without limitation the servicemarks, trademarks, serviceman and trademark applications and trade names listed on Schedule A annexed hereto and incorporated herein by reference (all of the foregoing being referred to herein as the "**Marks**").

NOW, THEREFORE, effective as of 12:01 a.m. C.S.T. on December 1, 2002 Assignor, for and in exchange for the payment of the purchase price set forth in the Agreement, the receipt of which is hereby acknowledged, does hereby transfer and assign to Assignee, and Assignee hereby accepts the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under the Marks, together with the goodwill of the business associated therewith and which is symbolized thereby, all rights to sue for infringement of any Mark, whether arising prior to or subsequent to the date of this Assignment of Servicemarks and Trademarks, and any and all renewals and extensions thereof that may hereafter be secured under the laws now or hereafter in effect in the United States, Canada and in any other jurisdiction, the same to be held and enjoyed by the said Assignee, its successors and assigns from and after the date hereof as fully and entirely as the same would have been held and enjoyed by the said Assignor had this Assignment of Servicemarks and Trademarks not been made.

Except to the extent that federal law preempts state law with respect to the matters covered hereby, this Assignment of Servicemarks and Trademarks shall be governed by

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and construed in accordance with the laws of the State of Oklahoma without giving effect to the principles of conflicts of laws thereof.

IN WITNESS WHEREOF, Assignor has caused its duly authorized officer to execute this Assignment of Servicemarks and Trademarks on the date first above written.

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

[SEAL]

State of Oklahoma )  
                          ) ss.:  
County of Oklahoma )

On this 6<sup>th</sup> day of December, 2002, before me, \_\_\_\_\_, personally appeared \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

\_\_\_\_\_  
Notary Public

**SCHEDULE A**

**Registered Servicemarks and Trademarks**

Servicemark or Trademark

U.S. or Canadian Registration No.

Registration Date

**Unregistered Servicemarks and Trademarks**

**Registered Servicemark or Trademark Applications**

Servicemark or Trademark

U.S. or Canadian Registration No.

Registration Date

**Trade Names**

**Assignment of Patents**

**ASSIGNMENT OF PATENTS** made and entered into on the \_\_\_\_ day of December, 2002, by \_\_\_\_\_, an Oklahoma corporation, ("**Assignor**"), to \_\_\_\_\_, a Nevada limited liability company ("**Assignee**").

**RECITAL**

Assignee and Assignor are parties to an Asset Purchase Agreement dated December \_\_, 2002 (the "**Agreement**"), pursuant to which Assignor has agreed to sell to Assignee and Assignee has agreed to buy from Assignor the Assets (as defined in the Agreement), including without limitation the patents of Assignor. Pursuant to the Agreement, Assignor has agreed to execute such instruments as the Assignee may reasonably request in order more effectively to assign, transfer, grant, convey, assure and confirm to Assignee and its successors and assigns, or to aid and assist in the collection of or reducing to possession by the Assignee of, all of such assets.

In accordance therewith, Assignor desires to transfer and assign to Assignee, and Assignee desires to accept the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under Assignor's registered and unregistered domestic and foreign patents and patent applications, including without limitation, the patents and patent applications listed on Schedule A annexed hereto and incorporated herein by reference (all of the foregoing being referred to herein as the "**Patents**").

NOW, THEREFORE, effective as of 12:01 a.m. C.S.T. on December 1, 2002, Assignor, for and in exchange for the payment of the purchase price set forth in the Agreement, the receipt of which is hereby acknowledged, does hereby transfer and assign to Assignee, and Assignee hereby accepts the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under the Patents, together with the goodwill of the business associated therewith and which is symbolized thereby, all rights to sue for infringement of any Patent, whether arising prior to or subsequent to the date of this Assignment of Patents, and any and all renewals and extensions thereof that may hereafter be secured under the laws now or hereafter in effect in the United States, Canada and in any other jurisdiction, the same to be held and enjoyed by the said Assignee, its successors and assigns from and after the date hereof as fully and entirely as the same would have been held and enjoyed by the said Assignor had this Assignment of Patents not been made.

Except to the extent that federal law preempts state law with respect to the matters covered hereby, this Assignment of Patents shall be governed by and construed in accordance with the laws of the State of Oklahoma without giving effect to the principles of conflicts of laws thereof.

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**ASSIGNMENT OF SERVICEMARKS AND TRADEMARKS** made and entered into on the 6<sup>th</sup> day of December 2002, by \_\_\_\_\_, an Oklahoma corporation ("**Assignor**"), to \_\_\_\_\_, a Nevada limited liability company ("**Assignee**").

**RECITAL**

Assignee and Assignor are parties to an Asset Purchase Agreement dated December 6, 2002 (the "**Agreement**"), pursuant to which Assignor has agreed to sell to Assignee and Assignee has agreed to buy from Assignor the Assets (as defined in the Agreement), including without limitation the servicemarks, trademarks and trade names of Assignor. Pursuant to the Agreement, Assignor has agreed to execute such instruments as the Assignee may reasonably request in order to more effectively assign, transfer, grant, convey, assure and confirm to Assignee and its successors and assigns, or to aid and assist in the collection of or reducing to possession by the Assignee of, all of such assets.

In accordance therewith, Assignor desires to transfer and assign to Assignee, and Assignee desires to accept the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under Assignor's registered and unregistered domestic and foreign servicemarks, trademarks, trademark applications and trade names, including without limitation the servicemarks, trademarks, serviceman and trademark applications and trade names listed on Schedule A annexed hereto and incorporated herein by reference (all of the foregoing being referred to herein as the "**Marks**").

NOW, THEREFORE, effective as of 12:01 a.m. C.S.T. on December 1, 2002 Assignor, for and in exchange for the payment of the purchase price set forth in the Agreement, the receipt of which is hereby acknowledged, does hereby transfer and assign to Assignee, and Assignee hereby accepts the transfer and assignment of, all of Assignor's worldwide right, title and interest in, to and under the Marks, together with the goodwill of the business associated therewith and which is symbolized thereby, all rights to sue for infringement of any Mark, whether arising prior to or subsequent to the date of this Assignment of Servicemarks and Trademarks, and any and all renewals and extensions thereof that may hereafter be secured under the laws now or hereafter in effect in the United States, Canada and in any other jurisdiction, the same to be held and enjoyed by the said Assignee, its successors and assigns from and after the date hereof as fully and entirely as the same would have been held and enjoyed by the said Assignor had this Assignment of Servicemarks and Trademarks not been made.

Except to the extent that federal law preempts state law with respect to the matters covered hereby, this Assignment of Servicemarks and Trademarks shall be governed by

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and construed in accordance with the laws of the State of Oklahoma without giving effect to the principles of conflicts of laws thereof.

IN WITNESS WHEREOF, Assignor has caused its duly authorized officer to execute this Assignment of Servicemarks and Trademarks on the date first above written.

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

[SEAL]

State of Oklahoma )  
                          ) ss.:  
County of Oklahoma )

On this 6<sup>th</sup> day of December, 2002, before me, \_\_\_\_\_, personally appeared \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

Witness my hand and official seal.

\_\_\_\_\_  
Notary Public

**SCHEDULE A**

**Registered Servicemarks and Trademarks**

Servicemark or Trademark

U.S. or Canadian Registration No.

Registration Date

**Unregistered Servicemarks and Trademarks**

**Registered Servicemark or Trademark Applications**

Servicemark or Trademark

U.S. or Canadian Registration No.

Registration Date

**Trade Names**

## Noncompetition Agreement

This Noncompetition Agreement ("**Agreement**") is made as of December 1, 2002, by and among Energetic Systems Inc., LLC, a Nevada limited liability company ("**ESI**"), UTeC Corporation, LLC, a Nevada limited liability company ("**UTECC**"), SEC Investment Corp. LLC, a Nevada limited liability company ("**SIC**"), DetaCorp Inc., LLC, a Nevada limited liability company ("**DetaCorp**") and Energetic Properties, LLC, a Nevada limited liability company ("**EP**," and collectively with UTECC and SIC, "**Buyers**," and collectively with ESI, the "**Buyers Group**"), Slurry Explosive Corporation, an Oklahoma corporation ("**SEC**"), Universal Tech Corporation, an Oklahoma corporation ("**Universal**," and collectively with SEC, "**Sellers**"), El Dorado Chemical Company, an Oklahoma corporation ("**EDC**"), LSB Chemical Corp., an Oklahoma corporation ("**LSBCC**," and together with EDC, the "**Shareholders**"), Prime Financial Corporation, an Oklahoma corporation ("**PFC**") and LSB Industries, Inc., a Delaware corporation ("**LSB**," and collectively with the Sellers, the Shareholders and PFC, the "**Sellers Group**").

### RECITALS

- A. SEC is a wholly-owned subsidiary of EDC, Universal is a wholly-owned subsidiary of LSBCC, and EDC, LSBCC and PFC are wholly-owned subsidiaries of LSB.
- B. Concurrently with the execution and delivery of this Agreement, Buyers are purchasing from Sellers the Assets pursuant to the terms and conditions of an asset purchase agreement made as of December 6, 2002 (the "**Asset Purchase Agreement**"). Section 2.7(a)(vi) of the Asset Purchase Agreement requires that a noncompetition agreement be executed and delivered by each member of the Seller Group at the Closing.

### AGREEMENT

The parties, intending to be legally bound, agree as follows:

#### 1. DEFINITIONS

Capitalized terms not expressly defined in this Agreement shall have the meanings ascribed to them in the Asset Purchase Agreement.

#### 2. ACKNOWLEDGMENTS BY SELLER AND SHAREHOLDERS

Each Shareholder, PFC and LSB acknowledge that they have occupied a position of trust and confidence with each Seller prior to the date hereof and have had access to the following, any and all of which constitute confidential information of Sellers

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(collectively the "**Confidential Information**"): (a) any and all trade secrets concerning the business and affairs of Sellers, product specifications, data, know-how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current and planned research and development, current and planned manufacturing and distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), database technologies, systems, processes, improvements, devices, know-how, discoveries, concepts, methods and information of Seller and any other information, however documented, of Seller that is a trade secret under applicable law; (b) any and all information concerning the business and affairs of Sellers (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, contractors, agents, suppliers and potential suppliers, personnel training and techniques and materials, purchasing methods and techniques), however documented excluding information constituting Excluded Assets; and (c) any and all notes, analysis, compilations, studies, summaries and other material prepared by or for Sellers containing or based, in whole or in part, upon any information included in the foregoing.

Each member of the Seller Group acknowledges that (a) Buyer has required that each member of the Seller Group make the covenants set forth in Sections 3 and 4 of this Agreement as a condition to Buyer's purchase of the Assets; (b) the provisions of Sections 3 and 4 of this Agreement are reasonable and necessary to protect and preserve Buyers' interests in and right to the use and operation of the Assets from and after Closing; and (c) Buyers would be irreparably damaged if any member of the Seller Group were to breach the covenants set forth in Sections 3 and 4 of this Agreement.

### **3. CONFIDENTIAL INFORMATION**

Each member of the Seller Group acknowledges and agrees that the protection of the Confidential Information is necessary to protect and preserve the value of the Assets. Therefore, each member of the Seller Group hereby agrees not to disclose to any unauthorized Persons or use for its own account or for the benefit of any third party any Confidential information, whether or not such information is embodied in writing or other physical form, without Buyers' written consent, unless and to the extent that the Confidential Information (a) is or becomes generally known to and available for use by the public other than as a result of a breach of the confidentiality obligations of any member of the Seller Group under this Agreement or any other Person bound by a duty of confidentiality to Buyers or any member of the Seller Group, (b) is disclosed to any member of the Seller Group by a third party legally entitled to do so, (c) is required to be disclosed pursuant to applicable law or the order or process of a court or administrative or regulatory agency, or (d) is required to be disclosed in connection with the defense of any legal action, regulatory inquiry or investigation, provided that with respect to sub clauses (c) and (d) of this sentence, Buyers shall be notified of such requirement prior to disclosure and the applicable member of the Seller Group shall disclose only so much of such Confidential Information as counsel to the Seller Group shall advise is required and,

at the election of Buyers, cooperate with Buyers in obtaining a protective order. Each member of the Seller Group agrees to deliver to Buyer at the time of execution of this Agreement, and at any other time Buyer may request, all documents, memoranda, notes, plans, records, reports and other documentation, models, components, devices or computer software, whether embodied in a disk or in other form (and all copies of all of the foregoing with the exception that members of the Seller Group may retain copies of financial information of Sellers), that contain Confidential Information and any other Confidential Information that each member of the Seller Group may then possess or have under their control.

#### 4. NONCOMPETITION

As an inducement for Buyers to enter into the Asset Purchase Agreement and as additional consideration for the consideration to be paid to Sellers under the Asset Purchase Agreement, each member of the Seller Group agrees that:

- (a) For a period of three years after the Closing no Seller nor any of their related or affiliated companies (including the other members of the Seller Group) will, without the prior written consent of Buyers, either directly or indirectly, engage or invest in any non-public company, own, manage, operate, finance or control in any manner (including, without limitation, as a shareholder, owner, partner, member, manager, independent contractor, consultant, or advisor) any business, organization, partnership, joint venture or enterprise which competes with the Business in any geographic area in which Sellers conducted the Business and/or sold their products in the three years prior to Closing. As used herein, the term "**Business**" means (i) the manufacturing, storage or distribution of packaged explosives products and related accessory products in the geographical area in which Sellers sold or distributed such products in the three years prior to Closing, (ii) the provision of blasting and explosive related services in the geographical area in which Sellers provided such services in the three years prior to Closing, and (iii) the sale and re-distribution of Low Density Ammonium Nitrate from Seller's Hallowell, Kansas, and Pryor, Oklahoma sites. This Section 4(a) will not apply to third-party entities with whom any LSB-affiliated entity may merge, or to any third-party entities that may purchase any LSB-affiliated entity, provided that such merger partner or purchaser shall have been in the Business prior to such transaction. Each member of the Seller Group agrees that this covenant is reasonable with respect to its duration, geographical area and scope.
- (b) In the event of a breach by any member of the Seller Group of any covenant set forth in Subsection 4(a) of this Agreement, the term of such covenant will be extended by the period of the duration of such breach.

#### 5. REMEDIES

If any member of the Seller Group breaches the covenants set forth in Sections 3 or 4 of this Agreement, Buyers will be entitled to the following remedies:

(a) Damages from any member of the Seller Group.

(b) In addition to its right to damages and any other rights it may have, to obtain injunctive or other equitable relief to restrain any breach or threatened breach or otherwise to specifically enforce the provisions of Sections 3 and 4 of this Agreement, it being agreed that money damages alone would be inadequate to compensate Buyers and would be an inadequate remedy for such breach.

The rights and remedies of the parties to this Agreement are cumulative and not alternative.

**6. SUCCESSORS AND ASSIGNS**

This Agreement will be binding upon the Buyer Group and the Seller Group and will inure to the benefit of the Buyer Group and their respective affiliates, successors and assigns.

**7. WAIVER**

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement can be discharged, in whole or in part, by a waiver or renunciation of the claim or right except in writing; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party, or of the right of the party giving such notice or demand to require the other party, to take further action without notice or demand as provided in this Agreement.

**8. GOVERNING LAW**

This Agreement will be governed by the laws applied by courts of the State of Texas to contracts entered into within that state by parties residing within that state and having no connection to any other state.

**9. JURISDICTION; SERVICE OF PROCESS**

Any action or proceeding seeking to enforce any provision of, or based upon any right arising out of, this Agreement may be brought against any of the parties in the courts of the State of Texas, County of Dallas or, if it has or can acquire jurisdiction, in the United States District Court for the Northern District of Texas and each of the parties

consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

**10. SEVERABILITY**

Whenever possible, each provision and term of this Agreement will be interpreted in a manner to be effective and valid, but if any provision or term of this Agreement is held to be prohibited or invalid, then such provision or term will be ineffective only to the extent of such prohibition or invalidity, without invalidating or affecting in any manner whatsoever the remainder of such provision or term or the remaining provisions or terms of this Agreement. If any of the covenants set forth in Section 4 of this Agreement are held to be unreasonable, arbitrary or against public policy, such covenants will be considered divisible with respect to scope, time and geographic area, and in such lesser scope, time and geographic area, will be effective, binding and enforceable against each member of the Seller Group to the greatest extent permissible.

**11. COUNTERPARTS**

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

**12. SECTION HEADINGS, CONSTRUCTION**

The headings of sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement unless otherwise specified. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "Including" does not limit the preceding words or terms.

**13. NOTICES**

All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt); (b) sent by facsimile (with written confirmation of receipt), provided that a copy is also promptly mailed by registered mail, return receipt requested; or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):



Sellers, Shareholders, PFC and LSB:  
LSB Industries, Inc.  
Attention: David Shear  
Address: 16 S. Pennsylvania, Oklahoma City, Oklahoma 73106  
Fax no.: (405) 235-5067  
E-mail address: [dshear@lsb-okc.com](mailto:dshear@lsb-okc.com)

Buyers and ESI:  
Energetic Systems, Inc.  
Address: 5700 N. Portland, Suite 310, Oklahoma City, Oklahoma 73112  
Attention: David Taylor  
Fax no.: (405) 947-0768  
E-mail address: [davidtaylor.wimase@shaw.ca](mailto:davidtaylor.wimase@shaw.ca)

with a mandatory copy to:  
Jackson Walker L.L.P.  
Attention: Lawrence A. Waks  
Address: 100 Congress Avenue, Suite 1100, Austin, Texas 78701  
Fax no.: (512) 236-2002  
E-mail address: [lwaks@jw.com](mailto:lwaks@jw.com)

**14. ENTIRE AGREEMENT**

This Agreement and the Asset Purchase Agreement constitute the entire agreement between the parties with respect to the subject matter of this Agreement and supersede all prior written and oral agreements and understandings between the parties with respect to the subject matter of this Agreement. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.

**[Remainder of Page Intentionally Left Blank]**

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first above written.

Buyers:  
**Energetic Systems Inc.**

Sellers:  
**Slurry Explosive Corporation**

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**UTeC Corporation LLC**

**Universal Tech Corporation**

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**SEC Investment Corp. LLC**

Shareholders:  
**El Dorado Chemical Company**

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**DetaCorp Inc., LLC**

**LSB Chemical Corp.**

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**Energetic Properties, LLC**

PFC:  
**Prime Financial Corporation**

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

LSB:  
**LSB Industries, Inc.**  
By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**ESCROW AGREEMENT**

This Escrow Agreement ("**Agreement**"), is dated December 6, 2002, among SEC Investment Corp. LLC, a Nevada limited liability company ("**Buyer**"), Universal Tech Corporation, an Oklahoma corporation ("**Seller**"), and Jackson Walker L.L.P., a Texas limited liability partnership, as escrow agent ("**Escrow Agent**").

This is the Escrow Agreement referred to in the Asset Purchase Agreement dated December 6, 2002 (the "**Purchase Agreement**"), among Buyer and Seller and certain other parties thereto.

The parties, intending to be legally bound, hereby agree as follows:

**1. ESTABLISHMENT OF ESCROW**

- (a) Buyer is depositing with Escrow Agent an amount equal to Two Hundred Fifty Thousand Seven Hundred Twenty-Two Dollars (\$250,722) in immediately available funds (as reduced by any disbursements withdrawn under Section 4(h), the "**Escrowed Funds**"). Escrow Agent acknowledges receipt thereof.
- (b) Escrow Agent hereby agrees to act as escrow agent and to hold, safeguard and disburse the Escrowed Funds pursuant to the terms and conditions hereof.
- (c) The parties hereby agree that the Escrowed Funds shall be held by the Escrow Agent in an account or accounts from time to time in accordance with the terms and subject to the conditions of this Agreement.

**2. PURPOSE; INVESTMENT**

The Escrowed Funds shall provide funds for the adjustment of the Purchase Price as set forth in Section 2.9 of the Purchase Agreement. Except as Buyer and Seller may from time to time jointly instruct Escrow Agent in writing, the Escrow Fund shall be invested from time to time, in a Escrow Agent's trust account until disbursement of the entire Escrow Fund. Interest, if any, earned on the Escrowed Funds, shall be for the account of Seller

**3. TERMINATION OF ESCROW**

Escrow Agent shall pay and distribute the then amount of the Escrowed Funds as directed by (i) a joint written disbursement instruction(s) of Buyer and Seller, which is intended by Buyer and Seller to occur no later than March 4, 2003; or (ii) a final, nonappealable order of a court of competent jurisdiction. This Agreement will terminate upon such final distribution.

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**4. DUTIES OF ESCROW AGENT**

- (a) Escrow Agent shall not be under any duty to give the Escrowed Funds held by it hereunder any greater degree of care than it gives its own similar property and shall not be required to invest any funds held hereunder.
- (b) Escrow Agent shall not be liable for actions or omissions hereunder, except for its own gross negligence or willful misconduct and, except with respect to claims based upon such gross negligence or willful misconduct that are successfully asserted against Escrow Agent, the other parties hereto shall jointly and severally indemnify and hold harmless Escrow Agent (and any successor Escrow Agent) from and against any and all losses, liabilities, claims, actions, damages and expenses, including reasonable attorneys' fees and disbursements, arising out of and in connection with this Agreement.
- (c) Escrow Agent shall be entitled to rely upon any order, judgment, certification, demand, notice, instrument or other writing delivered to it hereunder without being required to determine the authenticity or the correctness of any fact stated therein or the propriety or validity of the service thereof. Escrow Agent may act in reliance upon any instrument or signature believed by it to be genuine and may assume that the person purporting to give receipt or advice or make any statement or execute any document in connection with the provisions hereof has been duly authorized to do so. Escrow Agent may conclusively presume that the undersigned representative of any party hereto which is an entity other than a natural person has full power and authority to instruct Escrow Agent on behalf of that party unless written notice to the contrary is delivered to Escrow Agent.
- (d) Escrow Agent may act pursuant to the advice of counsel with respect to any matter relating to this Agreement and shall not be liable for any action taken or omitted by it in good faith in accordance with such advice.
- (e) Escrow Agent does not have any interest in the Escrowed Funds deposited hereunder but is serving as escrow holder only and has only possession thereof. Any payments of income from the Escrowed Funds shall be subject to withholding regulations then in force with respect to United States taxes. This Section 4(e) and Section 4(b) shall survive notwithstanding any termination of this Agreement or the resignation of Escrow Agent.
- (f) Escrow Agent (and any successor Escrow Agent) may at any time resign as such by delivering the Escrowed Funds to any successor Escrow Agent jointly designated by the other parties hereto in writing, or to any court of competent jurisdiction, whereupon Escrow Agent shall be discharged of and from any and all further obligations arising in connection with this Agreement. The resignation of Escrow Agent will take effect on the earlier of (i) the

- appointment of a successor (including a court of competent jurisdiction) or (ii) the day which is thirty (30) days after the date of delivery of its written notice of resignation to the other parties hereto. If, at that time, Escrow Agent has not received a designation of a successor Escrow Agent, Escrow Agent's sole responsibility after that time shall be to retain and safeguard the Escrowed Funds until receipt of a designation of successor Escrow Agent or a joint written disposition instruction by the other parties hereto or a final, nonappealable order of a court of competent jurisdiction.
- (g) In the event of any disagreement between the other parties hereto resulting in adverse claims or demands being made in connection with the Escrowed Funds or in the event that Escrow Agent is in doubt as to what action it should take hereunder, Escrow Agent shall be entitled to retain the Escrowed Funds until Escrow Agent shall have received (i) a final, nonappealable order of a court of competent jurisdiction directing delivery of the Escrowed Funds or (ii) a written agreement executed by the other parties hereto directing delivery of the Escrowed Funds, in which event Escrow Agent shall disburse the Escrowed Funds in accordance with such order or agreement. Any court order shall be accompanied by a legal opinion by counsel for the presenting party satisfactory to Escrow Agent to the effect that the order is final and nonappealable. Escrow Agent shall act on such court order and legal opinion without further question.
- (h) Buyer and Seller shall pay Escrow Agent compensation (as payment in full) for the services to be rendered by Escrow Agent hereunder in the amount of Five Hundred dollars (\$500) at the time of execution of this Agreement and agree to reimburse Escrow Agent for all reasonable expenses, disbursements and advances incurred or made by Escrow Agent in performance of its duties hereunder (including reasonable fees, expenses and disbursements of its counsel). Any such compensation and reimbursement to which Escrow Agent is entitled shall be borne fifty percent (50%) by Seller and fifty percent (50%) by Buyer. Any fees or expenses of Escrow Agent or its counsel that are not paid as provided for herein may be taken from the Escrowed Funds held by Escrow Agent hereunder.

**5. LIMITED RESPONSIBILITY**

This Agreement expressly sets forth all the duties of Escrow Agent with respect to any and all matters pertinent hereto. No implied duties or obligations shall be read into this Agreement against Escrow Agent. Escrow Agent shall not be bound by the provisions of any agreement among the other parties hereto except this Agreement.

**6. OWNERSHIP FOR TAX PURPOSES**

Seller agrees that, for purposes of federal and other taxes based on income, Seller will be treated as the owner of the Escrowed Funds and that Seller will report all income,

if any, that is earned on, or derived from, the Escrowed Funds as its income in the taxable year or years in which such income is properly includible and pay any taxes attributable thereto.

**7. NOTICES**

All notices, Consents, waivers and other communications required or permitted under this Agreement shall be in writing and shall be deemed given to a party when (a) delivered to the appropriate address by hand or by a nationally recognized overnight courier service (costs prepaid); (b) sent by facsimile or e-mail (with confirmation by the transmitting equipment); or (c) received by the addressee, if sent by certified mail, return receipt requested, in each case to the following addresses and facsimile numbers and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number or person as a party may designate by notice to the other parties):

Seller:  
LSB Industries, Inc.  
Attention: David Shear  
Address: 16 S. Pennsylvania, Oklahoma City, Oklahoma 73106  
Fax no.: (405) 235-5067  
E-mail address: [dshear@lsb-okc.com](mailto:dshear@lsb-okc.com)

Buyer:  
Energetic Systems, Inc.  
Address: 5700 N. Portland, Suite 310, Oklahoma City, Oklahoma 73112  
Attention: David Taylor  
Fax no.: (405) 947-0768  
E-mail address: [davidtaylor.wimase@shaw.ca](mailto:davidtaylor.wimase@shaw.ca)

with a mandatory copy to:  
Jackson Walker L.L.P.  
Attention: Lawrence A. Waks  
Address: 100 Congress Avenue, Suite 1100, Austin, Texas 78701  
Fax no.: (512) 236-2002  
E-mail address: [lwaks@jw.com](mailto:lwaks@jw.com)

Escrow Agent:  
Jackson Walker L.L.P.  
Address: 100 Congress Avenue, Suite 1100, Austin, Texas 78701  
Attention: Lawrence A. Waks, Esq.  
Fax no.: (512) 236-2002  
E-mail address: [lwaks@jw.com](mailto:lwaks@jw.com)

**8. JURISDICTION; SERVICE OF PROCESS**

Any Proceeding arising out of or relating to this Agreement may be brought in the courts of the State of Texas, County of Dallas, or, if it has or can acquire jurisdiction, in the United States District Court for the Northern District of Texas, and each of the parties irrevocably submits to the exclusive jurisdiction of each such court in any such Proceeding and waives any objection it may now or hereafter have to venue or to convenience of forum, agrees that all claims in respect of the Proceeding shall be heard and determined only in any such court and agrees not to bring any Proceeding arising out of or relating to this Agreement in any other court. Process in any Proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

**9. EXECUTION OF AGREEMENT**

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile transmission shall constitute effective execution and delivery of this Agreement as to the parties and may be used in lieu of the original Agreement for all purposes. Signatures of the parties transmitted by facsimile shall be deemed to be their original signatures for any purposes whatsoever.

**10. WAIVER**

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

**11. ENTIRE AGREEMENT AND MODIFICATION**

This Agreement supersedes all prior agreements among the parties with respect to its subject matter and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by Buyer, Seller and Escrow Agent.

**12. GOVERNING LAW**

This Agreement shall be governed by the laws of the State of Texas without regard to conflicts of law principles that would require the application of any other Law.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement on the date first written above.

Seller:  
**Universal Tech Corporation**

Buyer:  
**SEC Investment Corp. LLC**

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

By: \_\_\_\_\_  
David Taylor, Manager

Escrow Agent:  
**Jackson Walker L.L.P.**

By: \_\_\_\_\_  
David Rex, Partner



TRANSITIONAL SERVICES AGREEMENT

This Transitional Services Agreement ("**Agreement**") is made and entered into this 6<sup>th</sup> day of December, 2002 but effective as of 12:01 a.m. C.S.T. on December 1, 2002 ("**Effective Date**") by and between LSB Industries, Inc. ("**LSB**") and Energetic Systems Inc., LLC, UTeC Corporation, LLC, DetaCorp Inc., LLC, Energetic Properties, LLC, Slurry Explosive Manufacturing Corporation, LLC and SEC Investment Corp. LLC, (collectively "**ESI**").

WHEREAS, ESI is purchasing certain assets and operations of two subsidiaries of LSB, Slurry Explosive Corporation ("**SEC**") and Universal Tech Corporation ("**UTeC**," and collectively with SEC, the "**ESI Operations**"), pursuant to that certain Asset Purchase Agreement of even date hereof (the "**Purchase Agreement**");

WHEREAS, ESI does not have the capability to economically and efficiently provide and handle certain services necessary to operate the ESI Operations;

WHEREAS, LSB is willing to provide certain services to, for and on behalf of ESI relating to ESI and the ESI Operations, conditioned upon and subject to the terms and conditions as hereinafter set forth; and

WHEREAS, the execution and delivery of this Agreement by the parties hereto is a condition precedent of the Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Service Retention. ESI hereby retains LSB to perform those services for and on behalf of ESI and the ESI Operations, that are described below, subject to the terms and conditions as hereinafter provided. LSB may perform any of these services at any LSB or affiliate location in Oklahoma City, Oklahoma, or at the location of ESI at 5700 N. Portland, Oklahoma City, Oklahoma. If Services are performed at such ESI office, ESI will provide adequate facilities and equipment to LSB to permit LSB to conveniently perform the Services hereunder.
2. Acceptance. LSB agrees to use reasonable commercial efforts to provide those services for ESI and the ESI Operations that are described below, subject to the terms and conditions of this Agreement.
3. Services.
  - A. Subject to the terms and provisions of this Agreement, LSB agrees to provide to ESI the following services for and relating to ESI and the ESI Operations.
    1. Financial & Accounting Services. LSB shall:

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- (a) maintain and keep the financial books and records pertaining to ESI and the ESI Operations and perform and/or supervise the accounting functions in connection therewith.
- (b) provide monthly financial statements, other reports and analysis as may be necessary.
- (c) assist ESI's auditors, to audit the books and records of ESI from time to time, with the cost and expense of such independent auditors to be paid solely by, and be the sole responsibility of, ESI.

2. Order Entry. LSB or any affiliate of LSB will continue to maintain for ESI an order entry system substantially similar to the order entry system provided for UTeC and SEC prior to the Effective Time. In particular, orders issued to ESI will be entered by LSB for the ESI Operations as received by ESI for ESI customers. Certain reports and data output pertaining to orders received by ESI from ESI's customers shall be forwarded by LSB to ESI as reasonably requested by ESI. ESI shall provide LSB, at ESI's cost, order documents for use in the order entry of ESI's transactions.

3. Billings. As LSB has been providing for SEC and UTeC prior to the Effective Time, invoices to be issued by ESI will be generated by LSB's data processing group for all sales by ESI from the ESI Operations to ESI's customers. All reports and data output (including a copy of each invoice for the account of ESI) generated in conjunction with the billing for ESI shall be available to ESI at LSB's offices in Oklahoma City, Oklahoma and at the request of ESI, LSB will send copies to such place as ESI may request in writing. ESI shall provide LSB with invoices and other necessary documents, in form usable by LSB's data processing and computer groups, for use in billing of ESI's transactions, with the cost thereof to be borne by ESI.

4. Credit Services. LSB will provide credit services for ESI, as follows: LSB's credit department will (i) assist ESI in the collection of ESI's receivables, (ii) receive ESI receivables and apply cash from the ESI receivables to the account of ESI, and (iii) make recommendations to ESI with respect to approval or denial of request for credit. Inability to collect any receivable, for any reason, shall be the sole and exclusive responsibility of ESI and LSB shall not have any liability in connection therewith.

5. Payable Services. LSB shall keep and maintain certain of the books and records for ESI in connection with ESI's payables and shall, upon receipt from ESI of an invoice from an ESI vendor, duly approved by certain officials, have checks prepared in connection with payment of such invoices. ESI shall designate and appoint with its bank certain individuals who shall have authority to sign, for and on behalf of ESI, ESI checks in payment of such approved invoices. The payment of all ESI's payables and invoices shall be the sole and exclusive responsibility of ESI and LSB shall not have any responsibility or liability in connection therewith.

6. Assistance in Hiring Personnel and Payroll Preparation.

A. LSB will, from time to time, at the request of ESI, assist ESI in hiring such accounting and financial personnel as requested by ESI and make recommendations in connection therewith. Salaries and compensation of such personnel, and any other matter that may arise out of the hiring process and any employment of ESI employees, will be the sole and exclusive responsibility of ESI.

B. LSB may, with the consent or notice of ESI, retain such other parties or entities that are affiliated with or affiliates of LSB to carry out and perform and/or assist LSB in carrying out and performing the services LSB has agreed to perform hereunder for ESI. LSB may retain such other parties or entities that are not affiliated with or affiliates of LSB to carry out and perform the services that LSB has agreed to perform hereunder upon LSB having given ESI ten (10) days written notice prior to retaining such other parties or entities that are not affiliated with or affiliates of LSB to perform and carry out any of such services and ESI does not object to LSB retaining such other party or entity within the ten (10) days notice period.

C. Notwithstanding anything herein to the contrary, ESI shall assume all responsibility, risks and losses associated with the services provided hereunder by LSB and such other parties and entities LSB retains to perform such services and the recommendations made by LSB to hereunder; and neither LSB nor any of its directors, officers, employees, agents or affiliates shall have any liability or responsibility, in any manner whatsoever in connection therewith other than for willful misconduct.

D. All books and records of ESI shall be and remain the sole and exclusive property of ESI.

E. From the Effective Time through and including December 31, 2002, LSB or any affiliate of LSB will employ, or continue to employ, the personnel of SEC and UTeC that are identified by ESI prior to the Effective Date. During such period, LSB will continue to pay such employees and to provide them with the employee benefits that they are receiving as of the Effective Date. ESI will reimburse LSB for all such expenses incurred by LSB in association with such employment for such period, including without limitation payroll, vacation pay, insurance costs and deductibles or similar, health care claims, workers compensation claims and taxes.

4. Supplies. ESI authorizes LSB to purchase, for and on behalf of ESI such files, forms and other office supplies as LSB deems necessary to process and store ESI records, and the cost and expenses of such files, forms and office supplies to be borne by ESI, after discussion with ESI.

5. Payment of Service. In consideration of the services to be provided hereunder, ESI shall pay to LSB \$15,000 for the month of December 2002 and \$10,000 per month for every month thereafter until this Agreement is terminated in accordance with Section 6.A.

6. Term and Termination.

A. The term of this Agreement shall commence as of the Effective Time and shall terminate on completion of the March 2003 accounting cycle, unless extended by mutual consent, provided that the services under Section 3.A.6.E (employment of personnel) above shall terminate at midnight, December 31, 2002.

B. Upon termination of this Agreement, LSB will make available and deliver to ESI, at LSB's offices in Oklahoma City, Oklahoma, all books and records of ESI in LSB's possession as of the date of termination.

7. Releases and Indemnification.

A. ESI hereby relieves and releases LSB, its officers, directors, employees, agents, and affiliates from any and all liability or damages, cost or expense incurred by ESI, however caused, arising out of any of the (i) services provided by LSB or any other entity or person for and on behalf of ESI under this Agreement, other than for willful misconduct by LSB, or (ii) recommendations made by LSB in connection with this Agreement; or (iii) the failure or delay by LSB or any other person or entity to perform any of the services or any of the LSB's obligations hereunder.

B. ESI further agrees to indemnify and hold LSB, its officers, directors, employees, agents and affiliates harmless from and against any and all losses, claims obligations, liabilities, penalties, causes of action, damages, costs and expenses (including without limitation, costs of defense, settlement and reasonable attorney's fees and expenses) which any or all of them may hereafter be alleged to be liable for, suffer, incur, be responsible for or pay out, arising out of or resulting from any such services performed or to be performed hereunder or relating to this Agreement.

8. Assistance. ESI agrees to assist LSB in performing its services hereunder in any manner which LSB deems necessary and further agrees to furnish LSB in a timely manner with any documentation which LSB deems necessary to aid in performing its services to ESI hereunder.

9. Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party.

10. Entire Agreement. This Agreement contains and expresses the entire agreement of the parties and no other representations or conditions may be relied upon except as set out herein.

11. Modification. This Agreement may only be modified by the agreement of the parties hereto, in writing, and executed by both of the parties hereto.

12. Government Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of Oklahoma.

13. Partial Invalidity and Captions. If any clause or provision of this Agreement is illegal, invalid, or unenforceable, then in such event, it is the intention of the parties hereto the remainder of this Agreement shall not be affected thereby and it is also the intention of the parties to this Agreement that in lieu of each clause or provision of this Agreement that is illegal or invalid or unenforceable, there be added as a part of this Agreement a clause or provision as similar in the terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal and valid and enforceable. The captions of each paragraph hereof are entered as a matter of convenience only and shall not be considered to be of any effect in the construction of the provision or provisions of this Agreement.

14. Notice. All notices in this Agreement provided to be given by either party hereto to the other shall be deemed to have been given, when made in writing and deposited in the United States mail, certified and postage prepaid, addressed as follows:

TO: LSB Industries, Inc.  
P.O. Box 754  
Oklahoma City, OK 73101

TO: Energetic Systems Inc., LLC  
5700 North Portland Avenue, Suite 310  
Oklahoma City, OK 73101

COPY: Office of the General Counsel  
LSB Industries, Inc.  
P.O. Box 754  
Oklahoma City, Oklahoma 73101

COPY: Lawrence W. Waks, Esq.  
Jackson Walker L.L.P.  
100 Congress Avenue, Suite 1100  
Austin, Texas 78701

The address to which any notice, demand or other writing may be given, made, or sent to either party may be changed by written notice given by such party as above provided.

15. Waiver. No waiver by either party with respect to any breach or default or of any right or remedy and no course of dealing, shall be deemed to constitute a continuing waiver or any other breach or default or of any other right or remedy, unless such waiver is expressed in writing signed by the party to be bound. Furthermore, the failure of a party to exercise any right shall not be deemed a waiver of such future right or rights.

**REMAINDER OF PAGE INTENTIONALLY LEFT BLANK**

IN WITNESS WHEREOF, the parties to the foregoing Agreement have hereunto set their hands the day and year first above written.

**Energetic Systems Inc., LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**Slurry Explosive Manufacturing Corporation, LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**UTeC Corporation LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**DetaCorp Inc., LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**LSB INDUSTRIES, INC.**

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

**SEC Investment Corp. LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**Energetic Properties, LLC**

By: \_\_\_\_\_  
David Taylor, Manager

**USE AND LICENSE AGREEMENT**

This Use and License Agreement (the "Agreement") is made and entered into by and between Energetic Systems Inc., LLC, a Nevada limited liability company ("ESI"), UTeC Corporation, LLC, a Nevada limited liability company ("UTeC"), SEC Investment Corp. LLC, a Nevada limited liability company ("SIC"), DetaCorp Inc., LLC, a Nevada limited liability company ("DetaCorp"), Energetic Properties, LLC, a Nevada limited liability company ("EP," and collectively with DetaCorp, UTeC and SIC, "Buyers" and each individually, "Buyer"), Slurry Explosive Corporation, an Oklahoma corporation ("SEC"), Universal Tech Corporation, an Oklahoma corporation ("Universal," and collectively with SEC, "Sellers" and each individually, "Seller") to be effective 12:01 a.m. on December 1, 2002 (the "Effective Date").

**RECITALS**

- A. Each Seller is separately the Lessee or otherwise has the separate right to use certain equipment, vehicles and/or other personal property (the "Property") by through and under those leases and agreements reflected in Exhibit "A" (collectively, the "Leases" and each individually, the "Lease"), copies of such Leases having been previously provided to Buyers.
- B. Effective December 1, 2002, Buyers are the owners of most of the assets of the Sellers, but not the Property, and Buyers desire to use the Property and obtain Sellers right, to purchase the Property, all subject to the covenants and agreements set forth herein.

**AGREEMENT**

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Buyers and Sellers incorporate the foregoing recitals as a part of this Agreement, and further agree as follows:

1. **GRANT OF LICENSE AND CONDITIONAL ASSIGNMENT OF PURCHASE OPTION.** Subject to the terms, covenants and conditions hereinafter set forth, each Seller that is a party to each particular Lease does hereby a) license to Buyers the right to use the Property that is the subject of each Lease, and b) assign to Buyers any purchase option that the applicable Seller may have, provided that Buyers had paid to Sellers all amounts due to Sellers as required under this Agreement, including amounts to complete the lease payments relating to the subject Property, and all amounts that are required to exercise any purchase option.
  2. **TERM.** Unless earlier terminated pursuant to the terms of this Agreement, the term of this Agreement shall commence on the Effective Date and shall continue for twelve (12)
-

months thereafter, at which time this Agreement shall automatically renew for successive twelve (12) month terms unless and until (i) Buyers or Sellers shall have given the other written notice at least two (2) months prior to the end of the then current twelve (12) month period that this Agreement shall terminate at the end of such twelve (12) month period with respect to all Property subject to any particular Lease described in said notice, or (ii) all of the Leases have been terminated or expired pursuant to the terms and conditions thereof (the "Term").

2.1 Early Termination; Restriction on Right of Use. This Agreement may terminate prior to the end of the Term as follows:

2.1.1 Termination of Lease. With respect to each item of Property subject to a particular Lease, this Agreement shall automatically terminate as to that item of Property at the earlier of such time that either a) Sellers' rights, privileges and obligations shall terminate under each of the respective Leases to which that item of Property is subject, and Sellers have no further rights in the Property subject to such Lease or b) the Property is no longer available for full and unrestricted use by the Buyer due to actions undertaken by or through the Lessor or Seller.

2.1.2 New or Assigned Lease. With respect to each item of Property subject to a particular Lease, this Agreement shall automatically terminate as to such Property on the same date that a lease is entered into between any Buyer and the holder of that Lease which covers all Property subject to that Lease or an assignment of that existing Lease to which such Property is subject is fully consummated in favor of any of the Buyers, all provided that, with respect to either such a new lease or assignment, Sellers are fully released from any future obligations under that particular Lease to which such Property is subject.

2.1.3 Purchase of Property. With respect to each item of Property subject to a particular Lease, this Agreement shall automatically terminate as to such Property on the same date that any of the Buyers purchases the Property and becomes the owners of that Property and Sellers are fully released from any future obligations to the holder of that particular Lease to which such Property is subject.

2.1.4 Uniform Lease. Solely with respect to the Lease reflected in SEC Item 4 of Exhibit A as "Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms" (the "Uniform Lease"), Buyers may terminate this Agreement solely as to the Uniform Lease upon thirty (30) days written notice to Sellers prior to the effective date of such termination.

2.1.5 Default/Sellers' Purchase of Property. At Sellers' option, Sellers may terminate this Agreement as to all or any part of the Property as provided in



**3. BUYERS' OBLIGATIONS.**

3.1 During the term of each Lease, Buyers, jointly and severally, agree and shall pay to Sellers an amount equal to all obligations of Sellers under the Leases which arise, occur or exist during the Term of this Agreement, including, without limitation, any installments, rent, tax or other payment obligations; any insurance obligations, any repair or maintenance obligations, and any other obligations arising under the Leases (the "Back-to-Back Payments"). It is understood and agreed that it is Buyers' joint and several responsibility to make such payments to Sellers in order to allow Sellers to perform their respective obligations under the Leases directly with the holders of those Leases. It is further understood and agreed that Buyers shall be jointly and severally responsible for all liabilities, including without limitation, any late fees or penalties, arising under the Leases as a result of Buyers' failure to timely perform the related Back-to-Back Payments.

3.2 Any Back-to-Back Payments requiring the payment of monies that cover a period of time that includes days outside the Term of this Agreement shall be reduced pro-rata to reflect the number of days of that period that fall within the Term of this Agreement (e.g. a rental payment under a Lease that covers the period November 15, 2002 to December 15, 2002 shall be reduced by multiplying the amount of that rental payment by the fraction of 15 (number of days within the Term) over 30 (number of days covered by the rental payment)).

3.3 Buyers shall make Back-to-Back Payments to Sellers in accordance with Sellers written advice for all Back-to-Back Payments due under all Leases for the following calendar month within ten (10) days of receipt by Buyers of such written advice. If the Buyers fail to timely make such Back-to-Back Payments, Sellers may, in their sole and absolute discretion, terminate this Agreement in whole or in part, and/or perform the related obligation under the respective Lease, and Buyers shall be jointly and severally responsible to immediately pay Sellers for any costs, expenses or damages related thereto.

3.4 Buyers shall use, maintain and insure the Property in a manner and in accordance with the particular Lease relating to the Property, maintain all legally required and appropriate licenses and permits relating to the Property, and comply with all governmental laws, rules, and regulations relating to the use the Property.

4. **SELLERS' OBLIGATIONS.** To the extent Buyers have made the Back-to-Back Payments, the Sellers jointly and severally agree to timely perform the related payment obligation under the Leases that such Seller may owe to the holder of the Leases. It is understood and agreed that Sellers shall be jointly and severally responsible for all liabilities arising under the Leases as a result of Sellers' failure to timely perform under the Leases (provided Buyers have timely performed the Back-to-Back Payments).

5. **DISCLAIMER.** SELLERS MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, CONCERNING THE PROPERTY, INCLUDING WITHOUT LIMITATION, ANY WARRANTY OF MERCHANTABILITY OR OF FITNESS FOR ANY PARTICULAR PURPOSE OR WARRANTY AS TO THE CONDITION OF THE PROPERTY. ALL PROPERTY IS DELIVERED AND ACCEPTED ON AN "AS IS – WHERE IS" BASIS.

6. **COMPLIANCE WITH APPLICABLE LAW.** Buyers shall comply with all federal, state, county and local laws and ordinances applicable in connection with the Property and the use of the Property.

7. **LIENS/ENCUMBRANCES.** Buyers shall not encumber and Property.

8. **INSPECTION.** Sellers or their authorized representatives may at any reasonable time or times inspect the Property.

9. **RISK OF LOSS.** From and after the Effective Date through the end of the Term, all risk of loss in connection with the theft, damage or destruction of the Property, however incurred or occasioned, shall be on Buyers. Buyers shall promptly give Sellers written notice of any such theft, damage or destruction of the Property and shall promptly cause the affected part or parts of the Property to be replaced or restored as required by the related Lease.

10. **DEFAULTS AND REMEDIES.**

10.1 **Sellers' Remedy for Default.** In the event Buyers fail to perform any of their obligations hereunder for any reason, Seller must give Buyers written notice of the default and five (5) business days to cure such default. In the event that Buyers fail to cure the default within such time period, Sellers have the right to elect to pursue any one or more of the following remedies: (a) immediately terminate this Agreement with respect to the Lease associated with the default, at which time, Buyers shall immediately deliver sole possession of all Property subject to that termination to Sellers; (b) pursue an action for enforcement of this Agreement; (c) pursue an action for damages; and/or (d) pursue any other remedy available at law or in equity.

10.2 **Buyers' Remedy for Default.** In the event Sellers fail to perform any of their obligations hereunder for any reason, Buyers must give Sellers written notice of the default and five (5) business days to cure such default. In the event that Sellers fail to cure the default within such time period, Buyers have the right to elect to pursue any one or more of the following remedies: (a) immediately terminate this Agreement with respect to the Lease associated with the default, at which time, Buyers shall immediately deliver sole possession of all Property subject to that termination to Sellers; (b) pursue an action for enforcement of this Agreement; (c) pursue an action for damages; and/or (d) pursue any other remedy available at law or in equity.

11. **PURCHASE OPTION.** To the extent any of the Leases contain an option to purchase the Property subject to that Lease which may be exercised during the Term of this

Agreement, Buyers may notify Sellers of their desire to exercise such option to purchase at and identify to which Buyer that Property is to be transferred. If Buyers fully perform all obligations under the Lease arising in connection with the exercise of such option to purchase, and all obligations in connection with this Agreement, Sellers shall timely exercise such option to purchase with respect to that particular Property and shall cause title to that particular Property to be transferred to the identified Buyer, AS IS, WHERE IS AND WITH ALL FAULTS. It is understood and agreed (i) that Sellers shall provide no warranty, express or implied, in connection with the transfer of such Property, including any warranty of merchantability or of fitness for any particular purpose, and (ii) that Sellers have no obligation to advise Buyers of the existence of any purchase options or the terms thereof, including expiration dates.

## 12. MISCELLANEOUS.

12.1.1 Indemnity of Sellers. Buyers assume liability for and, jointly and severally, agree to defend, indemnify and hold Sellers and any Seller affiliate, harmless from and against any and damages, injury to persons or property, claims, liabilities, losses, penalties, charges or expenses (including reasonable attorneys fees) of any and all kinds imposed on, incurred by or asserted against any Seller or Seller affiliate, arising out of or relating to Buyers failure to comply with the terms of this Agreement, or Buyers' use, possession or operation of any of the Property by, through or under Buyers. This Section 12.1.1 shall survive the expiration or earlier termination of this Agreement.

12.1.2 Indemnity of Buyers. Sellers assume liability for and, jointly and severally, agree to defend, indemnify and hold Buyers and any Buyer affiliate, harmless from and against any and damages, injury to persons or property, claims, liabilities, losses, penalties, charges or expenses (including reasonable attorneys fees) of any and all kinds imposed on, incurred by or asserted against any Buyer or Buyer affiliate, arising out of or relating to Sellers failure to comply with the terms of this Agreement or any actions, suits or proceedings brought by any lessors under any of the Leases as a result of this Agreement or the transactions contemplated hereby. This Section 12.1.2 shall survive the expiration or earlier termination of this Agreement.

12.2 Governing Applicable Law; Severability; Paragraph Headings. This Agreement and the rights and obligations of the parties shall be interpreted, construed and enforced in accordance with the applicable laws of the state of Oklahoma. If any term or provision of this Agreement shall to any extent be invalid or unenforceable, the remainder of this Agreement shall not be affected, and each provision of this Agreement shall be valid and enforced to the fullest extent permitted by applicable law. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there shall be added automatically as a part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable. The headings and titles to the Articles and Sections of this Agreement are for convenience only and shall have no effect on the interpretation of any part of this Agreement. The word "including" shall not be construed restrictively to limit or exclude other items not listed.

12.3 Time is of the Essence; Relationship; Successors and Assigns. Time is of the essence with respect to Buyers' performance of their obligations and the exercise of any expansion, renewal or extension rights or other options granted to Buyers. This Agreement and the covenants and conditions in this Agreement shall inure only to the benefit of and be binding only upon Buyers and Sellers and their permitted successors and assigns. Neither Buyers nor Sellers may assign any of its rights or obligations under this Agreement without the prior written consent of the other parties' notice representatives reflected below.

12.4 Full Agreement; Amendments. This Agreement contains the parties' entire agreement regarding the subject matter hereof. All understandings, discussions, and agreements previously made between the parties, written or oral, are superseded by this Agreement, and neither party is relying upon any warranty, statement or representation not contained in this Agreement. The exhibits and riders attached hereto are incorporated herein and made a part of this Agreement for all purposes. This Agreement may be modified only by a written agreement signed by all parties.

12.5 Notices. Any notice, communication, request, reply or advice (severally and collectively referred to as "Notice") in this Agreement required or allowed to be given, made or accepted by Sellers or Buyers to the other must be in writing and given to the representatives of Buyers or Sellers reflected below. Notice to Sellers' representatives is notice to all Sellers, and notice to Buyers representatives is notice to all Buyers. Notice may, unless otherwise provided herein, be given or served (a) by depositing the same in the United States mail, postage paid, certified mail, and addressed to the party to be notified, with return receipt requested, (b) by delivering the same to such party or an agent of such party by hand or by a recognized overnight carrier, or (c) when appropriate, by sending via facsimile transmission addressed to the party to be notified. Notice will be effective the sooner of (1) receipt at the address transmitted, (2) three (3) days after such is deposited in the mail or with overnight carrier, or (3) when facsimile transmission is confirmed by the sending machine. For the purposes of notice, the addresses and facsimile numbers of the parties' notice representatives are, until changed by written notice, as follows:

Sellers:	President SEC and UTeC Notice Representative 16 South Pennsylvania Avenue Oklahoma City, Oklahoma 73107 Facsimile: (405) 235-5067
With copies to:	General Counsel SEC and UTeC Notice Representative 16 South Pennsylvania Avenue Oklahoma City, Oklahoma 73107 Facsimile: (405) 235-5067

Buyers: President  
Energetic Systems Inc., LLC  
5700 N. Portland  
Suite 310  
Oklahoma City, Oklahoma 73112  
Facsimile: (405) 947-0786

With copies to: Lawrence A. Waks, Esq.  
Jackson Walker L.L.P.  
100 Congress Avenue  
Suite 1100  
Austin, Texas 78701  
Facsimile: (512) 236-2002

12.6 Attorney's Fees. In the event either party hereto fails to comply with any of the terms of this Agreement to be complied with on its part and the other party commences legal proceeding to enforce the terms of the Agreement, the prevailing party in any such proceeding shall receive from the other its reasonable attorneys fees.

12.7 Multiple Counterparts. This Agreement may be executed in a number of identical counterparts, each of which constitutes an original and all of which constitute, collectively, one agreement; but in making proof of this Agreement, it shall not be necessary to produce or account for more than one such counterpart.

10.7 Assignment. This Agreement may not be assigned by Buyers without the prior written consent of Sellers. However, Buyers may divide up the Property among themselves as they determine in their sole discretion.

**SIGNATURE PAGE TO FOLLOW**

SELLERS:

SLURRY EXPLOSIVE CORPORATION,  
an Oklahoma corporation

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

UNVIERSAL TECH CORPORATION,  
an Oklahoma corporation

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

BUYERS:

ENERGETIC SYSTEMS INC., LLC  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

Utec CORPORATION, LLC  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

SEC INVESTMENT CORP. LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

DETACORP INC., LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

ENERGETIC PROPERTIES, LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

**EXHIBIT "A"**

**LIST OF LEASES**

**Universal Tech Corporation**

1. Equipment Lease between United Leasing, Inc. and UTeC, commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
2. Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
3. Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.

**Slurry Explosive Corporation**

1. Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
2. Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
3. O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.
4. Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.
5. Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
6. Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
7. Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hollowell, Kansas Facility.

8. Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
9. Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
10. Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
11. Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
12. Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
13. Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
14. Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.
15. Lease between R.K. Black, Inc. and SEC, commencing February 23, 1998, and continuing for 60 months, regarding two (2) Lanier copiers for SEC's Oklahoma City, Oklahoma office.



**NON-PURCHASED INVENTORY USE AND PURCHASE AGREEMENT**

This Non-Purchased Inventory Use and Purchase Agreement ("Agreement") by and between the Buyers and Sellers, effective as of December 1, 2002. "Buyers" and "Sellers" are defined in the Asset Purchase Agreement ("APA") effective December 1, 2002 by Energetic Systems Inc., LLC, a Nevada limited liability company, UTec Corporation, LLC, a Nevada limited liability company, SEC Investment Corp. LLC, a Nevada limited liability company, DetaCorp Inc., LLC, a Nevada limited liability company, Energetic Properties, LLC, a Nevada limited liability company, Slurry Explosive Corporation, an Oklahoma corporation, Universal Tech Corporation, an Oklahoma corporation. In connection with the APA, and for good and valuable consideration, the parties have agreed as follows:

1. Defective Valeron. Buyers will take possession of the old Valeron Film (red and 806) for no charge, representing an \$8,000 write-off by Sellers.
  2. Other Valeron, Boxes and Bags Marked for Orica, Dyno Nobel, and Austin Powder. Buyers will take possession of all the Valeron, boxes and bags marked for Orica, Dyno Nobel and Austin Powder, with an estimated value of \$75,000. Buyers will use such material in production on a priority basis until such material is fully used. Buyers will pay to Sellers Sellers' full inventory value for such material within thirty (30) days of use by Buyers. Buyers shall retain the right to sell any remaining portion of such material to Orica, Dyno Nobel and Austin Powder. In the event of such sale, Buyers will cooperate with Sellers in assembling and shipping such inventory.
  3. Ammonium Perchlorate. Buyers will take possession of all Ammonium Perchlorate ("AP"), with an estimated value of \$72,675. Buyers will use such AP in the manufacturing of product on a priority basis until it is fully consumed. Buyers will pay Sellers full inventory value for the AP within thirty (30) days of use by Buyers.
  4. U.S. Aluminum Powdered Aluminum. Buyers will take possession of the powdered aluminum manufactured by U.S. Aluminum that is usable in limited applications, with an estimated value of \$30,250. Buyers will use such aluminum in the manufacturing of product on a priority basis until it is fully consumed. Buyers will pay Sellers full inventory value for such aluminum within thirty (30) days of use by Buyers.
  5. Propellant. Buyers will take possession of and title to all propellant of Sellers wherever located, including Camden, Arkansas, Hallowell, Kansas and the PRUF plant at no cost.
  6. Rocket Motors. Buyers will take possession of and title to all rocket motor inventory of Sellers wherever located at no cost. Sellers shall pay to Buyers the monies received by Sellers for rocket motors processed by Sellers totaling \$16,877 within thirty (30) days of closing.
-

Executed to be effective as of the date first written above.

SELLERS:

SLURRY EXPLOSIVE CORPORATION,  
an Oklahoma corporation

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

UNVIERSAL TECH CORPORATION,  
an Oklahoma corporation

By: \_\_\_\_\_  
Tony M. Shelby, Vice President

BUYERS:

ENERGETIC SYSTEMS INC., LLC  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

UTEC CORPORATION, LLC  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

SEC INVESTMENT CORP. LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

DETACORP INC., LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

ENERGETIC PROPERTIES, LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

Material Consents

None

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Legal Opinion - Sellers

December 6, 2002

Energetic Systems Inc., LLC  
UTeC Corporation, LLC  
SEC Investment Corp. LLC  
DetaCorp Inc., LLC  
Energetic Properties, LLC  
5700 North Portland Avenue  
Suite 310  
Oklahoma City, Oklahoma 73112

RE: Asset Purchase Agreement

Ladies and Gentlemen:

I have acted as general counsel to Slurry Explosive Corporation, an Oklahoma corporation ("SEC"), Universal Tech Corporation, an Oklahoma corporation ("Universal", and collectively with SEC, "Sellers"), El Dorado Chemical Company, an Oklahoma corporation ("EDC"), LSB Chemical Corp., an Oklahoma corporation ("LSBCC"), Prime Financial Corporation, an Oklahoma corporation ("PFC"), and LSB Industries, Inc., a Delaware corporation ("LSB"), in connection with the review, execution and delivery of and the transactions contemplated by the Asset Purchase Agreement, dated as of December 6, 2002 (the "Asset Purchase Agreement"), by and among the Sellers, EDC, LSB, LSBCC and PFC, and Energetic Systems Inc. LLC, a Nevada limited liability company ("ESI"), UTeC Corporation, LLC, a Nevada limited liability company ("UTECLLC"), SEC Investment Corp. LLC, a Nevada limited liability company ("SIC"), DetaCorp Inc., LLC, a Nevada limited liability company ("DetaCorp") and Energetic Properties, LLC, a Nevada limited liability company ("EP" and collectively with ESI, UTECLLC, SIC and DetaCorp, "Buyers").

This opinion is rendered to you pursuant to Section 7.4(a) of the Asset Purchase Agreement. Except as otherwise defined herein, capitalized terms used herein will have the same meaning as such terms are defined in the Asset Purchase Agreement.

1. In connection with the issuance of this letter, I have examined the following documents:

- 1.1 Asset Purchase Agreement;
  - 1.2 Bill of Sale;
  - 1.3 Noncompetition Agreement;
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- 1.4 Orica Noncompetition Letter Agreement;
  - 1.5 Escrow Agreement;
  - 1.6 Assignment and Assumption Agreement;
  - 1.7 Assignment and Assumption of Lease Agreement;
  - 1.8 Assignment of Patents;
  - 1.9 Assignment of Service Marks and Trademarks;
  - 1.10 Transitional Services Agreement;
  - 1.11 AN Supply Agreement;
  - 1.12 Nitric Acid Supply Agreement;
  - 1.13 The Use and License Agreement;
  - 1.14 (A) Lease Agreements, Memorandums of Lease and Lessor Estoppel and Agreements with respect to the real property leases for (1) the Production Facility located at Hallowell, Kansas, (2) the Underwater Lab and PRUF plant located at Hallowell, Kansas, (3) the R&D lab located at Jayhawk, Kansas, and (4) the Pryor, Oklahoma facility; (B) Assignment and Assumptions of Lease for the Farmer's Co-Op lease, the Industrial Track lease, the Oklahoma City office lease and the Dallas office lease; (C) a Lease Termination Agreement with respect to the Pryor, Oklahoma facility;
  - 1.15 Certificate from the Secretary or Assistant Secretary of each Seller, EDC, LSBCC, PFC and LSB attesting to the resolutions of each such party and authorizing specific officers of each such party to execute the Transaction Documents, as such term is defined below, to which it is a party;
  - 1.16 Certificate of Good Standing of SEC, issued by the Oklahoma Secretary of State on November 19, 2002;
  - 1.17 Certificate of Good Standing of Universal, issued by the Oklahoma Secretary of State on November 19, 2002;
  - 1.18 Certificates of Foreign Good Standing, Existence or Authority of each Seller listed on Schedule II attached hereto issued by the various Secretaries of State (the "Foreign Certificates");
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- 1.19 Certificates of Incorporation and Bylaws of each Seller, EDC, LSBCC, PFC and LSB;
- 1.20 Minute books of each of each Seller, EDC, LSBCC, PFC and LSB;
- 1.21 Unanimous Written Consents of the Board of Directors and Sole Shareholder of each Seller, EDC, LSBCC and PFC, dated November 18, 2002; and
- 1.22 Unanimous Written Consent of the Board of Directors of LSB, dated November 18, 2002.

The documents referred to in paragraphs 1.1 through 1.12 above are referred to herein as the "Transaction Documents".

I have also examined such matters of law and certificates of officers of each Seller, EDC, LSBCC, PFC and LSB as I deemed relevant or necessary as a basis of the opinions expressed herein.

2. In rendering my opinion, I have assumed for the purposes of this opinion letter, the following:
    - 2.1 The due execution and delivery, pursuant to due authorization, of the Transaction Documents by the parties thereto, other than the Sellers, EDC, LSBCC, PFC and LSB;
    - 2.2 The legality, validity, binding effect on, and enforceability of the Transactions Documents against the parties thereto, other than the Sellers, EDC, LSBCC, PFC and LSB;
    - 2.3 The genuineness of the signatures of all persons signing each document in connection with the transactions with respect to which this opinion is rendered, other than the signatures of persons signing on behalf of the Sellers, EDC, LSBCC, PFC and LSB;
    - 2.4 The authority to sign in a representative capacity of the persons signing the Transaction Documents, other than on behalf of the Sellers, EDC, LSBCC, PFC and LSB;
    - 2.5 The authenticity of all documents submitted to me as originals;
    - 2.6 The conformity to authentic original documents of all documents submitted to me as certified, conformed or photo static copies; and
    - 2.7 The accuracy and completeness of all public records reviewed by me.
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As to all questions of fact material to these opinions that have not been independently established, I have relied upon certificates or comparable documents of officers and representatives of each Seller, EDC, LSBCC, PFC and LSB and upon the representations and warranties of each Seller, EDC, LSBCC, PFC and LSB contained in the Transaction Documents.

3. Based on the foregoing, and subject to the limitations, qualifications and exceptions set forth below and as may be provided in the Legal Opinion Accord of the ABA Section of Business Law (1991), and assuming the consummation of the transactions contemplated by the Transaction Documents, it is my opinion that:
    - 3.1 Each Seller is a corporation incorporated and in good standing under the laws of the State of Oklahoma;
    - 3.2 Based solely on the Foreign Certificates, each Seller is qualified as foreign corporation and in good standing in each jurisdiction in which it is authorized to do business;
    - 3.3 Each Seller, EDC, LSBCC, PFC and LSB have full corporate power and authority to execute, deliver and perform the Transaction Documents to which it is a party;
    - 3.4 Each of the Transaction Documents to which the each Seller, EDC, LSBCC, PFC and LSB is a party, is enforceable against such party, in accordance with its terms;
    - 3.5 The execution, delivery and performance by each Seller of the Transaction Documents to which it is a party, (a) are not in contravention of any provision of its applicable certificate of incorporation or by-laws, (b) to my knowledge, will not violate any Oklahoma or United States federal law or regulation or order of any court or other Governmental Body to which it is subject or the Delaware General Corporation Law, or (c) except as set forth in Part 3.2 (b) of the Disclosure Letter, will not result in the breach or termination of, or constitute a default under, or result in the creation or imposition of any Encumbrance upon any of the Assets under, any material Seller Contract listed in Part 3.19 (a) of the Disclosure Letter;
    - 3.6 To my knowledge, except as set forth in Parts 3.2 (c) of the Disclosure Letter and the filing of various collateral release documents, including UCC-3 terminations and partial releases and mortgage release with the appropriate Governmental Body, no consent, approval or authorization of, or declaration, filing or registration with, any Governmental Body is required by Sellers in connection with the execution and delivery of the Asset Purchase Agreement or the consummation of Contemplated Transactions; and
-

3.7 To my knowledge, except as set forth in Part 3.17 (a) of the Disclosure Letter, there is no Proceeding by or before any court or Governmental Body pending or overtly threatened against any Seller that challenges the validity of the Asset Purchase Agreement or any action taken or to be taken by any Seller pursuant to the Asset Purchase Agreement or in connection with the Contemplated Transactions.

4. I have expressed the foregoing opinions subject to the following qualifications, limitations and exceptions:

4.1 I am licensed to practice law in the State of Oklahoma. This opinion is limited to the laws of Oklahoma, the Delaware General Corporation Law and federal laws of the United States. I do not

render any opinions as to the laws of any other jurisdiction and, as to Delaware, only as to the Delaware General Corporation Law. I am not licensed to practice law in the State of Delaware;  
4.2 Provisions of the Transaction Documents which purport to indemnify the Buyers against, or release the Buyers from, liability for any of the Buyers' acts are unenforceable to the extent such acts are determined to be unlawful, negligent, reckless, or constitute willful misconduct;

4.3 The enforceability of the Transaction Documents is subject to the effect of any applicable bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or similar laws relating to the rights of creditors and other laws relating to general principals of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding at law or in equity);

4.4 I express no opinion as to:

4.4.1 Any choice of law provision contained in the Transaction Documents;

4.4.2 The ability to obtain specific performance, injunctive or other equitable relief, whether sought in a proceeding at law or in equity, as a remedy for a default under the Transaction Documents; and

4.4.3 The enforceability of any provisions which purport to restrict, limit or prevent access to legal or equitable remedies or which purport to waive any legal rights.

4.5 The phrase "to my knowledge" or words of similar import as used herein, mean actual knowledge, without investigation, on the part of me and those attorneys in this office who have been involved in the transactions contemplated by the Transaction Documents.

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I have directed this letter solely to you. You may not use, circulate, quote or refer to this letter in connection with any transaction other than the transactions contemplated by the Transaction Documents. No other person may rely on this letter in any manner or for any purpose without the undersigned's written authorization. I have issued this letter only with respect to the present status of Oklahoma and Delaware General Corporation Law and federal law and undertake no obligation to update or supplement this letter in response to subsequent changes in the law, facts, or future events affecting the transactions contemplated by any of the Transactional Documents.

Very truly yours,

David M. Shear  
General Counsel

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SCHEDULE I

FOREIGN CERTIFICATES

Company

State

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Slurry Explosive Corporation  
Slurry Explosive Corporation  
Slurry Explosive Corporation  
Slurry Explosive Corporation  
Slurry Explosive Corporation  
Universal Tech Corporation

Kansas  
Missouri  
New Mexico  
North Dakota  
Utah  
Kansas

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**Assignment and Assumption of Lease Agreement**

This Assignment and Assumption Agreement ("**Assignment and Assumption Agreement**") is made and entered into on December 6, 2002, by and among Slurry Explosive Corporation, an Oklahoma corporation ("**Assignor**"), and Slurry Explosive Manufacturing Corporation, LLC, a Nevada limited liability company ("**Assignee**").

WHEREAS, Assignor and Assignee are parties to that certain Asset Purchase Agreement dated on December 6, 2002 (the "**Purchase Agreement**"); and

WHEREAS, pursuant to the Purchase Agreement, Assignor has agreed to assign certain rights and agreements to Assignee, and Assignee has agreed to assume the US Bancorp Lease, as set forth herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. *Capitalized Terms.* Capitalized terms used but not defined herein shall have the meanings for such terms that are set forth in the Purchase Agreement.
  2. *Assignment and Assumption.* Effective as of 12:01 a.m. C.S.T. on December 1, 2002 (the "**Effective Time**"), Assignor hereby assigns, sells, transfers and sets over (collectively, the "**Assignment**") to Assignee all of Assignor's right, title, benefit, privileges and interest in and to, and all of Assignor's burdens, obligations and liabilities in connection with, the US Bancorp Lease. Assignee hereby accepts the Assignment and assumes and agrees to observe and perform all of the duties, obligations, terms, provisions and covenants, and to pay and discharge all of the liabilities of Assignor to be observed, performed, paid or discharged from and after the Closing, in connection with the US Bancorp Lease.
  3. *Further Actions.* Each of the parties hereto covenants and agrees, at its own expense, to execute and deliver, at the request of the other party hereto, such further instruments of transfer and assignment and to take such other action as such other party may reasonably request to more effectively consummate the assignments and assumptions contemplated by this Assignment and Assumption Agreement.
  4. *Terms of the Purchase Agreement.* The terms of the Purchase Agreement and the Disclosure Letter incorporated therein are incorporated herein by this reference. Assignor acknowledges and agrees that the terms contained in the Purchase Agreement shall not be superseded hereby but shall remain in full force and effect to the full extent provided therein. In the event of any conflict or inconsistency between the terms of the Purchase Agreement and the terms hereof, the terms of the Purchase Agreement shall govern.
-

IN WITNESS WHEREOF, the parties have executed this Assignment and Assumption Agreement on the date first above written.

ASSIGNOR:  
**Slurry Explosive Corporation**

ASSIGNEE:  
**Slurry Explosive Manufacturing  
Corporation, LLC**

\_\_\_\_\_  
Tony M. Shelby, Vice President

\_\_\_\_\_  
David Taylor, Manager

ENERGETIC SYSTEMS INC., LLC  
UTEC CORPORATION, LLC  
SEC INVESTMENT CORP. LLC  
DETACORP INC., LLC  
ENERGETIC PROPERTIES, LLC  
SLURRY EXPLOSIVE MANUFACTURING CORPORATION, LLC

December 6, 2002

LSB Industries, Inc.  
El Dorado Chemical Company  
Northwest Financial Corporation  
Slurry Explosive Corporation  
16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107

RE: Letter Agreement - Covenant Not to Compete

Dear Sirs:

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, this Letter Agreement shall confirm to each of you our agreement that each of the undersigned, as assigns of the business of Slurry Explosive Corporation and Universal Tech Corporation agree to not engage in the Restricted Activities (as defined in that certain Non-Competition Covenant dated November 1, 2001 and attached hereto (the "Noncompetition Agreement")) other than as the business of Slurry Explosive Corporation or Universal Tech Corporation was conducted on the Closing Date (as defined in the Noncompetition Agreement).

Sincerely,

ENERGETICS SYSTEMS INC., LLC  
a Nevada limited liability company

UTEC CORPORATION, LLC,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

By: \_\_\_\_\_  
David Taylor, Manager

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SEC INVESTMENT CORP. LLC.,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

DETACORP INC., LLC.,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

ENERGETIC PROPERTIES, LLC.,  
a Nevada limited liability company

By: \_\_\_\_\_  
David Taylor, Manager

SLURRY EXPLOSIVE MANUFACTURING  
CORPORATION, LLC, Nevada limited liability  
company

By: \_\_\_\_\_  
David Taylor, Manager

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Key Employees

None

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Environmental Questionnaire

See attached

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**SLURRY  
EXPLOSIVE  
CORPORATION**

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16 South Pennsylvania · Oklahoma City, Ok 73107 · Phone 405-235-4546 · Fax 405-236-1209

**VIA FEDERAL EXPRESS: 605743627698**

May 17, 2010

**David Rex**  
Jackson Walker L.L.P.  
2439 North Central Expressway  
Suite 600  
Richardson, Texas 75080

RE: Environmental Site Assessment Questionnaire

Dear Mr. Rex:

Enclosed are the Environmental Site Assessment Questionnaires for the following locations:

1. Universal Tech Corporation:
  - a. Jayhawk Lab
  - b. Underwater Lab
  - c. PRUF Plant
  - d. Hallowell Rail Siding
  - e. Hallowell Plant
2. Slurry Explosive Corporation

Sincerely,

/James Wm. Murray III/

James Wm. Murray III  
Senior Associate General Counsel

JWM/ymq

Enclosures

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**Universal Tech Corporation**  
**Environmental Site Assessment Questionnaire**  
**Jayhawk Lab**  
**8500 S.E. Jayhawk Drive**  
**Riverton, Kansas 66770**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Universal Tech Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                    |     |   |
|--------------------|-----|---|
| <u>YES</u> /NO/NS  | 1.  | Is the property used for an industrial use?   |
| <u>YES</u> /NO/NS  | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES</u> /NO/NS  | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| <u>YES</u> /NO/NS  | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| YES/ <u>NO</u> /NS | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| YES/ <u>NO</u> /NS | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| YES/ <u>NO</u> /NS | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| YES/ <u>NO</u> /NS | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| YES/ <u>NO</u> /NS | 9.  | Is there a maintenance or shop/service area located on the property?  |
| YES/ <u>NO</u> /NS | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| YES/ <u>NO</u> /NS | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Jayhawk Plant

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- industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 12. To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?
- YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?
- YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?
- YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
- YES/NO/NS 18. Is there currently any visible sign of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property?
- YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?
- YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?
- YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?
- YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?
- YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?
- YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Jayhawk Plant

- YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS
26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?  
27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?  
28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?  
29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?  
30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?  
31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?  
32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?  
33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?  
34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?  
35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?  
36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?  
37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?  
38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?  
39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Jayhawk Plant

- YES/NO/NS 40. lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?
- GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**
- YES/NO/NS 41. To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:  
YES/NO/NS · National Priorities List (NPL) - within 1 mile?  
YES/NO/NS · Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?  
· Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?
- YES/NO/NS 42. To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?  
· List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?  
· List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?  
· Leaking Underground Storage Tank (LUST) List - within ½ mile?  
· Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver  
Title: Vice President  
Relationship to the Property: Owner  
Address: 16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Phone: (405) 235-4546

/John Carver/  
Signature

Date December 2, 2002

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Jayhawk Plant

**Universal Tech Corporation**  
**Environmental Site Assessment Questionnaire**  
**Underwater Lab**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Universal Tech Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                  |     |   |
|------------------|-----|---|
| <u>YES/NO/NS</u> | 1.  | Is the property used for an industrial use?   |
| <u>YES/NO/NS</u> | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES/NO/NS</u> | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| <u>YES/NO/NS</u> | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| <u>YES/NO/NS</u> | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| <u>YES/NO/NS</u> | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| <u>YES/NO/NS</u> | 9.  | Is there a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Underwater Lab

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- YES/NO/NS 12. industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?  
To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?  
YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?  
YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?  
YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
- YES/NO/NS 18. Is there currently any visible sign of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property?  
YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?  
YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?  
YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?  
YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?  
YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?  
YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Underwater Lab

- YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS
- YES/NO/NS  
YES/NO/NS
26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?  
27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?  
28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?  
29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?  
30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?  
31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?  
32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?  
33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?  
34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?  
35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?  
36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?  
37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?  
38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?  
39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Underwater Lab



- YES/NO/NS                      40.                      lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?
- YES/NO/NS                      41.                      **GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**  
To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:  
·                      National Priorities List (NPL) - within 1 mile?  
YES/NO/NS                      ·                      Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?  
YES/NO/NS                      ·                      Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?
- YES/NO/NS                      42.                      To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?  
·                      List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?  
YES/NO/NS                      ·                      List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?  
YES/NO/NS                      ·                      Leaking Underground Storage Tank (LUST) List - within ½ mile?  
YES/NO/NS                      ·                      Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver  
Title: Vice President  
Relationship to the Property: Lessee  
Address: 16 South Pennsylvania Avenue  
                    Oklahoma City, Oklahoma 73107  
Phone: (405) 235-4546

/John Carver/  
Signature

Date                      December 2, 2002

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Underwater Lab

**Universal Tech Corporation**  
**Environmental Site Assessment Questionnaire**  
**PRUF Plant**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Universal Tech Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                    |     |   |
|--------------------|-----|---|
| <u>YES</u> /NO/NS  | 1.  | Is the property used for an industrial use?   |
| YES/ <u>NO</u> /NS | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES</u> /NO/NS  | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| YES/ <u>NO</u> /NS | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| YES/NO/NS          | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| YES/ <u>NO</u> /NS | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| YES/ <u>NO</u> /NS | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| YES/NO/NS          | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| YES/ <u>NO</u> /NS | 9.  | Is there a maintenance or shop/service area located on the property?  |
| YES/ <u>NO</u> /NS | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| <u>YES</u> /NO/NS  | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pruf

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- industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 12. To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?
- YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?
- YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?
- YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
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- YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?
- YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?
- YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?
- YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?
- YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?
- YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pruf

- YES/NO/NS 26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?
- YES/NO/NS 27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?
- YES/NO/NS 28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?
- YES/NO/NS 29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?
- YES/NO/NS 30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?
- YES/NO/NS 31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?
- YES/NO/NS 32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?
- YES/NO/NS 33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?
- YES/NO/NS 36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?
- YES/NO/NS 37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?
- YES/NO/NS 38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?
- YES/NO/NS 39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
 Universal Tech Corporation  
 Plant Prof

YES/NO/NS 40. lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?

**GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**

YES/NO/NS 41. To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:

- National Priorities List (NPL) - within 1 mile?
- Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?
- Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?

YES/NO/NS 42. To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?

- List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?
- List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?
- Leaking Underground Storage Tank (LUST) List - within ½ mile?
- Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver  
Title: Vice President  
Relationship to the Property: Lessee  
Address: 16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Phone: (405) 235-4546

/John Carver/  
Signature

Date December 2, 2002

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pruf

**Universal Tech Corporation**  
**Environmental Site Assessment Questionnaire**  
**Hallowell Rail Siding**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Universal Tech Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                  |     |   |
|------------------|-----|---|
| <u>YES/NO/NS</u> | 1.  | Is the property used for an industrial use?   |
| <u>YES/NO/NS</u> | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES/NO/NS</u> | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| <u>YES/NO/NS</u> | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| <u>YES/NO/NS</u> | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| <u>YES/NO/NS</u> | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| <u>YES/NO/NS</u> | 9.  | Is there a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Rail

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industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?

- YES/NO/NS 12. To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?
- YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?
- YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?
- YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
- YES/NO/NS 18. Is there currently any visible sign of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property?
- YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?
- YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?
- YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?
- YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?
- YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?
- YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Rail

- YES/NO/NS 26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?
- YES/NO/NS 27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?
- YES/NO/NS 28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?
- YES/NO/NS 29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?
- YES/NO/NS 30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?
- YES/NO/NS 31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?
- YES/NO/NS 32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?
- YES/NO/NS 33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?
- YES/NO/NS 36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?
- YES/NO/NS 37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?
- YES/NO/NS 38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?
- YES/NO/NS 39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Rail



- YES/NO/NS 40. lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?
- GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**
- YES/NO/NS 41. To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:  
YES/NO/NS · National Priorities List (NPL) - within 1 mile?  
YES/NO/NS · Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?  
YES/NO/NS · Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?
- YES/NO/NS 42. To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?  
· List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?  
YES/NO/NS · List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?  
YES/NO/NS · Leaking Underground Storage Tank (LUST) List - within ½ mile?  
YES/NO/NS · Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver  
Title: Vice President  
Relationship to the Property: Lessee  
Address: 16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Phone: (405) 235-4546

/John Carver/  
Signature

Date December 2, 2002

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Rail

**Universal Tech Corporation**  
**Environmental Site Assessment Questionnaire**  
**Hallowell Plant**  
**3600 N.W. 74th**  
**Columbus, Kansas 66725**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Universal Tech Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                  |     |   |
|------------------|-----|---|
| <u>YES/NO/NS</u> | 1.  | Is the property used for an industrial use?   |
| <u>YES/NO/NS</u> | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES/NO/NS</u> | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| <u>YES/NO/NS</u> | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| <u>YES/NO/NS</u> | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| <u>YES/NO/NS</u> | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| <u>YES/NO/NS</u> | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| <u>YES/NO/NS</u> | 9.  | Is there a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| <u>YES/NO/NS</u> | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Hallowell Plant

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- industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 12. To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?
- YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?
- YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?
- YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
- YES/NO/NS 18. Is there currently any visible sign of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property?
- YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?
- YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?
- YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?
- YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?
- YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?
- YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
 Universal Tech Corporation  
 Plant Hallowell Plant

- YES/NO/NS 26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?
- YES/NO/NS 27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?
- YES/NO/NS 28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?
- YES/NO/NS 29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?
- YES/NO/NS 30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?
- YES/NO/NS 31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?
- YES/NO/NS 32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?
- YES/NO/NS 33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?
- YES/NO/NS 35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?
- YES/NO/NS 36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?
- YES/NO/NS 37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?
- YES/NO/NS 38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?
- YES/NO/NS 39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
 Universal Tech Corporation  
 Plant Hallowell Plant

YES/NO/NS

40. lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?

YES/NO/NS

41. **GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**  
To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:

YES/NO/NS

· National Priorities List (NPL) - within 1 mile?

YES/NO/NS

· Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?

YES/NO/NS

· Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?

YES/NO/NS

42. To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?  
· List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?

YES/NO/NS

· List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?

YES/NO/NS

· Leaking Underground Storage Tank (LUST) List - within ½ mile?

YES/NO/NS

· Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver

Title: Vice President

Relationship to the Property: Owner

Address: 16 South Pennsylvania Avenue

Oklahoma City, Oklahoma 73107

Phone: (405) 235-4546

/John Carver/

Signature

Date December 2, 2002

Environmental Site Assessment Questionnaire

Universal Tech Corporation

Plant Hallowell Plant

**Slurry Explosive Corporation**  
**Environmental Site Assessment Questionnaire**  
**Hwy. 69A & Carbide Road**  
**Pryor, Oklahoma 74361**

The following Environmental Site Assessment Questionnaire is being prepared in connection with the proposed sale of certain assets of Slurry Explosive Corporation ("**Company**") to certain affiliates of Energetic Systems Inc., LLC. You have been designated by the Company as the person most likely to have knowledge of the matters described below. Please answer the following questions to your knowledge either "YES," "NO," or "NS" if you are not sure as to the answer.

- |                            |     |   |
|----------------------------|-----|---|
| <u>YES</u> /NO/NS          | 1.  | Is the property used for an industrial use?   |
| <u>YES</u> /NO/NS          | 2.  | To the best of your knowledge, is any adjoining property used for an industrial use?  |
| <u>YES</u> /NO/NS          | 3.  | To the best of your knowledge, has the property been used for an industrial use in the past?  |
| <u>YES</u> /NO/NS          | 4.  | To the best of your knowledge, has any adjoining property been used for an industrial use in the past?  |
| <u>YES</u> / <u>NO</u> /NS | 5.  | Is the property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?  |
| YES/ <u>NO</u> /NS         | 6.  | To the best of your knowledge, is any adjoining property used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility?                   |
| YES/ <u>NO</u> /NS         | 7.  | To the best of your knowledge, has the property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past?           |
| YES/ <u>NO</u> /NS         | 8.  | To the best of your knowledge, has any adjoining property been used as a gasoline station, motor repair facility, commercial printing facility, dry cleaners, photo developing laboratory, junkyard or landfill, or as a waste treatment, storage, disposal, processing, or recycling facility in the past? |
| <u>YES</u> /NO/NS          | 9.  | Is there a maintenance or shop/service area located on the property?  |
| <u>YES</u> /NO/NS          | 10. | To the best of your knowledge, has there ever been a maintenance or shop/service area located on the property?  |
| <u>YES</u> /NO/NS          | 11. | Are there currently any damaged or discarded automotive or  |

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pryor

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- industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 12. To the best of your knowledge, in the past have there been any damaged or discarded automotive or industrial batteries, or pesticides, paints, petroleum products, pesticides or other chemicals in individual containers of greater than five gallons in volume or fifty gallons in the aggregate, stored on or used at the property or at the facility located on the property?
- YES/NO/NS 13. Are there currently any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property?
- YES/NO/NS 14. To the best of your knowledge, have there been any industrial drums (typically 55 gallon) or sacks of chemicals located on the property or at the facility located on the property in the past?
- YES/NO/NS 15. To the best of your knowledge, has fill dirt been brought onto the property which originated from a contaminated site or which is of an unknown origin?
- YES/NO/NS 16. Are there currently any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal?
- YES/NO/NS 17. To the best of your knowledge, have there been any sumps, pits, ponds or lagoons located on the property in connection with waste treatment or waste disposal in the past?
- YES/NO/NS 18. Is there currently any visible sign of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property?
- YES/NO/NS 19. To the best of your knowledge, has there been any visible signs of spillage, staining, residues or corrosion, other than by water, in any of the facilities located on the property in the past?
- YES/NO/NS 20. Is there currently any stained soil or pavement on the property?
- YES/NO/NS 21. To the best of your knowledge, has there been any stained soil or pavement on the property in the past?
- YES/NO/NS 22. Are there currently any above or underground storage tanks located on the property?
- YES/NO/NS 23. To the best of your knowledge, have there been any above or underground storage tanks located on the property in the past?
- YES/NO/NS 24. Are there currently any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property?
- YES/NO/NS 25. To the best of your knowledge, have there been any vent pipes, fill pipes or access ways indicating a fill pipe protruding from the ground on the property or adjacent to any structure located on the property in the past?

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pryor

- YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
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YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS  
YES/NO/NS
26. Are there currently any chemical or noxious odors on the property in violation of any environmental laws?  
27. To the best of your knowledge, have there been any chemical or noxious odors on the property in violation of any environmental laws in the past?  
28. If the property is served by a private well or non-public water system, has the Company identified contaminants in the well or system that exceed guidelines applicable to the water system?  
29. To the best of your knowledge, if the property is served by a private well or non-public water system, has the well been designated as contaminated by any government environmental/health agency?  
30. Does the property discharge waste water on or adjacent to the property other than storm water or into a sanitary sewer system?  
31. To the best of your knowledge, have any hazardous substances, wastes or petroleum products, unidentified waste materials, tires, automotive or industrial batteries or any other waste materials been dumped above grade, buried and/or burned on the property in violation of any environmental laws?  
32. Is there a transformer, capacitor, heavy electrical or any hydraulic equipment for which there are any records indicating the presence of PCBs?  
33. To the best of your knowledge, are there currently any asbestos-containing material located in any facility located on the property?  
34. To the best of your knowledge, has there been any asbestos-containing material located in any facility located on the property?  
35. Do you have knowledge of hazardous substances, wastes or petroleum products being previously dumped, burned, buried or otherwise disposed of on the property in violation of any environmental laws?  
36. Do you have any knowledge of environmental liens or governmental notification relating to past or current violations of environmental laws with respect to the property or any facility located on the property?  
37. Do you have knowledge of any release of hazardous substances or petroleum products with respect to the property or any facility located on the property in violation of any environmental laws, or of any report or records pertaining thereto?  
38. Do you have any knowledge of any environmental site assessment or report of the property or any facility located on the property that indicated the presence of hazardous substances or petroleum products on, or contamination of, the property or recommended further assessment of the property?  
39. Do you have knowledge of any past, threatened, or pending

Environmental Site Assessment Questionnaire  
Universal Tech Corporation  
Plant Pryor



- YES/NO/NS 40. lawsuits or administrative or regulatory proceedings concerning a release of any hazardous substance or petroleum products involving the property?  
Do you have knowledge of any past or present violations of any regulatory permits related to hazardous substances, wastes, wastewater discharge or air emissions with respect to the property?
- GOVERNMENT RECORDS/HISTORICAL SOURCES INQUIRY**
- YES/NO/NS 41. To the best of your knowledge, do any of the following Federal government record systems list the Property or any property within the circumference of the area noted below:  
· National Priorities List (NPL) - within 1 mile?  
· Comprehensive Environmental Response Compensation and Liability Information (CERCLIS) List - within ½ mile?  
· Resource Conservation and Recovery Act (RCRA) Notifier List - within 1 mile?
- YES/NO/NS 42. To the best of your knowledge, do any of the following state record systems list the property within the circumference of the area noted below?  
· List maintained by State environmental agency of hazardous waste sites identified for investigation or remediation that is the state agency equivalent to NPL - within approximately 1 mile?  
· List maintained by State environmental agency of sites identified for investigation or remediation that is the state equivalent to CERCLIS - within ½ mile?  
· Leaking Underground Storage Tank (LUST) List - within ½ mile?  
· Solid Waste/Landfill Facilities - within ½ mile?

This Questionnaire was completed by:

Name: John Carver  
Title: Vice President  
Relationship to the Property: Owner  
Address: 16 South Pennsylvania Avenue  
Oklahoma City, Oklahoma 73107  
Phone: (405) 235-4546

/John Carver/  
Signature

Date December 2, 2002

Required Consents

None

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Legal Opinion - Buyers

December 6, 2002

*LSB Industries Inc.  
Slurry Explosive Corporation  
Universal Tech Corporation  
El Dorado Chemical Company  
LSB Chemical Corp.  
Prime Financial Corporation  
16 S. Pennsylvania Avenue  
Oklahoma City, Oklahoma 73106*

Gentlemen:

We have acted as special counsel to Energetic Systems Inc., LLC, UTeC Corporation, LLC, SEC Investment Corp. LLC, DetaCorp Inc., LLC and Energetic Properties, LLC (collectively, "**Buyers**"), in connection with the Asset Purchase Agreement dated December 6, 2002 (the "**Agreement**"), by and among Buyers and LSB Industries, Inc., Slurry Explosive Corporation, Universal Tech Corporation, El Dorado Chemical Company, LSB Chemical Corp. and Prime Financial Corporation (collectively, "**Sellers**"). This is the Opinion Letter contemplated by Section 8.4(a) of the Agreement. All capitalized terms used in this Opinion Letter without definition have the respective meanings given to them in the Agreement or the Accord referred to below.

This Opinion Letter is governed by, and shall be interpreted in accordance with, the Legal Opinion Accord (the "**Accord**") of the ABA Section of Business Law (1991). Consequently, it is subject to a number of qualifications, exceptions, definitions, limitations on coverage and other limitations, all as more particularly described in the Accord, and this Opinion Letter should be read in conjunction therewith. The law covered by the opinions expressed herein is limited to the Federal Law of the United States and the Law of the States of Texas.

In basing the opinions set forth herein on "our knowledge" or words of similar import, such words signify that, in the course of our representation of Buyers as described in this Opinion Letter, no facts have come to our attention that would give the attorneys within our firm, who have been directly involved in representing the Buyers in connection with the transactions described in the Agreement, actual knowledge or actual notice that any such opinions or other matters are not accurate. Except as stated in this Opinion Letter, we have not undertaken any investigation or verification of such matters.

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Based upon the foregoing, our opinion is as follows:

1. The Agreement, the Assignment and Assumption Agreement, the Assignment and Assumption of Lease Agreement, the Escrow Agreement, AN Supply Agreement, the Nitric Acid Supply Agreement, the Noncompetition Agreement, the Use and License Agreement, the Transitional Services Agreement and the Orica Noncompetition Letter Agreement (collectively, the "**Transaction Agreements**") are enforceable against the Buyers that are parties thereto.
2. Each Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of its state of organization with corporate power and authority to execute and deliver the Transaction Agreements to which it is a party and consummate the Contemplated Transactions.
3. Neither the execution and delivery of the Transaction Agreements nor the consummation of the Contemplated Transactions to our knowledge (a) violates any provision of the articles of organization of any Buyer; (b) breaches or constitutes a default (or an event that, with notice or lapse of time or both, would constitute a default) under any agreement or commitment to which Buyer is party, or (c) violates any statute, law, regulation or rule or any judgment, decree or order of any court or Governmental Body applicable to Buyer.
4. To our knowledge, there is no Proceeding by or before any court or Governmental Body pending or threatened against or involving any Buyer that questions or challenges the validity of the Transaction Agreements or any action taken or to be taken by any Buyer pursuant to the Transaction Agreements or in connection with the Contemplated Transactions.

This Opinion Letter also incorporates by reference the Other Common Texas Qualifications contained in the Report of the Legal Opinions Committee Regarding Legal Opinions in Business Transactions (the "**Texas Report**") of the Business Law Section of the State Bar of Texas (1992), and this opinion should be read in conjunction with the Texas Report.

Very truly yours,

Jackson Walker L.L.P.

Part 2.1(b)

LEASED TANGIBLE PERSONAL PROPERTY

Lessor	Description of Equipment	Location
<b>UTC</b>		
U.S Bancorp Leasing	Energetics Facility & Equipment	Hallowell Manufacturing Plant
United Leasing	2001 Chevy Pickup	Pruf Plant
United Leasing	G25E Daewoo Forklift	Pruf Plant
Sharp Financial	Canon Copier	R&D Lab
Tipper Tie	(2) Tieg Machines	Pruf Plant
Tipper Tie	Tieg Machine	Underwater Lab
Pitney Bowes	Postage Meter	Hallowell Manufacturing Plant
<b>SEC</b>		
United Leasing	Plastic Tube Filling and Scaling Machine	Hallowell Manufacturing Plant
Associates Leasing	G20S/LPS Daewoo Forklift	Hallowell Manufacturing Plant
Associates Leasing	Svadala Hydraulic Track Drill	Pryor, OK
Citicapital Leasing	Svadala Hydraulic Track Drill	Pryor, OK
Midwest Leasing	1986 Tempe Reefer Cooling Unit	Hallowell Manufacturing Plant
United Leasing	1995 International Tractor	Hallowell Manufacturing Plant
United Leasing	1995 International Tractor	Pryor, OK
United Leasing	2001 Chevy Silverado Pickup	Hallowell Manufacturing Plant
United Leasing	1999 Ford F-250 Pickup	Hallowell Manufacturing Plant
United Leasing	Semi-Tank Trailer	Pryor, OK
United Leasing	Semi-Tank Trailer	Pryor, OK
United Leasing	1998 Mack Pumper Truck	Pryor, OK
RK Black	(2) Lanier Copiers	Oklahoma City, OK
GE Capital TIP	48 Van Trailers	Hallowell Manufacturing Plant

Any asset subject to a lease reflected in Part 3.19(a), which Part is incorporated herein by reference.

**Part 2.1(k)**

**INDEMNIFICATION RIGHTS RELATED TO ASSETS/  
ASSUMED LIABILITIES**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are aware of the following indemnification rights held by UTeC or SEC:

1. Any indemnification rights reflected in the documents referenced in Parts 3.6, 3.7, 3.8(a), 3.8(b), or 3.19(a) (which Parts are incorporated herein by reference).
  2. Those indemnification rights reflected in the following documents (copies of which have been provided to Buyers):
    - (a) Real Estate Purchase and Option Agreement, dated February 16, 1999, between SEC and Leon Epler regarding the purchase of two (2) 40 acre tracts at the Hallowell, Kansas facility.
    - (b) Asset Purchase Agreement, dated June 1, 1990, by and between Thermex Energy Corporation and UTeC, regarding assets related to UTeC's R&D Lab, Riverton, Kansas, UTeC's Underwater Lab, Hallowell, Kansas, and Intellectual Property.
-

**SELLERS' JURISDICTION OF INCORPORATION/  
QUALIFICATION TO DO BUSINESS**

1. Slurry Explosive Corporation ("SEC"), an Oklahoma corporation, is qualified to do business in the following states:
    - a. North Dakota
    - b. Kansas
    - c. Missouri
    - d. New Mexico
    - e. Utah
  
  2. Universal Tech Corporation ("UTeC"), an Oklahoma corporation, is qualified to do business in the State of Kansas.
-

**ADVERSE EFFECTS OF EXECUTION OF AGREEMENT BY SELLERS**

- (1) Pursuant to the transactions contemplated by the Asset Purchase Agreement under which the Disclosure Letter is provided, El Dorado Chemical Company ("EDC") is to enter into with Buyers the AN Supply Agreement (the "Supply Agreement"). EDC's ability to perform under the Supply Agreement requires factual interpretation of the business of Sellers prior to entering into the agreements with Orica USA Inc. of November 1, 2001 (the "Orica Agreements"). Accordingly there may be adverse effects regarding the above.
  - (2) Pursuant to the transactions contemplated by the Asset Purchase Agreement under which the Disclosure Letter is provided, Buyer and either Slurry Explosive Corporation ("SEC") or Universal Tech Corporation ("UTeC") are to enter into use and/or license agreements (collectively, the "Use Agreements") with respect to certain personal property, vehicles and/or equipment which are the subject of pre-existing leases between SEC and/or UTeC and some third party (collectively, the "Third Party Leases"). The existence of and the obligations of SEC or UTeC under these Use Agreements may not be permitted under certain of the pre-existing Third Party Leases and accordingly there may be adverse effects regarding the above.
  - (3) Pursuant to the transactions contemplated by the Asset Purchase Agreement under which the Disclosure Letter is provided, SEC and UTeC are assigning and transferring to Buyers certain Seller Contracts absent the necessary Consents to such assignments and transfers. The transfer and assignment of such Seller Contracts without the necessary Consent may not be permitted under those Seller Contracts.
  - (4) Pursuant to the transactions contemplated by the Asset Purchase Agreement under which the Disclosure Letter is provided, UTeC is assigning and transferring to Buyers UTeC's rights in the equipment and associated facility known as the "Pruf Plant" in Hallowell, Kansas. Although neither party can locate the contract between UTeC and Chemical Systems Division of United Technologies Corporation ("CSD") relating to the possession and use of the Pruf Plant, it is the parties mutual recollection that UTeC can continue to use the Pruf Plant so long as it is being used to process rocket motors, and that in the event the Pruf Plant is not used to process rocket motors, CSD can take possession and remove the Pruf Plant.
-



**REQUIRED NOTICES AND CONSENTS**

Universal Tech Corporation

1. Lease from PLP Investment, Inc. (assigned to Preston Forest Associates, Ltd.) to Universal Tech Corporation ("UTeC"), dated June 5, 1992, on UTeC's Dallas office space, as amended on August 30, 1993, March 21, 1996 and August 1, 1998.
  2. Lease and Operating Agreement (With Right of First Refusal and Option to Purchase), dated September 25, 1990, from IRECO Incorporated to UTeC, regarding UTeC's Underwater Lab, Hallowell, Kansas.
  3. Rights and obligations of UTeC under assignment of Lease Agreement, dated as of April 11, 2001, for seventy monthly payments commencing on October 20, 2001, by and between U.S. Bancorp Leasing & Financial and Slurry Explosive Corporation ("SEC"), regarding certain equipment associated with the Hallowell, Kansas Facility, pursuant to assignment in May 14, 2002 Asset Purchase and Sale Agreement between SEC and UTeC.
  4. Equipment Lease between United Leasing, Inc. and UTeC, commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
  5. Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
  6. Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.
  7. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 17, 1999, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at the Pruf Plant, Hallowell, Kansas.
  8. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 1, 1995, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at UTeC's Underwater Lab, Hallowell, Kansas.
  9. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated September 27, 1985, continuing on a 6
-

- months by 6 months basis until terminated, regarding water cooler at UTeC's R&D Lab, Riverton, Kansas.
10. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, dated June 28, 1995, renewed through June, 2003, regarding two (2) tying machines at UTeC's Pruf Plant, Hallowell, Kansas.
  11. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, renewed through January, 2003, regarding a tying machine at UTeC's Underwater Lab, Hallowell, Kansas.
  12. Month to month Q.C. Testing Fee Agreement between UTeC and Ireco (now Dyno Nobel, Inc.), dated October 14, 1991, regarding quality control testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
  13. Testing Fee Agreement between UTeC and Nelson Brothers LLC, dated September 27, 2002, regarding specifically delineated testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
  14. Irrevocable \$178,597.12 (US) Letter of Credit from Banco Ganadero as issuing bank confirmed by Banco Bilbao Vizcaya Argentaria for the benefit of UTeC, issued September 5, 2002, and with expiry date of December 4, 2002, regarding sales to Industria Militar.
  15. Quote from UTeC to Industria Militar for \$453,717.51 (US) in sales of raw materials during first half of 2003.
  16. Proprietary Information Disclosure Agreement between SEC and TPL, Inc., dated October 3, 1999, terminating October 3, 2004, regarding each party's Proprietary Information.
  17. Employment Agreement between UTeC and Oldrich Machacek dated June 5, 1990, terminating upon 60 days notice.
  18. Postage Meter Rental Agreement between UTeC and Pitney Bowes, dated September 23, 2002, continuing for one year, regarding UTeC's assumption of SEC's obligations for a postage meter at the Hallowell, Kansas Facility.
  19. Consulting Agreement between UTeC and Pieter de Wit, dated January 1, 1996, as orally amended and extended to December 31, 2002, regarding the providing of consulting services related to demilitarization projects.
  20. Confidentiality Agreement, last signed October 16, 2001, and continuing for five (5) years, by and between UTeC and Aliachem a.s., regarding confidential information provided for discussion of the possible sale of a business owned by Aliachem a.s.

21. Mortgage, Assignment of Rents and Security Agreement executed by UTeC in favor of Guggenheim Investment Management, LLC, et al. ("Guggenheim"), dated May 24, 2002, filed June 6, 2002 at 3:15 PM in Book 290 of Mortgages at Pages 217-243 in the office of the Register of Deeds, Cherokee County, Kansas.
22. Mortgage, Assignment of Rents and Security Agreement executed by UTeC, in favor of Foothill Capital Corporation ("Foothill"), dated May 24, 2002, filed June 6, 2002 at 3:25 PM in Book 290 of Mortgages at Pages 244-272 in the office of the Register of Deeds, Cherokee County, Kansas.
23. Mortgage Subordination and Standstill Agreement in favor of Guggenheim, executed by Foothill, Guggenheim and UTeC, filed June 6, 2002 at 3:35 PM in Book 92 of Miscellaneous at Pages 673-686 in the office of the Register of Deeds, Cherokee County, Kansas.

Slurry Explosive Corporation

1. Lease Agreement between Farmer's Co-op Association and SEC, dated November 28, 2001, regarding property adjacent to railroad at or near Hallowell, Kansas.
2. SEC's rights under Industry Track Lease Agreement between South Kansas and Oklahoma Railroad and El Dorado Chemical Company, dated as of August 1, 1998, regarding railroad track at or near Hallowell, Kansas.
3. Office Lease Agreement from Nations Bank N.A. (assigned to American Heart Association) to SEC, dated September 15, 1997, regarding SEC's Portland Plaza, Oklahoma City, Oklahoma administrative office space.
4. Confidential Rail Transportation Contract between SEC and Union Pacific Railroad Company, dated effective January 1, 2002, expiring July 31, 2002 but informally continuing, regarding line-haul transportation.
5. Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
6. Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
7. O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.

8. Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.
9. Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
10. Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
11. Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hallowell, Kansas Facility.
12. Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
13. Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
14. Purchase Agreement between General Dynamics Ordinance and Tactical Systems and SEC, dated March 11, 2002, final payment due October 15, 2002, regarding watergel slurry production equipment purchased from Marion, Illinois.
15. Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
16. Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
17. Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
18. Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.

19. Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.
20. Emergency Response Telecommunication Service Agreement between Chem-Tel, Inc. and SEC dated March 25, 1997, renewed through December 31, 2002, regarding 24-hour emergency phone answering services.
21. Contract Service Agreement between Midwest Leasing Co. and SEC, dated May 2, 1997, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0049, 1995 Kenworth.
22. Contract Service Agreement between Midwest Leasing Co. and SEC, dated September 18, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0055, 1999 Peterbilt.
23. Contract Service Agreement between Midwest Leasing Co. and SEC, dated June 25, 1999, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0058, 2000 Peterbilt.
24. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 23, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0053, 1999 Peterbilt.
25. Contract Service Agreement between Explo-Transport Co. and SEC, dated September 14, 2000, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0059, 2001 Peterbilt.
26. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 13, 2001, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0060, 2000 Peterbilt.
27. Lease between R.K. Black, Inc. and SEC, commencing February 23, 1998, and continuing for 60 months, regarding two (2) Lanier copiers for SEC's Oklahoma City, Oklahoma office.
28. Rental Agreement between Pitney Bowes, Inc. and SEC, dated April 4, 1989, expired April 4, 1989, but now paid quarterly, in advance, regarding postage meter for SEC's Oklahoma City, Oklahoma office.
29. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 9, 2002, regarding security patrol at Hallowell, Kansas Facility.

30. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 22, 2002, regarding telephone for security patrol at Hallowell, Kansas Facility.
31. Cleaning Service Contract between SEC and Safety-Kleen Systems, Inc., dated May 2, 2002, expires May 2, 2003, regarding cleaning/services provided to SEC at Hallowell, Kansas Facility.
32. Construction Agreement between SEC and Mid Central Contract Services, Inc., dated August 7, 2002, regarding construction efforts at Hallowell, Kansas Facility for \$208,721.00.
33. Service Agreement between SEC and U.S. Cellular dated September 23, 2002, expiring September 23, 2003, for cell phone services at Pryor, Oklahoma Facility.
34. Pricing Agreement between SEC and Heartland Cement through January 31, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.
35. Pricing Agreement between SEC and Lone Star Industries through January 1, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.
36. Wireless Services Agreement between SEC and AT&T Wireless, expiring April, May (two phones) and December, 2003, regarding four cell phone services at Hallowell, Kansas Facility.
37. Marketing and Supply Agreement between SEC and Austin Powder Company dated October 5, 1994, terminated as to exclusivity only effective October 5, 1997, but otherwise terminable upon sixty days notice prior to the October 5 automatic annual renewal, regarding Austin Powder Company's marketing and distributing efforts of watergel products for forest fire fighting and timber boundary demarcation applications.
38. Confidential Disclosure Agreement between SEC and Boyd J. Wathen ("Wathen"), dated October 8, 2002, with no expiration date, regarding the protection of Wathen's information and ideas related to explosives/blasting agents which incorporate perchlorate and the formulations and methods of making same.
39. Agreement between SEC and Oil, Chemical and Atomic Workers International Union, AFL-CIO, Local 5-508, dated March 31, 1997, ending February 5, 1999, regarding terms and conditions of employment.
40. Last, Best & Final Package Proposal of SEC for Agreement with Paper, Allied Industrial, Chemical and Energy Workers International Union Local 5-508 AFL-

- CIO, dated February 3, 1999, regarding changes and renewal of March 31, 1997 Agreement reflected above.
41. Final Offer – SEC’s Final Proposal on “Effects” Related to the Company’s Inability to Continue to Manufacture Explosives because of Loss of License, dated February 13, 2002, amended February 18, 2002, regarding effects on SEC’s inability to manufacture on bargaining unit personnel.
  42. Confidentiality Agreement between SEC and KESCO, Inc. (“KESCO”), dated September 19, 1994, with no expiration date, regarding information received from KESCO for purposes of evaluating the possible acquisition of KESCO by SEC.
  43. Confidentiality Agreement between SEC and Union Espanola de Explosivos, S.A. (“UEE”), dated May 10, 2002, expiring May 10, 2007, regarding SEC’s information provided to UEE for purposes of evaluating the possible acquisition of SEC’s Hallowell, Kansas Facility.
  44. Premium Financing Agreement between SEC and Premier Financing Specialists, Inc., dated effective April 1, 2002, ending January 1, 2003, regarding the premium financing on liability policy from Sorema North America Reins Co.
  45. Workers Compensation monthly insurance premiums to be paid to Berkley Risk, dated April 1, 2002, expiring April 1, 2003, regarding monthly payments for premiums.
  46. Lease Agreement between SEC and Conseco Finance Vendor Services Corporation, dated December 22, 2000, continuing for 24 months, with \$1.00 purchase option, regarding computers at SEC’s Oklahoma City, Oklahoma office.
  47. 1993 Severance Agreement between LSB and Bill Manion, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
  48. 1993 Severance Agreement between LSB and Paul Keeling, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
  49. Trademark Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain trademarks.
  50. Patent Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain patents.
-

Both UTeC and SEC are Parties

1. Loan and Security Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding working capital line of credit (the "Foothill Loan").
2. First Amendment to Loan and Security Agreement, dated August 3, 2001, amending the Foothill Loan.
3. Second Amendment to Loan and Security Agreement, dated May 24, 2002, amending the Foothill.
4. Lockbox Operating Procedural Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding operation of lockbox for receivables.
5. Securities Purchase Agreement between Guggenheim and UTeC and SEC, et al., dated May 24, 2002, regarding the purchase by Guggenheim of certain Notes (the "Securities Purchase Agreement").
6. Guaranty by SEC and UTeC, et al. to Guggenheim, dated May 24, 2002, regarding debt created by Securities Purchase Agreement.
7. Indenture between ClimaChem, Inc., Bank One, NA, UTeC and SEC, et al., as Guarantors, dated November 26, 1997, regarding the issuance of Senior Notes (the "Indenture").
8. Guaranty by UTeC and SEC and other affiliates with respect to the Indenture.



**DESCRIPTION OF OWNED REAL PROPERTY**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are parties to or subject to the following real property deeds and documents effecting title to real property (copies of which have been provided to Buyers):

1. Corrective Warranty Deed from Slurry Explosive Corporation ("SEC") to Universal Tech Corporation ("UTeC") dated May 31, 2002, recorded June 6, 2002 in Book 253, Page 604, regarding Hallowell, Kansas Facility.
  2. Warranty Deed from Thermex Energy Corporation to UTeC, dated February 21, 1992, recorded December 1, 1992 in Book 230, Page 480 (Cherokee County, Kansas), regarding UTeC's R&D Lab, Riverton, Kansas.
  3. Declaration of Restrictive Covenants, dated January 20, 1993, by and among Allco Chemical Corporation, Chevron U.S.A., Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.
  4. Declaration of Restrictive Covenants Regarding Groundwater, dated November 11, 1999, by and among Inspec USA, Inc., Chevron Chemical Company LLC, Chevron USA Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.
  5. Memorandum Giving Notice of Agreement, last signed May 10, 1999, by and between Inspec USA, Inc., Chevron Chemical Company LLC, Chevron USA Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.
  6. Warranty Deed from James W. Keen and Janice E. Keen to Prime Financial Corporation ("Prime"), dated January 6, 1995, recorded January 9, 1995 in Book 789, Page 459 (Mayes County, Oklahoma), regarding SEC's Pryor, Oklahoma Facility.
-

**DESCRIPTION OF LEASED REAL PROPERTY**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are parties to or subject to the following real property leases and agreements (copies of which have been provided to Buyers):

1. Industrial Lease from UTeC to SEC, dated May 14, 2002, regarding the Hallowell, Kansas Facility.
  2. Lease from PLP Investment, Inc. (assigned to Preston Forest Associates, Ltd.) to UTeC, dated June 5, 1992, on UTeC's Dallas office space, as amended on August 30, 1993, March 21, 1996 and August 1, 1998.
  3. Lease and Operating Agreement (With Right of First Refusal and Option to Purchase), dated September 25, 1990, from IRECO Incorporated to UTeC, regarding UTeC's Underwater Lab, Hallowell, Kansas.
  4. Lease between Prime Financial Corporation and SEC, dated February 15, 1995, regarding SEC's Pryor, Oklahoma Facility.
  5. Lease Agreement between Farmer's Co-op Association and SEC, dated November 28, 2001, regarding property adjacent to railroad at or near Hallowell, Kansas.
  6. SEC's rights under Industry Track Lease Agreement between South Kansas and Oklahoma Railroad and El Dorado Chemical Company, dated as of August 1, 1998, regarding railroad track at or near Hallowell, Kansas.
  7. Office Lease Agreement from Nations Bank N.A. (assigned to American Heart Association) to SEC, dated September 15, 1997, regarding SEC's Portland Plaza, Oklahoma City, Oklahoma administrative office space.
-

**Part 3.8(a)**

**REAL ESTATE ENCUMBRANCES**  
**AND**  
**PERMITTED REAL ESTATE ENCUMBRANCES**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are aware of the following Permitted Real Estate Encumbrances:

1. Any (i) Encumbrances securing Taxes, assessments and governmental charges not yet due and payable or being contested in good faith, (ii) Encumbrances arising from customary zoning law or ordinance or any similar Legal Requirement, (iii) Encumbrances arising from customary right reserved to any Governmental Authority to regulate the affected property, (iv) as to all Owned Real Property, any Encumbrance (other than Encumbrances securing indebtedness or arising out of the obligation to pay money) which does not and shall not individually or in the aggregate with one or more other Encumbrances interfere with the right or ability to own, use, enjoy or operate the Owned Real Property as it is currently being used or operated, or to convey good, marketable and indefeasible fee simple title to the same (with respect to Owned Property) or materially detract from its value, and (v) any inchoate materialmen's, mechanic's, workmen's, repairmen's or other like Encumbrances arising in the ordinary course of business.
  2. Any Encumbrances or encroachments reflected in the following title insurance policies (copies of which have been provided to Buyers):
    - (a) March 23, 2000 Title Insurance Policy by Chicago Title on East new 40-acre tract at Hallowell, Kansas Facility.
    - (b) April 22, 1999 Title Insurance Policy by Chicago Title on West new 40-acre tract at Hallowell, Kansas Facility.
    - (c) February 18, 1992 Title Insurance Policy by Chicago Title on Old Hallowell, Kansas Facility.
    - (d) December 1, 1992 Title Insurance Policy by Chicago Title on R&D Lab, Riverton, Kansas.
    - (e) January 9, 1995 Title Insurance Policy by First American Title on Pryor, Oklahoma Facility.
    - (f) June 6, 2002 Title Insurance Policy by Chicago Title on all of Hallowell, Kansas Facility.
  3. Any Encumbrances or encroachments reflected in the following real property surveys (copies of which have been provided to Buyers):
-

- (a) June 4, 2002 survey (copies attached) by Don Fleury & Associates, of all tracts at Hallowell, Kansas Facility.
  - (b) April 1, 1999 survey by Don Fleury & Associates, of two (2) new 40-acre tracts at Hallowell, Kansas Facility.
  - (c) August 17, 1997 survey by Don Fleury & Associates, of East new 40-acre tract at Hallowell, Kansas Facility.
  - (d) August 29, 1997 survey by Don Fleury & Associates of West new 40-acre tract at Hallowell, Kansas Facility.
  - (e) September 29, 1992 survey by Ronald K. Albertini, of old tract at Hallowell, Kansas Facility.
  - (f) December 8, 1994 survey by Max A. Woollard, of Pryor, Oklahoma Facility.
4. Any Encumbrances or encroachments which may be reflected in the document referenced in Part 3.6 or Part 3.7 (which Parts are incorporated herein by reference).
5. Encumbrances reflected in the following documents referenced in Part 3.19(a) (copies of which have been provided to Buyers as documents referenced in Part 3.19(a)):
- (a) Consent Agreement in The Matter of Pollution at Former Gulf Oil Company Jayhawk Plant, Galena, Kansas, Case No. 98-E-0109, Kansas Department of Health and Environment, last signed June 16, 1999, termination upon KDHE's notice that the terms have been satisfactorily completed.
  - (b) Consent Order entered in The Matter of Pollution at Slurry Explosive Corporation, Hallowell, Kansas, Case No. 02-E-0049, Kansas Department of Health and Environment ("KDHE"), dated April 22, 2002, terminating upon KDHE's notice that terms have been satisfactorily completed.
  - (c) Phase IV Agreement, dated June 16, 1999, by and among Inspec USA, Inc., Chevron Chemical Company LLC, Chevron USA, Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.

**Part 3.8(b)**

**NON-REAL ESTATE ENCUMBRANCES**  
**AND PERMITTED NON-REAL ESTATE ENCUMBRANCES**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are aware of the following Permitted Non-Real Estate Encumbrances:

1. Any (i) Encumbrances securing Taxes, assessments and governmental charges not yet due and payable or being contested in good faith, and (ii) Encumbrances arising from customary right reserved to any Governmental Authority to regulate the affected property.
  2. Encumbrances reflected in the following documents referenced in Part 3.19(a) (copies of which have been provided to Buyers as documents referenced in Part 3.19(a)):
    - (a) Rights and obligations of UTeC under assignment of Lease Agreement, dated as of April 11, 2001, for seventy monthly payments commencing on October 20, 2001, by and between U.S. Bancorp Leasing & Financial and SEC, regarding certain equipment associated with the Hallowell, Kansas Facility, pursuant to assignment in May 14, 2002 Asset Purchase and Sale Agreement in the section of this list entitled "Agreement between SEC and UTeC" below.
    - (b) Equipment Lease between G.E. Capital Modular Space and UTeC, dated March 29, 1995, expiring March 29, 1995 but continuing on a month to month basis thereafter, regarding office trailer at Underwater Lab, Hallowell, Kansas.
    - (c) Equipment Lease between United Leasing, Inc. and UTeC, commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
    - (d) Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
    - (e) Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.
    - (f) Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 17, 1999, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at the Pruf Plant, Hallowell, Kansas.
    - (g) Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 1, 1995, continuing on a quarterly by
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quarterly basis until terminated, regarding water cooler at UTeC's Underwater Lab, Hallowell, Kansas.

- (h) Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated September 27, 1985, continuing on a 6 months by 6 months basis until terminated, regarding water cooler at UTeC's R&D Lab, Riverton, Kansas.
- (i) Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, dated June 28, 1995, renewed through June, 2003, regarding two (2) tying machines at UTeC's Pruf Plant, Hallowell, Kansas.
- (j) Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, renewed through January, 2003, regarding a tying machine at UTeC's Underwater Lab, Hallowell, Kansas.
- (k) Technology and Know-How License Agreement between UTeC and Explosivos de Norteamerica S.A. de C.V., dated January 1, 1997, terminating on January 1, 2007, regarding use of UTeC technology and know-how to manufacture and sell product in Mexico on an exclusive basis so long as a 2,000 metric tons per year volume is sustained.
- (l) License and Processing Agreement between SEC and TPL, Inc., dated December 9, 1999, for continuing one year terms until 12 months notice is given, regarding the use of SEC's Technical Information to produce product solely for SEC.
- (m) Postage Meter Rental Agreement between UTeC and Pitney Bowes, dated September 23, 2002, continuing for one year, regard UTeC's assumption of SEC's obligations for a postage meter at the Hallowell, Kansas Facility.
- (n) Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
- (o) Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
- (p) O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.
- (q) Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic

renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.

- (r) Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
- (s) Equipment Lease between Midwest Leasing Co. and SEC, dated May 6, 2002, and continuing for 12 months (at which time SEC becomes owner), regarding 1986 Tempe Reefer Cooling Unit for Kinepak Plant located at Hallowell, Kansas Facility.
- (t) Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
- (u) Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hallowell, Kansas Facility.
- (v) Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
- (w) Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
- (x) Purchase Agreement between General Dynamics Ordinance and Tactical Systems and SEC, dated March 11, 2002, final payment due October 15, 2002, regarding watergel slurry production equipment purchased from Marion, Illinois.
- (y) Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
- (z) Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
- (aa) Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.

- (bb) Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
- (cc) Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.
- (dd) Contract Service Agreement between Midwest Leasing Co. and SEC, dated May 2, 1997, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0049, 1995 Kenworth.
- (ee) Contract Service Agreement between Midwest Leasing Co. and SEC, dated September 18, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0055, 1999 Peterbilt.
- (ff) Contract Service Agreement between Midwest Leasing Co. and SEC, dated June 25, 1999, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0058, 2000 Peterbilt.
- (gg) Contract Service Agreement between Explo-Transport Co. and SEC, dated July 23, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0053, 1999 Peterbilt.
- (hh) Contract Service Agreement between Explo-Transport Co. and SEC, dated September 14, 2000, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0059, 2001 Peterbilt.
- (ii) Contract Service Agreement between Explo-Transport Co. and SEC, dated July 13, 2001, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0060, 2000 Peterbilt.
- (jj) Lease between R.K. Black, Inc. and SEC, commencing February 23, 1998, and continuing for 60 months, regarding two (2) Lanier copiers for SEC's Oklahoma City, Oklahoma office.
- (kk) Rental Agreement between Pitney Bowes, Inc. and SEC, dated April 4, 1989, expired April 4, 1989, but now paid quarterly, in advance, regarding postage meter for SEC's Oklahoma City, Oklahoma office.
- (ll) Construction Agreement between SEC and Mid Central Contract Services, Inc., dated August 7, 2002, regarding construction efforts at Hallowell, Kansas Facility for \$208,721.00.



- (mm) Non-exclusive License Agreement between SEC and Total Energy Systems Limited (“TES”), dated October 1, 1996, as amended and assigned in that Assignment and Amendment of the Slurry Explosive Corporation License Agreement between SEC, TES and Quantum Explosives Pty. Ltd., dated August 2, 1999, continuing through end of use or breach, regarding use of SEC’s patent rights or technical information to manufacture and sell specific products in plants in Australia, New Zealand, New Guinea, Fiji, Myanmar and Soloman Islands.
- (nn) Asset Sale and Purchase agreement between SEC and ICI Explosives USA, Inc. (“ICI”), dated as of November 30, 2000, regarding SEC’s acquisition of ICI’s Kinepak Business and Kinepak Assets.
- (oo) Lease Agreement between SEC and Conseco Finance Vendor Services Corporation, dated December 22, 2000, continuing for 24 months, with \$1.00 purchase option, regarding computers at SEC’s Oklahoma City, Oklahoma office.
- (pp) Stipulation for Compromise Settlement in United States of America v. 1.5 Blasting Agents, et al., Civil Case No. 0201096-WEB, U.S.D.C., District of Kansas dated October, 2002, consenting to the forfeiture of product seized by the ATF.

3. Encumbrances reflected in the following documents appearing as unexpired and unexpired liens filed in the following filing offices (copies of which have been provided to Buyers):

(a) Oklahoma County Clerk, Oklahoma (Oklahoma UCC Central Filing Office and Oklahoma County Filing Office):

- (1) Financing Statement, UCC #0016235, executed by UTeC, in favor of United Leasing (“United”), and assigned to Citizens Bank, filed March 23, 2000 at 2:15 PM in the office of the Oklahoma County Clerk, covering one (1) new Daewoo G25E Forklift, serial #CX-01675.
- (2) Financing Statement, UCC #2002008292631, UTeC as debtor, in favor of Fifth Third Bank, filed June 27, 2002 at 11:40 AM in the office of the Oklahoma County Clerk, as an “in lieu of continuation” for UCC #0016235, filed March 23, 2000 in the office of the Oklahoma County Clerk and UCC #3438884, filed on March 23, 2000 in the office of the Kansas Secretary of State, covering one (1) new Daewoo G25E Forklift, serial #CS-01675.
- (3) Financing Statement, UCC #0052926, executed by SEC, in favor of The G.W. Van Keppel Company (“Keppel”) and assigned to Associates Leasing, Inc. (“Associates”), filed October 3, 2000 at 10:23 AM in the

office of the Oklahoma County Clerk, covering one (1) Svedala Model SCH5000CL Hydraulic Track Drill, serial #1Y03Y08.

- (4) Financing Statement, UCC #2001007125725, SEC as debtor, in favor of U.S. Bancorp Leasing & Financial, filed on September 14, 2001 at 1:02 PM in the office of the Oklahoma County Clerk, as an "in lieu of continuation" for UCC #4741112, filed on May 17, 2001 in the office of the Kansas Secretary of State, covering Fillpac model EX2000E Automatic Chub Machine, Jacobson Series IP-241 D Full Circle Hammermill, three (3) Watson-Marlow/Bredel SPX/80 Production Pumps.
- (5) Financing Statement, UCC #2002000896734, SEC as debtor, in favor of CitiCapital Commercial Leasing Corporation, filed on January 18, 2002 at 4:25 PM in the office of the Oklahoma County Clerk, covering one (1) Svedala Model SCH500CL hydraulic self-contained drill, serial #1P03J74.
- (6) Financing Statement, UCC #2002005027523, SEC as debtor, in favor of Keppel, filed on April 22, 2002 at 2:45 PM in the office of the Oklahoma County Clerk, covering one(1) Bobcat 773T, serial #519021354, VK #18359, and one (1) 68" LP Bucket, VK# 17685B.
- (7) Financing Statement, UCC #2002008292530, SEC as debtor, in favor of Fifth Third Bank, filed on June 27, 2002 at 11:39 AM in the office of the Oklahoma County Clerk, as an "in lieu of continuation" for UCC #3034071, filed on November 23, 1999 in the office of the Kansas Secretary of State (collateral unstated).

(b) Cherokee County Register Of Deeds, Kansas (Cherokee Counting Filing Office):

- (1) Financing Statement, UCC #45115, executed by SEC in favor of United Machinery & Supply Co. Inc. and assigned to Associates, filed on June 4, 1999 at 9:00 AM in the office of the Register of Deeds, Cherokee County, Kansas, covering one (1) Daewoo Forklift Model G20S/LPS, serial #99-00338.

(c) Kansas Secretary Of State (Kansas UCC Central Filing Office):

- (1) Financing Statement, UCC #2518985, executed by SEC in favor of United Machinery & Supply Co. Inc. and assigned to Associates, filed on January 4, 1999 in the office of the Kansas Secretary of State, covering one (1) Daewoo Model G20S LPS Forklift, serial #99-00338.
- (2) Financing Statement, UCC #4035911, executed by SEC in favor of Keppel and assigned to Associates, filed on October 2, 2000 in the office

of the Kansas Secretary of State, covering one (1) Svedala Model SCH5000CL Hydraulic Track Drill, serial #1Y03Y08.

- (3) Financing Statement, UCC #3034071, executed by SEC in favor of United, filed on November 23, 1999 in the office of the Kansas Secretary of State, covering "Lease 9820010008, Interim Funding".
- (4) Financing Statement, UCC #3034097, executed by SEC in favor of United, filed on November 23, 1999 in the office of the Kansas Secretary of State, covering "Lease 9820010009, Interim Funding".
- (5) Financing Statement, UCC #4741112, executed by SEC in favor of U.S. Bancorp Leasing & Financial, filed on May 17, 2001 in the office of the Kansas Secretary of State, covering Fillpac model EX2000E Automatic Chub Machine, Jacobsen Series 1P-241 D Full Circle Hammermill, three (3) Watson-Marlow/Bredel SPX/80 Production Pumps.
- (6) Financing Statement, UCC #3438884, executed by UTeC in favor of United and assigned to Citizens Bank, filed March 23, 2000 in the office of the Kansas Secretary of State, covering one (1) Daewoo G25 E Forklift, serial #CX-01675.
- (7) Financing Statement, UCC #4618278, executed by UTeC in favor of Foothill, filed on April 11, 2001 in the office of the Kansas Secretary of State, covering accounts, books, general intangibles, inventory and monies and proceeds derived therefrom of UTeC.
- (8) Financing Statement, UCC #5338744, UTeC as debtor, in favor of Wells Fargo Financial Leasing, filed on August 30, 2002 in the office of the Kansas Secretary of State, covering one (1) Canon HP-6045 Copier, serial #NGO07037.

ENCROACHMENTS

Universal Tech Corporation (“UTeC”) and Slurry Explosive Corporation (“SEC”) are aware of the following Encroachments:

1. Those encroachments reflected in following the documents referenced in Part 3.8(a) (copies of which have been provided to Buyer as documents referenced in Part 3.8(a)):
    - (a) January 9, 1995 Title Insurance Policy by First American Title on Pryor, Oklahoma Facility.
    - (b) June 6, 2002 Title Insurance Policy by Chicago Title on all of Hallowell, Kansas Facility.
    - (c) June 4, 2002 survey (copies attached) by Don Fleury & Associates, of all tracts at Hallowell, Kansas Facility.
    - (d) September 29, 1992 survey by Ronald K. Albertini, of old tract at Hallowell, Kansas Facility.
    - (e) December 8, 1994 survey by Max A. Woollard, of Pryor, Oklahoma Facility.
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**Part 3.9(b)**

**TANGIBLE PERSONAL PROPERTY NOT IN POSSESSION OF SELLERS**

1. As of October 31, 2002, to the knowledge of Sellers, the following tangible personal property is located at the following locations:

- (a) Quapaw Company in Drumright, Oklahoma
    - (1) 8 x 8 x 7 type 2 magazine, SEC001
    - (2) ANFO Bin 60 Ton Capacity, No number
  
  - (b) Quapaw Company in Pawnee, Oklahoma
    - (1) 8 x 8 x 7 type 2 magazine, SEC042
  
  - (c) Tulsa Stone in Tulsa, Oklahoma
    - (1) 5 x 5 x 5 type 2 magazine, SECP30
    - (2) 7 x 11 x 7 type 2 magazine, SEC 84
  
  - (d) Oswego Coal in Pleasanton, Kansas
    - (1) 7 x 11 x 7 type 2 magazine, SEC 036
    - (2) 5 x 5 x 5 type 2 magazine, SEC 083
  
  - (e) Adrian Rock in Adrian, Missouri
    - (1) 6 x 4 x 4 type 2 magazine, SEC PO37
    - (2) 4 x 4 x 4 type 2 magazine, SEC PO38
  
  - (f) Nation Rock in Ft. Scott, Kansas
    - (1) 8 x 8 x 7 type 2 magazine, no number
    - (2) 5 x 5 x 5 type 2 magazine, no number
  
  - (g) Benton Country Stone in Gravette, Arkansas
    - (1) 40 ton ANFO Bin, no number
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- (h) Brakefield Equipment in Adair, Oklahoma
- (1) 8 x 8 x 7 type 2 magazine, number 18
  
- (i) Phoenix Mining in Vinita, Oklahoma
- (1) 5 x 5 x 5 type 2 magazine, SEC 27
- (2) 8 x 8 x 7 type 2 magazine, SEC P33
- (3) 45 Ton ANFO bin, no number
  
- (j) Brakefield Propellant Project in WhiteOak, Oklahoma
- (1) Stainless Steel loading bin, no number
- (2) Chevrolet 88 2 ton truck, no title (came with Kinepak acquisition)
- (3) Two (2) type 4 magazine trailers, no numbers
- (4) storage equipment trailer, no number
- (5) Bobcat Loader, rental
  
- (k) All equipment associated with the process of grinding, preparing and blending located at the General Dynamics watergel slurry production plant in Marion, Illinois, including, without limitation, the following:
  - (1) Mixer 15,000 lbs. Cap (Jacketed, variable speed drive, safety monitor/control system)
  - (2) Mixer Load Cells
  - (3) Helical Screw Feeder (Ammonium Nitrate)
  - (4) Helical Screw Feeder (Sodium Nitrate)
  - (5) Ammonium Nitrate Silo (60 Ton Cap)
  - (6) Sodium Nitrate Silo (60 Ton Cap)
  - (7) Packout Tank (Hopper)
  - (8) Weight/Charging Fixtures
  - (9) Buffer Solution Tank
  - (10) Powder (Propellant) Transfer Pump P-100 - Gorman Rupp Pump - Model T3A3-B
  - (11) Vibrating Screen S-101-Derrick Corp Model K24-48A-25
  - (12) Grinder Feed Tank T-101
  - (13) Vibrating Feeder VF-101 - ERIEZ M50A Feeder
  - (14) Grinder G-101 - Williams Patent Crusher and Pulverizer Co. Metior #24 Hammer Mill (2000 HP)

- (15) Ground Powder (Propellant) Pump P-101 - Gould Centrifugal Pump, Model 3196
- (16) Ground Powder (Propellant) Tank T-102
- (17) Ground Powder (Propellant) Transfer Pump P-102 Gorman Rupp Pump, Model A11125
- (18) Re-Circulating Water (R.W.) Tank T-103
- (19) Re-Circulating Water (R.W.) Pump P-103 Gould Centrifugal Pump, Model 3196
- (20) Water Filter P-101 - Everlift SMS 62-18-2M Duplex Filter
- (21) Filter Water Tank T-104
- (22) Filtered Water Pump P-104 - Gould Centrifugal Pump, Model 3196
- (23) Hydrocone H-101 - Krebs Model V48-10-1734 Cyclone
- (24) Powder (Propellant) Hoppers (Dyno Bins)
- (25) D-Water Pump P-105 - Warren Rupp Model SB1-A Air Operated Diaphragm Pump

2. As of October 31, 2002, to the knowledge of Sellers, trailers used for offsite storage and transportation are located as follows:

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
101	AMERICAN	48'	1980	MT. VALLEY-ALLEN,KY	6-Dec-01	SAMPSON		1PM0V0452X83034564	SIDE DOOR
102	MONON	45'	1980	FORT WINGATE,NM (barrels)	14-May-02	MITCHELL	JAN.2002	48944	
103	TRAILMOBILE	45'	1978	MT. VALLEY-ALLEN,KY	28-Jun-00	SAMPSON		566230	
104	DORSEY	45'	1981	AUSTIN/LITTLE ROCK,AR	28-Oct-02	KEEN	JUN.2002	1DTV12W8BW011312	SIDE DOOR
105	TRAILMOBILE	44'	1973	ORICA/BONNE TERRE,MO	17-Jun-02	MITCHELL	OCT.2001	J92681	SIDE DOOR
106	STRICKLAND	45'	1980	SEC PLANT 5"	29-Oct-02	BURTON	FEB.2002	245506	SIDE DOOR
107	GREAT DANE	45'	1983	EMPTY -PRYOR,OK	12-Sep-02	KEEN		1GRAA9025DB08686879	
108	COMET	27'	1977	ENERGETICS EQUIPMENT	16-Sep-02	BOLT	JUL.1998	57720272	PUP
109	COMET	27'	1975	EMPTY PRUF PLANT	5-Aug-02	BURTON	SEPT.2002	57517278	PUP
110	COMET	27'	1979	EMPTY-PRYOR,OK	29-May-02	KEEN		57924377	PUP
111	MILLER	45'	1982	AUSTIN/MIDLOTHIAN,TX	25-Apr-02	KEELING		V-6665	SIDE DOOR
112	FRUEHUAF	48'	1983	SEC/PRYOR,OK	27-Aug-02	KEEN		1H2V04B28EH034240	
113	DORSEY	45'	1980	CONEX/BATTLETOWN,KY	18-Jan-02	SAMPSON		151285	SIDE DOOR
114	FRUEHUAF	45'	1981	SHOP- JOPLIN	23-Oct-02	GODDARD	MAY.2002	2V04525BE016411	

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
115	DORSEY	45'	1981	DYNO/GARDEN CITY,TX	16-Aug-02	KEELING	JUL.2002	1DTV12W27BA155544	SIDE DOOR
116	BLACK DIAMOND	45'	1981	INTER MTN./VERNAL,UT	18-Sep-02	LOADER	JAN.2002	1BPV2245XBT000073	SIDE DOOR
117	COMET	27'	1975	BRAKEFIELD/BOBCAT	10-Oct-02	KEEN		57517206	PUP
118	GREAT DANE	45'	1983	HERMITAGE-LEBANON,TN	29-Sep-02	SAMPSON	JUN.2002	GRAA9029ES055202	SIDE DOOR
119	COMET	27'	1978	BRAKEFIELD/WHITE OAK,OK	7-Mar-01	KEEN		57822440	PUP
120	COMET	27'	1975	SEC PLANT EMPTY	11-Oct-02	MITCHELL		57517202	PUP
121	TRAILMOBILE	44'	1973	QUAPAW/DRUMRIGHT,OK	25-Sep-02	KEEN	MAR.2001	J92766	
122	GREAT DANE	45'	1982	SEC PLANT EMPTY	29-Oct-02	MITCHELL		1GRAA9026CS102618	SLIDER
123	FRUEHUAF	45'	1982	MT. VALLEY/ALLEN,KY	12-Apr-02	SAMPSON		1H2V04522CC004407	
124	TRAILMOBILE	45'	1973	AUSTIN/GEORGETOWN,TX	1-Oct-02	KEELING	JUN.2002	J92733	
125	TRAILMOBILE	45'	1973	SEC PLANT EMPTY	29-Oct-02	MITCHELL	MAY.2002	J92739	SIDE DOOR
126	TRAILMOBILE	45'	1973	SHOP- JOPLIN	13-Sep-02	GODDARD	MAR.2002	J92688	
127	GREAT DANE	45'	1981	SEC PLANT EMPTY	29-Oct-02	MITCHELL	MAY.2002	1GRAAC9022BB086703	SIDE DOOR
128	TRAILMOBILE	45'	1973	SEC PLANT EMPTY	29-Oct-02	MITCHELL	FEB.2002	J92756	SIDE DOOR
129	COMET	27'	1977	SEC PLANT EMPTY	15-Mar-02	MITCHELL	MAR.2001	57720496	PUP
130	TRAILMOBILE	44'	1973	MT. VALLEY/ALLEN,KY	8-Apr-02	SAMPSON		J92690	SIDE DOOR
131	TRAILMOBILE	45'	1973	AUSTIN/MIDLAND,AR	23-May-02	KEEN	AUG.2001	J92701	
132	DORSEY	45'	1981	SHOP- JOPLIN	21-Oct-02	GODDARD	OCT.2002	1DTV12W2XBW01140B	SIDE DOOR
133	TRAILMOBILE	45'	1973	ENERGETICS EQUIPMENT	12-Nov-01	BOLT	APR.2001	591706	SIDE DOOR
134	COMET	27'	1975	SEC PLANT-EMPTY	7-Mar-02	MITCHELL	JUN.2000	57517506	PUP
135	COMET	27'	1975	HALLOWELL/3" 430	17-Oct-02	MITCHELL		57517422	PUP
136	FRUEHUAF	48'	1986	SHOP- JOPLIN	26-Jul-02	GODDARD		1H2V04824GE021229	
137	FRUEHUAF	44'	1966	INTER MT.WEST-VERNAL,UT	22-Apr-02	LOADER		MEG515003	SIDE DOOR
138	STOUGHTON	48'	1988	APAC-TAHLEQUAH,OK	21-Jun-01	KEEN		1DW1A4523JS5560002	SIDE DOOR
139	MILLER	45'	1981	WESCO/GRANTS,NM	7-Oct-02	LOADER	AUG.2001	N11027	SIDE DOOR
140	GREAT DANE	45'	1975	AUSTIN/CRAWFORD,TX	19-Aug-02	KEELING	APR.2002	71457	
141	FRUEHUAF	40'	1968	MT. VALLEY-ALLEN,KY	13-Mar-01	SAMPSON		FW124448	
142	UTILITY	45'	1981	SEC/PRYOR,OK	26-Aug-02	KEEN	APR.2001	1UYV52450BC613210	



TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
143	TRAILMOBILE	45'	1973	WAMPUM-BARKLEY,PA	1-Nov-01	SAMPSON		J92752	
144	DORSEY	45'	1981	EMPTY-PRYOR,OK	12-Sep-02	KEEN		1DTV12W238A155508	
145	TRAILMOBILE	45'	1973	SEC PLANT EMPTY	29-Oct-02	MITCHELL	AUG.2002	J92744	SIDE DOOR
146	BLACK DIAMOND	45'	1981	AUSTIN/MIDLAND,AR	25-Sep-02	KEEN		593371	
147	GREAT DANE	45'	1975	KY.PWDR-MT.VERNON	29-Oct-02	SAMPSON	APR.2002	71956	
148	TRAILMOBILE	45'	1979	EMPTY PRUF PLANT	10-Sep-02	BURTON	JUL.2002	T39709	SIDE DOOR
149	TRAILMOBILE	45'	1973	SEC PLANT EMPTY	29-Oct-02	MITCHELL	APR.2002	J92703	
150	TRAILMOBILE	45'	1973	SEC PLANT EMPTY	25-Jun-02	MITCHELL	APR.2002	J92734	SIDE DOOR
151	FRUEHUAF	40'	1969	BRAKEFIELD-WHITE OAK,OK	5-Feb-02	KEEN		FWJ340845	
152	TRAILMOBILE	45'	1973	M+S/SUSCON,PA	15-Oct-02	SAMPSON	SEPT.2002	J92713	
153	TRAILMOBILE	45'	1973	MT. VALLEY-ALLEN,KY	17-May-02	SAMPSON	APR.2002	J92757	
154	TRAILMOBILE	44'	1973	AUSTIN-MIDLAND,TX	17-Dec-01	KEELING		J92709	SIDE DOOR
155	STRICKLAND	45'	1970	SHOP- JOPLIN	17-Oct-02	GODDARD	OCT.2002	78372	
156	TRAILMOBILE	45'	1973	SHOP- JOPLIN	23-Oct-02	GODDARD		J92748	
157	LUFKIN	48'	1984	SHOP- JOPLIN	9-Aug-02	GODDARD	MAR.2002	1L01A4823E1064079	
158	FRUEHUAF	40'	1980	MT. VALLEY-ALLEN,KY	1-Nov-01	SAMPSON		HPT025559	
159	COMET	27'	1975	QUAPAW-PAWNEE,OK	10-Jul-02	KEEN		57517341	PUP
160	FRUEHUAF	45'	1976	SEC PLANT EMPTY	14-Aug-02	MITCHELL	AUG.2002	CHX229850	SIDE DOOR
161	STRICK		1980	EMPTY PRUF PLANT	16-Sep-02	BURTON	APR.2002	23B113	SIDE DOOR
162	LUFKIN	45'	1981	FT WINGATE,NM	14-Oct-02	MITCHELL	APR.2002	1L01A4529B1059520	SIDE DOOR
163	LUFKIN		1981	SEC PLANT EMPTY	12-Aug-02	MITCHELL	MAY.2002	1L01A4525B1059515	SIDE DOOR
164	FRUEHUAF	40'	1969	AUSTIN/MIDLAND,AR	24-Sep-02	KEEN		FWJ340844	
165	LUFKIN	45'	1987	SHOP- JOPLIN	26-Sep-02	GODDARD	OCT.2002	1L01A4529J1077451	SIDE DOOR
166	DORSEY	45'	1980	MT. VALLEY-ALLEN,KY	16-May-02	SAMPSON	DEC.2001	151401	
167	BLACK DIAMOND	45'	1981	SHOP- JOPLIN	18-Sep-02	GODDARD	OCT.2002	1BDV22459BT000114	
168	FRUEHUAF	45'	1981	SHOP- JOPLIN	3-Oct-02	GODDARD	JUL.2002	1H2V0452XBE019708	
169	FRUEHUAF	45'	1981	BRAKEFIELD-WHITE OAK,OK	16-May-02	KEEN	MAR.2002	1H5V04524BM026999	
170	FRUEHUAF	45'	1981	DYNO/NOLANVILLE,TX	28-Aug-02	KEELING	APR.2002	1H5V04522BM026998	SIDE DOOR

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
171	FRUEHUAF	45'	1981	MT. VALLEY-ALLEN,KY	13-Sep-01	SAMPSON		1H2V04526BA019549	
172	DORSEY	45'	1980	SHOP- JOPLIN	23-Oct-02	GODDARD	AUG.2002	151296	SIDE DOOR
173	LUFKIN	45'	1979	AUSTIN/GEORGETOWN,TX	7-Aug-02	KEELING	JUN.2002	55217	
174	FRUEHUAF	45'	1983	SHOP- JOPLIN	21-Aug-02	GODDARD	MAY.2002	1H2V04522DE009497	
175	FRUEHUAF	45'	1980	DYNO-EAST KY.	5-Mar-02	SAMPSON		HPT034113	
176	FRUEHUAF	48'	1984	DYNO-NEW BLAINE,AR	7-Jun-01	CLANTON		1PT01AAH6F9000208	
177	STRICKLAND	48'	1988	WESCO/GRANTS,NM	24-Oct-02	LOADER	MAY.2002	1512E8488J0308420	SIDE DOOR
178	STRICKLAND	48'	1988	AUSTIN-MIDLAND,AR	29-Apr-02	KEEN		1S12E8489K0309207	SIDE DOOR
179	BUDD	48'	1985	M+S/BLUE MTN.	5-Jun-02	SAMPSON	MAY.2002	W923FE16907	
180	MONON	48'	1988	AUSTIN/CHICO,TX	22-Oct-02	KEELING	JUL.2002	1NNVA4525JM112714	SIDE DOOR
181	GREAT DANE	45'	1979	AUSTIN/N. LITTLE ROCK,AR	15-Jul-02	KEEN	MAY.2002	97776	
182	GREAT DANE	45'	1979	FT.WINGATE/4-1/4 LOAD	9-Sep-02	MITCHELL	JAN.2001	97775	NO TITLE
183	FRUEHUAF	40'	1969	DYNO/GARDEN CITY,TX	17-Oct-02	KEELING	MAY.2002	FWJ340830	
184	FRUEHUAF	40'	1969	AUSTIN/DABNEY,TX	13-Aug-02	KEELING	AUG.2002	FWJ340833	
185	FRUEHUAF	40'	1968	SHOP- JOPLIN	26-Sep-02	GODDARD	OCT.2002	FWJ340803	
186	FRUEHUAF	40'	1969	SHOP- JOPLIN	10-Sep-02	GODDARD	OCT.2002	FWJ340832	
187	FRUEHUAF	40'	1969	AUSTIN/MIDLAND,AR	4-Oct-02	KEEN	JUN.2002	FWJ340814	
188	FRUEHUAF	40'	1969	SEC PLANT EMPTY	28-Aug-02	MITCHELL	JAN.2002	FWJ340813	
189	LUFKIN	45'	1987	SEC PLANT boxes	13-Aug-02	BOLT	DEC.2001	4528H1076172	SIDE DOOR
190	LUFKIN	45'	1987	HERMITAGE/LEBANON,TN	21-Oct-02	SAMPSON	OCT.2002	1L01A4524J1077454	
191	LUFKIN	45'	1987	AUSTIN-GAINSVILLE,GA	28-Mar-02	SAMPSON		1L01452XJ1077443	
192	LUFKIN	45'	1987	FORT WINGATE,NM	9-Sep-02	MITCHELL	APR.2002	1L01A4521J1077444	SIDE DOOR
193	LUFKIN	45'	1987	AUSTIN/NEW BRAUNFELS, TX	16-Oct-02	KEELING	MAR.2002	1L01A4524H1076176	SIDE DOOR
194	LUFKIN	45'	1986	EMRICK+HILL-MEEKER,CO	10-Apr-02	LOADER		1L01A4526H1073254	SIDE DOOR
195	LUFKIN	45'	1986	WAMPUM-WINDBER,PA	28-Aug-01	SAMPSON		1L01A4528H1073269	
196	LUFKIN	45'	1987	EMPTY-PRYOR,OK	29-May-02	KEEN		1L01A4526J1077455	
197	LUFKIN	45'	1987	SHOP- JOPLIN	21-Aug-02	GODDARD		1L01A452XJ1077460	
198	LUFKIN	45'	1987	AUSTIN/KOSSE, TX	20-Aug-02	KEELING	AUG.2002	1L01A4526J1077441	

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
199	FRUEHUAF	40'	1978	DENADEL-GRNWOOD,AR	2-Mar-01	CLANTON		MEZ573001	OUT OF SERVICE
200	FRUEHUAF	40'	1978	EMPTY-PRYOR,OK	18-Mar-02	KEEN		MEZ573002	
201	FRUEHUAF	48'	1984	SEC PLANT EMPTY	29-Oct-02	MITCHELL	APR.2002	1H2V04826FH004392	
202	VANCO	48'	1984	SEC PLANT EMPTY BARRELS	10-Oct-02	MITCHELL	MAY.2002	1VVV48203E1005296	
203	FRUEHUAF	48'	1984	SEC PLANT EMPTY	25-Jun-02	MITCHELL	MAR.2002	1H2V04521EC015980	
204	TRAILMOBILE	48'	1988	SEC PLANT EMPTY	25-Jun-02	MITCHELL	APR.2002	1PT011AH6J9009371	96' WIDE
205	TRAILMOBILE	48'	1988	INTER MTN- VERNAL,UT	17-Apr-02	LOADER		1PT011AH4J9009367	
206	TRAILMOBILE	48'	1988	AUSTIN/GEORGETOWN,TX	6-Aug-02	KEELING		1PT011AH9J009364	
207	TRAILMOBILE	48'	1988	WAMPUM-WINDBER,PA	25-Sep-02	SAMPSON		1PT011AH4J9009370	OUT OF SERVICE
208	TRAILMOBILE	48'	1988	AUSTIN/FINDLAY,OH	18-Jul-02	SAMPSON		1PT011AH8J9009369	96' WIDE/SIDE DOOR
209	TRAILMOBILE	48'	1988	M+S/SUSCON	25-Jun-02	SAMPSON	JUN.2002	1PT011AH2J9009366	96' WIDE
210	TRAILMOBILE	48'	1988	SEC PLANT EMPTY	29-Oct-02	MITCHELL	SEPT.2002	1PT011AH6J9009368	96' WIDE/SIDE DOOR
211	TRAILMOBILE	48'	1988	AUSTIN-MIDLAND,AR	2-May-02	KEEN	JAN.2002	1PT011AH8J9009372	96' WIDE/SIDE DOOR
212	TRAILMOBILE	48'	1988	CALDWELL-HAZARD,KY	3-Jan-01	SAMPSON		1PT011AH7J9009362	OUT OF SERVICE
213	MONON	45	1986	SEC PLANT EMPTY	23-Oct-02	MITCHELL		1NNVA4527HM108710	SIDE DOOR
214	FRUEHUAF	45'	1989	SEC PLANT EMPTY	25-Sep-02	MITCHELL	MAR.2002	1H2V04529JH006610	SIDE DOOR
215	LUFKIN	48'	1987	SEC PLANT EMPTY	29-Oct-02	MITCHELL		1L0UA4523H1076175	SIDE DOOR
216	TRAILMOBILE	48'	1987	KY.PWDR-MT.VERNON	18-Oct-02	SAMPSON	SEPT.2002	1PT02DAH9H9009230	102' WIDE
217	TRAILMOBILE	48'	1987	SEC PLANT EMPTY	14-Aug-02	MITCHELL	AUG.2002	1PT02DAH9H9008983	102' WIDE
218	GREAT DANE	48'	1987	SEC PLANT EMPTY	8-Jul-02	MITCHELL	APR.2002	1GRAA962XHB174307	102' WIDE
219	LUFKIN	48'	1986	SHOP- JOPLIN	5-Sep-02	GODDARD	SEPT.2002	1L01A4822H1074574	102' WIDE
220	GREAT DANE	45'	1994	SHOP- JOPLIN	5-Aug-02	GODDARD	APR.2002	1GRAA9024ES050201	SIDE DOOR/102' WIDE
221	FRUEHUAF	48"	1987	M+S-BLUE MTN.	26-Jul-02	SAMPSON	JAN.2002	1H2V04827JC001852	102' WIDE
222	TRAILMOBILE	48"	1987	SEC PLANT EMPTY	25-Jun-02	MITCHELL	JUN.2002	1PT02DAH9H9004951	102' WIDE
223	TRAILMOBILE	48'	1988	EMPTY-PRYOR,OK	30-May-02	KEEN	FEB.2002	1PT02DAH1H9009142	102' WIDE
224	GREAT DANE	48'	1987	FT WINGATE,NM	7-Oct-02	MITCHELL	AUG.2002	1GRAA9620H8174235	102' WIDE
225	TRAILMOBILE	48'	1987	ENERGETICS EQUIPMENT	3-Dec-01	BOLT	NONE	1PT02DAH0H+I239004949	102' WIDE
226	HOBBS	48'	1986	MT. VALLEY-ALLEN,KY	2-Feb-02	SAMPSON		1H5V04822GM032514	102' WIDE

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
227	TRAILMOBILE	48'	1987	AHLGRIMM-MINERAL POINT,WI	9-Jan-02	CLANTON		1PT02DAH2H9004919	102' WIDE
228	TRAILMOBILE	48'	1986	SEC PLANT EMPTY	29-Oct-02	MITCHELL	OCT.2002	1PT02DAH0H9001291	102' WIDE
229	BUDD	48'	1985	SHOP- JOPLIN	23-Oct-02	GODDARD	OCT.2002	1BK10W921FE216727	102' WIDE
230	STOUGHTON	48'	1986	SEC PLANT EMPTY	29-Oct-02	MITCHELL		1DW1A4827GS507713	102" WIDE
231	MONON	48'	1986	SEC PLANT 5-1/2"	29-Oct-02	BURTON	DEC.2001	1NNVA82XGM107934	102' WIDE
232	FRUEHUAF	48'	1986	MT. VALLEY-ALLEN,KY	9-Jul-00	SAMPSON		1H2V04823GC011206	102' WIDE
233	TRAILMOBILE	48'	1984	AUSTIN-GEORGETOWN,TX	15-May-02	KEELING		1PT02DAH1H9004877	102' WIDE
234	GREAT DANE	48'	1987	AUSTIN/MIDLAND,AR	23-Sep-02	KEEN	MAY.2002	1GRAA9627HB174202	102' WIDE
235	HOBBS	48'	1984	EMPTY PRUF PLANT	24-Oct-02	BURTON	SEPT.2002	1H5V04827GM032508	102' WIDE
236	TRAILMOBILE	48'	1987	MT. VALLEY-ALLEN,KY	30-Jun-00	SAMPSON		1PT02DAH9H9004934	102' WIDE
237	GREAT DANE	48'	1987	BRAKEFIELD/EMPTY BARRELS	10-Oct-02	KEEN	DEC.2001	1GRAA9621HS014512	102' WIDE
238	LUFKIN	48'	1985	WAMURPHY/HELENDALE,CA	11-Oct-02	LOADER	SEPT.2002	1L01A4827F1069707	102' WIDE
239	GREAT DANE	48'	1987	SEC PLANT EMPTY	28-Aug-02	MITCHELL	JUN.2002	1GRAA9629HS014645	102' WIDE
240	GREAT DANE	48'	1986	EMPTY PRUF PLANT	27-Sep-02	BURTON		1GRAA9628GS128005	102' WIDE
241	BUDD	48'	1984	MT. VALLEY-ALLEN,KY	23-Aug-01	SAMPSON		1BK10W928FE214540	102' WIDE
242	TRAILMOBILE	48'	1987	KESCO-BLOUNTVILLE, TN	21-Sep-01	SAMPSON		1PT02DAH1H9004863	102' WIDE
243	FRUEHUAF	48'	1986	A.P.TO BOREN	21-Oct-02	MITCHELL	SEPT.2002	1H2V04820HH003729	102' WIDE
244	FRUEHUAF	48'	1986	AUSTIN/MIDLAND,AR	25-Aug-02	KEEN	MAY.2002	1H2V04821HH003478	SLIDER
245	FRUEHUAF	40'	1969	SHOP- JOPLIN	4-Oct-02	GODDARD	OCT.2002	FWJ340817	
246	FRUEHUAF	45'	1980	SHOP- JOPLIN	26-Sep-02	GODDARD	SEPT.2002	FRT004815	
247	FRUEHUAF	40'	1969	MT. VALLEY-ALLEN,KY	11-Oct-01	SAMPSON		FWJ340826	
248	GREAT DANE	48'	1974	MT. VALLEY-ALLEN,KY	12-Oct-00	SAMPSON		69261	
249	FRUEHUAF	48'	1984	SEC PLANT BOXES	26-Sep-02	BOLT		1H2V04822EB010003	<b>OUT OF SERVICE</b>
250	FRUEHUAF	40'	1969	SEC PLANT-boxes/tops	13-Aug-02	BOLT		FWJ340828	
251	FRUEHUAF	40'	1977	EMPTY-PRYOR,OK	29-May-02	KEEN		MAY5322126	
252	STRICKLAND	45'	1980	WESCO-GALLUP,NM	5-Dec-01	LOADER		24630	
253	GREAT DANE	45'	1973	BRIAN JORDAN/ PRO CANS	16-Oct-02	MITCHELL	OCT.2000	56435	SIDE DOOR

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
254	GREAT DANE	45'	1980	INDEPENDENCE/SEC-PRYOR	18-Sep-02	KEEN	AUG.2002	B19415	SIDE DOOR
255	TRAILMOBILE	45'	1985	SHOP- JOPLIN	14-Jul-02	GODDARD		1PT014RH0F9001120	
256	TRAILMOBILE	48'	1990	SEC PLANT EMPTY	25-Jun-02	MITCHELL	JUN.2002	1PT024AH4L9010567	96' WIDE
257	TRAILMOBILE	48'	1990	SEC-PRYOR,OK	25-Sep-02	KEEN		1PT024AH6L9010571	96' WIDE
258	TRAILMOBILE	45'	1980	MT. VALLEY-ALLEN,KY	10-Apr-02	SAMPSON		T39835	
259	TRAILMOBILE	45'	1978	KY. PWDR-MT. VERNON,KY	16-Sep-02	SAMPSON		597304	
260	STRICKLAND	45'	1979	SHOP- JOPLIN	14-Oct-02	GODDARD		229190	
261	TRAILMOBILE	48'	1984	TPL/FT.WINGATE,NM	24-Oct-02	MITCHELL	MAY.2001	1PT014RH4E9003628	
262	TRAILMOBILE	48'	1985	SHOP- JOPLIN	29-May-02	GODDARD		1PT014RH1F9001112	
263	TRAILMOBILE	48'	1985	SHOP- JOPLIN	24-Jun-02	GODDARD		1PT014RH4F9001119	OUT OF SERVICE
264	TRAILMOBILE	48'	1984	MT. VALLEY-ALLEN,KY	28-Jan-02	SAMPSON		1PT014RH1E9003621	
265	FRUEHUAF	45'	1974	AUSTIN/MIDLAND,AR	12-Sep-02	KEELING	JUN.2002	MAR437740	
266	FRUEHUAF	40'	1975	SHOP- JOPLIN	29-May-02	GODDARD		MAW487331	
267	LUFKIN	48'	1988	MT. VALLEY-ALLEN,KY	21-Jan-02	SAMPSON		1L01A4825J1081430	
268	FRUEHUAF	48'	1983	BIR.PWDR-BIRMINGHAM,AL	6-Dec-01	SAMPSON		1H5V04B29EM000429	
269	LUFKIN	48'	1986	BUCKLEY-GREENWOOD,MO	3-Mar-02	CLANTON		1101A4820G1071879	
270	FRUEHUAF	48'	1984	SHOP- JOPLIN	20-Sep-02	GODDARD		1H5V0482XE023119	
271	THAYCO	48'	1986	APAC-TALEQUAH,OK	19-Apr-01	KEEN		W922GF001666	
272	HOBBS	48'	1984	SEC PLANT EMPTY	25-Jun-02	MITCHELL	FEB.2002	1H5V4820EM023145	
273	THEURER	48'	1988	CALDWELL-HAZARD,KY	10-Jan-01	SAMPSON		1TA114827KG213114	
274	HOBBS	48'	1984	EMPTY-PRYOR,OK	4-Sep-02	KEEN	APR.2002	1H5V04820EM023131	
275	GREAT DANE	48'	1985	SEC PLANT BOXES	26-Sep-02	BOLT		1GRAA9627FS092340	OUT OF SERVICE
276	LUFKIN	48'	1987	DYNO-MIDAM-THORTON,IL		CLANTON		1L01A4825H1075363	
277	DORSEY	48'	1982	SEC plant-2 component raw	13-Aug-02	BOLT	FEB.2000	1DTV12W28CA158776	
278	MONON	48'	1988	QUAPAW/DRUMRIGHT,OK	10-Jun-02	KEEN	MAR.2002	1NNVA4829JM112386	
279	FRUEHUAF	48'	1987	DEDICATED CAMDEN,AR	13-Jun-02	BURTON	JUN.2002	1H2V04828HA010923	
280	FRUEHUAF	48'	1988	SEC PLANT EMPTY	15-Oct-02	BOLT			NO TITLE
281	FRUEHUAF	48'	1984	SHOP- JOPLIN	24-Jun-02	GODDARD		1H2V04526EB009358	

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
282	MILLER	48'	1989	JACK SEVERS/ITEC	30-Apr-02	MITCHELL		1MLT14525KB249095	
283	DORSEY		1988	SEC PLANT EMPTY	31-Oct-02	MITCHELL		1DTV22W23KA186240	
284	FRUEHUAF	45'	1988	JACK SEVERS/ITEC	30-Apr-02	MITCHELL		1H2V04520JE021370	
285	STOUGHTON	45'	1989	SEC PLANT EMPTY	29-Aug-02	MITCHELL		10W1W4529KS173097	
286	FRUEHUAF	45'	1988	SEC PLANT EMPTY	15-Oct-02	BOLT		1H2V04525JE002149	
287	STOUGHTON	45'	1989	4-1/2" 600-20 BAGS	19-Sep-02	BOLT		1DW1A4523KS172169	
288	STOUGHTON	45'	1990	6" 600-20 BAGS	19-Sep-02	BOLT		1DW1A4524LS661004	
289	FRUEHUAF	45'	1988	6-1/2",7",8" 600-20 BAGS	19-Sep-02	BOLT		1H2V04521JA000583	
290	DORSEY	45'	1989	SEC PLANT EMPTY	31-Oct-02	MITCHELL		1DTV12W2XKW035238	
291	FRUEHUAF	45'	1988	SEC PLANT EMPTY	29-Oct-02	BOLT		1H2V04525JE021395	
292	STOUGHTON	45'	1988	ENERGETICS EQUIPMENT	16-Sep-02	BOLT		1DW1A4528JS835024	
293	DORSEY	45'	1989	UTeC EQUIPMENT	20-Sep-02	BOLT		1DTV22W0KA186003	
294	STOUGHTON	45'	1988	HYDROMITE 415 BAGS	19-Sep-02	BOLT		1DW1A4520JS947168	
295	FRUEHUAF	45'	1988	JACK SEVERS/ITEC	30-May-02	MITCHELL		1H2V04525JE002023	
296	FRUEHUAF	45'	1988	4"and 4-1/2" 600-20 BAGS	19-Sep-02	BOLT		1H2V04527JA000779	
297	DORSEY	45'	1989	PRUF PLANT-STORAGE	11-Jul-02	BURTON		1DTV22W21KA186236	
298	STOUGHTON	45'	1988	MT. VALLEY-ALLEN,KY	8-Feb-02	SAMPSON		1DW1A4528JS947788	
299	MILLER	45'	1989	800 BAGS	19-Sep-02	BOLT		MAY537555	
300	FRUEHUAF	45'	1988	UTC/GAYLORD BOXES	6-Sep-02	BOLT		1H2V04521JA000499	
301	DORSEY	45'	1988	SEC PLANT EMPTY	19-Mar-02	BOLT		1DTV12W24JW030535	
302	STOUGHTON	45'	1988	5-1/2" 600-20 BAGS	19-Sep-02	BOLT		1DW1A4521JS947566	
303	STOUGHTON	45'	1988	MT. VALLEY-ALLEN,KY	4-Dec-01	SAMPSON		1DW1A4522KS173183	
304	FRUEHUAF	45'	1988	ORICA AMEX BAGS & PALLETS	15-Apr-02	BOLT		1H2V04521JE021457	
305	MILLER	45'	1988	QUAPAW-PAWNEE,OK	10-Dec-01	KEEN		1MLT14529JE186081	
306	DORSEY	45'	1988	JACK SEVERS/ITEC	10-May-02	MITCHELL		1DTV12W2XKW033148	
307	STOUGHTON	45'	1989	SEC ANFO BAGS & 600 MATS	15-Apr-02	BOLT		1DW1A4523KS172186	
308	DORSEY	45'	1988	5"and 5"W/L 600-20 BAGS	19-Sep-02	BOLT		1DTV12W29KW033061	

TRAILER NUMBER	MAKE	LENGTH	YEAR	LOCATION	DATE	SALESMAN	INSPECTED	VIN	COMMENTS
309	FRUEHUAF	45'	1988	SEC PLANT EMPTY	28-Mar-02	MITCHELL		1H2V04526JE021258	
310	STOUGHTON	45'	1988	SEC PLANT EMPTY	29-Oct-02	MITCHELL		1DW1A4521JS835270	
311	MILLER	45'	1989	SEC B.A. TOPS	6-Sep-02	BOLT		1MLT14521KB249255	
312	STOUGHTON	45'	1988	PRUF PLANT/ A.P. STORAGE	11-Jun-02	BURTON		1DW1A4521JS947793	
313	MILLER	45'	1989	TYPE IV MAGAZINE	20-Mar-02	MITCHELL		1MLT1452XKB249299	
314	MILLER	45'	1988	TYPE IV MAGAZINE	20-Mar-02	MITCHELL		1MLT1452XKB249190	
315	MILLER	45'	1988	JACK SEVERS/ITEC	3-May-02	MITCHELL		1MLT14524JB186036	
316	MONON	45'	1989	SEC PLANT PROPELLANT	29-Oct-02	BOLT	JUN.2002	1NNVA4520KM130900	
317	STOUGHTON	45'	1988	JACK SEVERS/ITEC	15-May-02	MITCHELL		1DW1A4525JS947201	
318				TYPE IV MAGAZINE	15-Mar-02	MITCHELL		1DW1A4525KS029000	
319	DORSEY	45'	1988	JACK SEVERS/ITEC	30-May-02	MITCHELL		1DTV12W24KW033114	
320	MILLER	45'	1989	JACK SEVERS/ITEC	9-May-02	MITCHELL		122954	
321	MILLER	45'	1988	SEC PLANT EMPTY	19-Mar-02	MITCHELL		1MLT14525JB186031	
322	DORSEY	45'	1989	UTC SHOT BAG STORAGE	19-Mar-02	BURTON		1DTV12W26KW035155	
323	STOUGHTON	45'	1988	BOX BOTTOMS	6-Sep-02	BOLT		1DW1A4521JS947874	
324	FRUEHUAF	45'	1987	ORICA AMEX BAGS	12-Apr-02	BOLT		1H2V0452XJA000811	
325	DORSEY	45'	1988	AUSTIN BOX TOPS	6-Sep-02	BOLT		1DTV12W28KW033066	
326	STOUGHTON	48'	1989	DYNO BOX TOPS	6-Sep-02	BOLT		1DW1A4522KS173037	
327				TYPE IV MAGAZINE	12-Apr-02	MITCHELL		1DTV12W27KW033219	
328	STOUGHTON	45'	1988	SEC BOX TOPS	6-Sep-02	BOLT		1DW1A4525KS029238	
329	MILLER	44'	1989	ORICA BOX TOPS	6-Sep-02	BOLT		122978	

Part 3.10

**SLURRY EXPLOSIVE CORPORATION**  
**ACCOUNTS RECEIVABLE (AGED TRIAL BALANCE)**  
as of September 30, 2002

Cusno	Cname	Invno	Type	InvDat	DueDat	Amount	Current	A30to60	A60to90	Over90	Cmpno	Cmpname	RptDate
10	ADAMS EXPLOSIVES	120508	INVOICE	8/06/02	10/05/02	\$2,127.00	\$0.00	\$2,127.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	ALASKA PACIFIC POWDER												
78	COM	120472	INVOICE	7/31/02	9/29/02	\$15,665.06	\$0.00	\$0.00	\$15,665.06	\$0.00	254	Slurry Explosive Corp.	9/30/02
	ALASKA PACIFIC POWDER												
78	COM	120502	INVOICE	8/06/02	10/05/02	\$15,662.00	\$0.00	\$15,662.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	ALASKA PACIFIC POWDER												
78	COM	120512	INVOICE	8/06/02	10/05/02	\$313.00	\$0.00	\$313.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	ALASKA PACIFIC POWDER												
78	COM	120566	INVOICE	8/20/02	10/19/02	\$15,283.06	\$0.00	\$15,283.06	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
255	ORICA USA, INC.	120670	INVOICE	9/13/02	11/12/02	\$461.00	\$461.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	INTERMOUNTAIN WEST												
262	ENERGY	120700	INVOICE	9/20/02	10/20/02	(\$12,306.00)	(\$12,306.00)	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	INTERMOUNTAIN WEST												
262	ENERGY	120701	INVOICE	9/20/02	10/20/02	\$11,750.40	\$11,750.40	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
275	AUSTIN EXPLOSIVES	120677	INVOICE	9/13/02	10/13/02	\$435.00	\$435.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
275	AUSTIN EXPLOSIVES	120678	INVOICE	9/13/02	10/13/02	\$1,867.00	\$1,867.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
280	AUSTIN POWDER CO.	120511	INVOICE	8/06/02	10/05/02	\$1,902.00	\$0.00	\$1,902.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
280	AUSTIN POWDER CO.	120693	INVOICE	9/20/02	11/19/02	\$423.00	\$423.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
280	AUSTIN POWDER CO.	120710	INVOICE	9/20/02	11/19/02	\$1,244.00	\$1,244.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
280	AUSTIN POWDER CO.	120729	INVOICE	9/26/02	11/25/02	\$647.00	\$647.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
280	AUSTIN POWDER CO.	120742	INVOICE	9/30/02	11/29/02	\$973.00	\$973.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
281	AUSTIN POWDER COMPANY	120499	INVOICE	8/06/02	10/05/02	\$9,242.10	\$0.00	\$9,242.10	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
281	AUSTIN POWDER COMPANY	120521	INVOICE	8/09/02	10/08/02	\$10,440.00	\$0.00	\$10,440.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
281	AUSTIN POWDER COMPANY	120593	INVOICE	8/23/02	10/22/02	\$10,440.00	\$0.00	\$10,440.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
282	AUSTIN POWDER COMPANY	120608	INVOICE	8/28/02	10/27/02	\$9,945.00	\$0.00	\$9,945.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
282	AUSTIN POWDER COMPANY	120661	INVOICE	9/13/02	11/12/02	\$9,725.05	\$9,725.05	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
285	AUSTIN POWDER COMPANY	120536	INVOICE	8/13/02	10/12/02	\$9,242.10	\$0.00	\$9,242.10	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
285	AUSTIN POWDER COMPANY	120571	INVOICE	8/20/02	10/19/02	\$9,648.00	\$0.00	\$9,648.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
440	BINNS & STEVENS EXPL. INC	120664	INVOICE	9/13/02	10/13/02	\$14,967.92	\$14,967.92	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
461	BLUE CIRCLE INC	120709	INVOICE	9/20/02	10/20/02	\$1,440.00	\$1,440.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120703	INVOICE	9/20/02	10/20/02	\$336.00	\$336.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120715	INVOICE	9/25/02	10/25/02	\$427.00	\$427.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120718	INVOICE	9/25/02	10/25/02	\$5,713.26	\$5,713.26	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120751	INVOICE	9/30/02	10/30/02	\$702.00	\$702.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120752	INVOICE	9/30/02	10/30/02	\$866.80	\$866.80	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120755	INVOICE	9/30/02	10/30/02	\$5,371.90	\$5,371.90	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
495	BRAKEFIELD EQUIPMENT INC	120756	INVOICE	9/30/02	10/30/02	\$4,792.65	\$4,792.65	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120619	INVOICE	8/29/02	9/28/02	\$4,524.22	\$0.00	\$4,524.22	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120620	INVOICE	8/29/02	9/28/02	\$4,369.12	\$0.00	\$4,369.12	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120650	INVOICE	9/06/02	10/06/02	\$4,482.00	\$4,482.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120667	INVOICE	9/13/02	10/13/02	\$4,395.44	\$4,395.44	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120690	INVOICE	9/20/02	10/20/02	\$4,245.04	\$4,245.04	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02



Cusno	Cname	Invno	Type	InvDat	DueDat	Amount	Current	A30to60	A60to90	Over90	Cmpno	Cmpname	RptDate
610	BUCKLEY POWDER CO.	120726	INVOICE	9/26/02	10/26/02	\$4,493.20	\$4,493.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
610	BUCKLEY POWDER CO.	120759	INVOICE	9/30/02	10/30/02	\$4,374.76	\$4,374.76	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
754	CASH SALES-BINARY	120606	INVOICE	8/27/02	8/27/02	(\$389.98)	\$0.00	(\$389.98)	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
754	CASH SALES-BINARY	120617	INVOICE	8/29/02	8/29/02	\$2,377.34	\$0.00	\$2,377.34	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
754	CASH SALES-BINARY	120642	INVOICE	8/30/02	8/30/02	\$555.45	\$0.00	\$555.45	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
754	CASH SALES-BINARY	120674	INVOICE	9/13/02	9/13/02	\$999.58	\$999.58	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
756	CASH SALES-PRYOR OK	120643	INVOICE	9/04/02	9/10/02	\$3,648.70	\$3,648.70	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
756	CASH SALES-PRYOR OK	120643	CR MEMO	9/10/02	9/10/02	(\$775.35)	(\$775.35)	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
756	CASH SALES-PRYOR OK	120746	INVOICE	9/30/02	9/30/02	\$433.06	\$433.06	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
935	CITY OF WEST PLAINS	120753	INVOICE	9/30/02	10/30/02	\$721.00	\$721.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
956	CLEMENS COAL COMPANY	106722	INVOICE	2/13/97	3/15/97	\$1,539.78	\$0.00	\$0.00	\$0.00	\$1,539.78	254	Slurry Explosive Corp.	9/30/02
956	CLEMENS COAL COMPANY CONTROLLED ENERGY	106838	INVOICE	3/10/97	4/09/97	\$704.24	\$0.00	\$0.00	\$0.00	\$704.24	254	Slurry Explosive Corp.	9/30/02
1071	SERVICE CONTROLLED ENERGY	115140	INVOICE	8/31/00	9/30/00	\$2,560.00	\$0.00	\$0.00	\$0.00	\$2,560.00	254	Slurry Explosive Corp.	9/30/02
1071	SERVICE CONTROLLED ENERGY	115140	ADJMT	1/10/01	9/30/00	(\$366.30)	\$0.00	\$0.00	\$0.00	(\$366.30)	254	Slurry Explosive Corp.	9/30/02
1071	SERVICE CONTROLLED ENERGY	115141	INVOICE	8/31/00	9/30/00	\$2,560.00	\$0.00	\$0.00	\$0.00	\$2,560.00	254	Slurry Explosive Corp.	9/30/02
1071	SERVICE	115486	INVOICE	10/09/00	11/08/00	\$2,638.00	\$0.00	\$0.00	\$0.00	\$2,638.00	254	Slurry Explosive Corp.	9/30/02
1445	RIMROCK EXPLOSIVES	120676	INVOICE	9/13/02	10/13/02	\$774.00	\$774.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1465	DYNO MIDAMERICA - 1465	120666	INVOICE	9/13/02	10/13/02	\$17,179.00	\$17,179.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1560	ENERGY ENTERPRISES	120740	INVOICE	9/30/02	10/30/02	\$2,349.00	\$2,349.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120310	INVOICE	6/26/02	8/25/02	\$4,028.40	\$0.00	\$0.00	\$0.00	\$4,028.40	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120341	INVOICE	6/28/02	8/27/02	\$3,906.00	\$0.00	\$0.00	\$0.00	\$3,906.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120357	INVOICE	6/28/02	8/27/02	\$3,598.20	\$0.00	\$0.00	\$0.00	\$3,598.20	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120361	INVOICE	7/03/02	9/01/02	\$4,175.10	\$0.00	\$0.00	\$4,175.10	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120362	INVOICE	7/03/02	9/01/02	\$4,185.00	\$0.00	\$0.00	\$4,185.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120363	INVOICE	7/03/02	9/01/02	\$4,107.60	\$0.00	\$0.00	\$4,107.60	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120364	INVOICE	7/03/02	9/01/02	\$3,882.60	\$0.00	\$0.00	\$3,882.60	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120366	INVOICE	7/03/02	9/01/02	\$4,032.00	\$0.00	\$0.00	\$4,032.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120431	INVOICE	7/19/02	9/17/02	\$3,623.40	\$0.00	\$0.00	\$3,623.40	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120444	INVOICE	7/22/02	9/20/02	\$4,066.20	\$0.00	\$0.00	\$4,066.20	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120515	INVOICE	8/06/02	10/05/02	\$3,911.40	\$0.00	\$3,911.40	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120532	INVOICE	8/09/02	10/08/02	\$3,956.40	\$0.00	\$3,956.40	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120578	INVOICE	8/20/02	10/19/02	\$3,744.00	\$0.00	\$3,744.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1566	E.E.I (MO)	120579	INVOICE	8/20/02	10/19/02	\$3,718.80	\$0.00	\$3,718.80	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1650	EXPLOSIVES PRODUCTS	120602	INVOICE	8/27/02	9/28/02	\$3,366.00	\$0.00	\$3,366.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1650	EXPLOSIVES PRODUCTS	120602	CR MEMO	8/29/02	9/28/02	(\$140.00)	\$0.00	(\$140.00)	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1650	EXPLOSIVES PRODUCTS	120603	INVOICE	8/27/02	9/26/02	\$6,329.00	\$0.00	\$6,329.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1650	EXPLOSIVES PRODUCTS GREEN MOUNTAIN	120672	INVOICE	9/13/02	10/13/02	\$6,329.00	\$6,329.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1937	EXPLOSIVES GREEN MOUNTAIN	120697	INVOICE	9/20/02	10/20/02	\$15,974.78	\$15,974.78	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1937	EXPLOSIVES GREENSBORO MACH &	120705	INVOICE	9/20/02	10/20/02	\$15,937.61	\$15,937.61	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1940	WELDING	120712	INVOICE	9/20/02	10/20/02	\$993.65	\$993.65	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
1975	HALL EXPLOSIVES, INC.	120722	INVOICE	9/26/02	10/26/02	\$4,741.00	\$4,741.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2000	HEARTLAND CEMENT CO	120567	INVOICE	8/20/02	9/19/02	\$9,970.50	\$0.00	\$9,970.50	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2000	HEARTLAND CEMENT CO	120655	INVOICE	9/10/02	10/10/02	\$6,142.50	\$6,142.50	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02

Cusno	Cname	Invno	Type	InvDat	DueDat	Amount	Current	A30to60	A60to90	Over90	Cmpno	Cmpname	RptDate
2000	HEARTLAND CEMENT CO	120707	INVOICE	9/20/02	10/20/02	\$13,555.20	\$13,555.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2000	HEARTLAND CEMENT CO HERMITAGE EXPLOSIVES CORP	120760	INVOICE	9/30/02	10/30/02	\$432.00	\$432.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2025	HERMITAGE EXPLOSIVES CORP	120686	INVOICE	9/17/02	10/17/02	\$9,416.00	\$9,416.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2025	CORP	120748	INVOICE	9/30/02	10/30/02	\$9,416.00	\$9,416.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2045	HILLTOP ENERGY	120669	INVOICE	9/13/02	10/13/02	\$6,418.00	\$6,418.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2140	HUGHES SUPPLY INC	120711	INVOICE	9/20/02	10/20/02	\$125.00	\$125.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2225	INTERSTATE TRANS EQ CO	120533	DR MEMO	8/09/02	9/08/02	\$487.50	\$0.00	\$487.50	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2225	INTERSTATE TRANS EQ CO	120750	DR MEMO	9/30/02	10/30/02	\$450.00	\$450.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2231	DYNO NOBEL INC.	120539	INVOICE	8/13/02	10/12/02	\$18,082.76	\$0.00	\$18,082.76	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2231	DYNO NOBEL INC. KENTUCKY POWDER COMPANY	120568	INVOICE	8/20/02	10/19/02	\$9,900.00	\$0.00	\$9,900.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2505	KENTUCKY POWDER COMPANY	120681	INVOICE	9/17/02	10/17/02	\$7,120.00	\$7,120.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2505	KENTUCKY POWDER COMPANY	120685	INVOICE	9/17/02	10/17/02	\$8,148.00	\$8,148.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2505	KENTUCKY POWDER COMPANY	120704	INVOICE	9/20/02	10/20/02	\$6,258.00	\$6,258.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2505	KENTUCKY POWDER COMPANY	120749	INVOICE	9/30/02	10/30/02	\$6,258.00	\$6,258.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	INVOICE	9/21/01	11/20/01	\$47,521.98	\$0.00	\$0.00	\$0.00	\$47,521.98	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	1/29/02	11/20/01	(\$20,000.00)	\$0.00	\$0.00	\$0.00	(\$20,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	2/27/02	11/20/01	(\$3,000.00)	\$0.00	\$0.00	\$0.00	(\$3,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	4/29/02	11/20/01	(\$4,521.98)	\$0.00	\$0.00	\$0.00	(\$4,521.98)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	5/17/02	11/20/01	(\$2,000.00)	\$0.00	\$0.00	\$0.00	(\$2,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	7/22/02	11/20/01	(\$2,000.00)	\$0.00	\$0.00	\$0.00	(\$2,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	8/12/02	11/20/01	(\$2,000.00)	\$0.00	\$0.00	\$0.00	(\$2,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	8/23/02	11/20/01	(\$1,000.00)	\$0.00	\$0.00	\$0.00	(\$1,000.00)	254	Slurry Explosive Corp.	9/30/02
2511	KESCO, INC. (SOUTHEAST)	118457	PAYMENT	8/30/02	11/20/01	(\$1,000.00)	\$0.00	\$0.00	\$0.00	(\$1,000.00)	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120654	INVOICE	9/10/02	10/10/02	\$4,203.21	\$4,203.21	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120665	INVOICE	9/13/02	10/13/02	\$5,837.04	\$5,837.04	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120695	INVOICE	9/20/02	10/20/02	\$3,891.36	\$3,891.36	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120696	INVOICE	9/20/02	10/20/02	\$6,098.40	\$6,098.40	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120717	INVOICE	9/25/02	10/25/02	\$3,081.90	\$3,081.90	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120745	INVOICE	9/30/02	10/30/02	\$11,764.83	\$11,764.83	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2750	LONE STAR INDUSTRIES	120761	INVOICE	9/30/02	10/30/02	\$6,541.59	\$6,541.59	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120645	INVOICE	9/04/02	10/19/02	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120646	INVOICE	9/04/02	10/19/02	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120687	INVOICE	9/17/02	11/01/02	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120688	INVOICE	9/17/02	11/01/02	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120698	INVOICE	9/20/02	11/04/02	\$9,680.00	\$9,680.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120699	INVOICE	9/20/02	11/04/02	\$10,419.08	\$10,419.08	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120702	INVOICE	9/20/02	11/04/02	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120706	INVOICE	9/20/02	11/04/02	\$9,678.90	\$9,678.90	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	16122	CHGBACK	9/30/02	11/14/02	\$23.10	\$23.10	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC	120747	INVOICE	9/30/02	11/14/02	\$10,668.00	\$10,668.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2820	MAURER & SCOTT INC INDEPENDENT SALT	120754	INVOICE	9/30/02	11/14/02	\$9,682.20	\$9,682.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
2995	COMPANY	120719	INVOICE	9/26/02	10/26/02	\$21,721.20	\$21,721.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3085	NELSON BROTHERS, LLC	120692	INVOICE	9/20/02	10/20/02	\$1,971.75	\$1,971.75	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02

Cusno	Cname	Invno	Type	InvDat	DueDat	Amount	Current	A30to60	A60to90	Over90	Cmpno	Cmpname	RptDate
3090	NELSON BROTHERS QUARRY	120587	INVOICE	8/23/02	9/22/02	(\$216.00)	\$0.00	(\$216.00)	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3160	NORTH AMERICAN IND. SERV	120675	INVOICE	9/13/02	10/13/02	\$6,477.78	\$6,477.78	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3160	NORTH AMERICAN IND. SERV	120730	INVOICE	9/26/02	10/26/02	\$422.30	\$422.30	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3160	NORTH AMERICAN IND. SERV	120741	INVOICE	9/30/02	10/30/02	\$324.50	\$324.50	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3160	NORTH AMERICAN IND. SERV NORTH COUNTRY	120744	INVOICE	9/30/02	10/30/02	\$6,477.78	\$6,477.78	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3166	EXPLOSIVES NORTH COUNTRY	120493	INVOICE	7/31/02	8/30/02	\$7,236.41	\$0.00	\$0.00	\$7,236.41	\$0.00	254	Slurry Explosive Corp.	9/30/02
3166	EXPLOSIVES	120493	PAYMENT	9/20/02	8/30/02	(\$6,763.00)	\$0.00	\$0.00	(\$6,763.00)	\$0.00	254	Slurry Explosive Corp.	9/30/02
3181	OMNI DISTRIBUTING INC	120166	INVOICE	5/24/02	6/23/02	\$10,954.30	\$0.00	\$0.00	\$0.00	\$10,954.30	254	Slurry Explosive Corp.	9/30/02
3359	PHOENIX MINING COMPANY	120629	INVOICE	8/29/02	9/28/02	\$4,783.60	\$0.00	\$4,783.60	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3410	PRYOR STONE INC	120648	INVOICE	9/06/02	10/06/02	\$1,735.96	\$1,735.96	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3410	PRYOR STONE INC	120662	INVOICE	9/13/02	10/13/02	\$983.29	\$983.29	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3410	PRYOR STONE INC	120689	INVOICE	9/17/02	10/17/02	\$2,409.46	\$2,409.46	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3410	PRYOR STONE INC	120714	INVOICE	9/25/02	10/25/02	\$515.35	\$515.35	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3410	PRYOR STONE INC	120758	INVOICE	9/30/02	10/30/02	\$3,413.70	\$3,413.70	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120653	INVOICE	9/10/02	11/09/02	\$5,109.07	\$5,109.07	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120682	INVOICE	9/17/02	11/16/02	\$13,055.63	\$13,055.63	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120684	INVOICE	9/17/02	11/16/02	\$1,226.44	\$1,226.44	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120708	INVOICE	9/20/02	11/19/02	\$202.75	\$202.75	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120720	INVOICE	9/26/02	11/25/02	\$17,091.00	\$17,091.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3450	QUAPAW	120724	INVOICE	9/26/02	11/25/02	\$10,403.14	\$10,403.14	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3599	RICHARDSON WELL DRLG	120680	INVOICE	9/17/02	10/17/02	\$936.78	\$936.78	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3675	RONCO CONSULTING CORP	119510	INVOICE	1/24/02	2/23/02	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00	254	Slurry Explosive Corp.	9/30/02
3675	RONCO CONSULTING CORP	119511	INVOICE	1/24/02	2/23/02	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00	254	Slurry Explosive Corp.	9/30/02
3675	RONCO CONSULTING CORP	119595	INVOICE	2/08/02	3/10/02	\$1,716.00	\$0.00	\$0.00	\$0.00	\$1,716.00	254	Slurry Explosive Corp.	9/30/02
3675	RONCO CONSULTING CORP	119663	INVOICE	2/22/02	3/24/02	(\$4,974.00)	\$0.00	\$0.00	\$0.00	(\$4,974.00)	254	Slurry Explosive Corp.	9/30/02
3675	RONCO CONSULTING CORP	119955	INVOICE	4/17/02	5/17/02	\$81.00	\$0.00	\$0.00	\$0.00	\$81.00	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120171	INVOICE	5/24/02	8/30/02	\$10,440.00	\$0.00	\$0.00	\$0.00	\$10,440.00	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120171	CR MEMO	5/31/02	8/30/02	(\$185.60)	\$0.00	\$0.00	\$0.00	(\$185.60)	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120171	CR MEMO	6/07/02	8/30/02	(\$185.60)	\$0.00	\$0.00	\$0.00	(\$185.60)	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120171	DR MEMO	7/01/02	8/30/02	\$185.60	\$0.00	\$0.00	\$0.00	\$185.60	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120171	PAYMENT	9/24/02	8/30/02	(\$10,440.00)	\$0.00	\$0.00	\$0.00	(\$10,440.00)	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	29222	CHGBACK	9/24/02	11/23/02	\$278.40	\$278.40	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3810	DYNO EAST KENTUCKY INC	120723	INVOICE	9/26/02	11/25/02	\$1,686.40	\$1,686.40	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120471	INVOICE	7/31/02	9/29/02	\$9,452.10	\$0.00	\$0.00	\$9,452.10	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120474	INVOICE	7/31/02	9/29/02	\$10,440.00	\$0.00	\$0.00	\$10,440.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120503	INVOICE	8/06/02	10/05/02	\$9,450.00	\$0.00	\$9,450.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120589	INVOICE	8/23/02	10/22/02	\$9,452.10	\$0.00	\$9,452.10	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120600	INVOICE	8/27/02	10/26/02	\$10,440.00	\$0.00	\$10,440.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120601	INVOICE	8/27/02	10/26/02	\$9,450.00	\$0.00	\$9,450.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120683	INVOICE	9/17/02	11/16/02	\$10,440.00	\$10,440.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120716	INVOICE	9/25/02	11/24/02	\$9,450.00	\$9,450.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120725	INVOICE	9/26/02	11/25/02	\$9,452.10	\$9,452.10	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3870	AUSTIN POWDER COMPANY	120728	INVOICE	9/26/02	11/25/02	\$1,690.00	\$1,690.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02

Cusno	Cname	Invno	Type	InvDat	DueDat	Amount	Current	A30to60	A60to90	Over90	Cmpno	Cmpname	RptDate
	HEARTLAND RURAL ELEC												
3882	COOP	120691	INVOICE	9/20/02	10/20/02	\$410.00	\$410.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120412	INVOICE	7/16/02	8/15/02	\$397.97	\$0.00	\$0.00	\$397.97	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120522	INVOICE	8/09/02	9/08/02	\$7,120.94	\$0.00	\$7,120.94	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120565	INVOICE	8/20/02	9/19/02	\$5,783.79	\$0.00	\$5,783.79	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120639	INVOICE	8/30/02	9/29/02	\$5,669.52	\$0.00	\$5,669.52	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120658	INVOICE	9/13/02	10/13/02	\$5,914.23	\$5,914.23	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
3887	PETE SAMS DBA SAMS EXPLOS	120757	INVOICE	9/30/02	10/30/02	\$5,723.90	\$5,723.90	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4079	ST LAWRENCE EXPLOSIVES	120721	INVOICE	9/26/02	10/26/02	\$7,939.82	\$7,939.82	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4125	DYNO NOBEL MIDAMERICA	120574	INVOICE	8/20/02	10/19/02	\$9,902.20	\$0.00	\$9,902.20	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4125	DYNO NOBEL MIDAMERICA	120630	INVOICE	8/29/02	10/28/02	\$9,900.00	\$0.00	\$9,900.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4125	DYNO NOBEL MIDAMERICA	120657	INVOICE	9/10/02	11/09/02	\$10,395.00	\$10,395.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119614	INVOICE	2/12/02	9/20/02	\$23,714.56	\$0.00	\$0.00	\$0.00	\$23,714.56	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119614	CR MEMO	7/22/02	9/20/02	(\$11,783.80)	\$0.00	\$0.00	\$0.00	(\$11,783.80)	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119662	INVOICE	2/22/02	9/20/02	\$1,386.62	\$0.00	\$0.00	\$0.00	\$1,386.62	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119662	CR MEMO	7/22/02	9/20/02	(\$496.50)	\$0.00	\$0.00	\$0.00	(\$496.50)	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119851	INVOICE	3/28/02	5/27/02	\$24,811.92	\$0.00	\$0.00	\$0.00	\$24,811.92	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	119928	INVOICE	4/12/02	6/11/02	\$19,673.85	\$0.00	\$0.00	\$0.00	\$19,673.85	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	120194	INVOICE	5/30/02	7/29/02	\$2,001.90	\$0.00	\$0.00	\$0.00	\$2,001.90	254	Slurry Explosive Corp.	9/30/02
4395	TPL INC.	120443	INVOICE	7/22/02	9/20/02	\$786.50	\$0.00	\$0.00	\$786.50	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120594	INVOICE	8/23/02	9/22/02	\$3,850.50	\$0.00	\$3,850.50	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120595	INVOICE	8/23/02	9/22/02	\$3,150.10	\$0.00	\$3,150.10	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120596	INVOICE	8/23/02	9/22/02	\$5,888.00	\$0.00	\$5,888.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120597	INVOICE	8/23/02	9/22/02	\$6,000.64	\$0.00	\$6,000.64	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120604	INVOICE	8/27/02	9/26/02	\$5,380.31	\$0.00	\$5,380.31	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120607	INVOICE	8/27/02	9/26/02	\$4,221.10	\$0.00	\$4,221.10	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120611	INVOICE	8/28/02	9/27/02	\$5,939.20	\$0.00	\$5,939.20	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120612	INVOICE	8/28/02	9/27/02	\$4,156.97	\$0.00	\$4,156.97	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120615	INVOICE	8/29/02	9/28/02	\$4,867.20	\$0.00	\$4,867.20	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120616	INVOICE	8/29/02	9/28/02	\$5,875.20	\$0.00	\$5,875.20	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120621	INVOICE	8/29/02	9/28/02	\$4,377.50	\$0.00	\$4,377.50	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	UNIVERSAL TECH												
4521	CORPORATIO	120652	INVOICE	9/10/02	10/10/02	\$5,859.43	\$5,859.43	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4590	W. A. Murphy Inc.	120656	INVOICE	9/10/02	10/10/02	\$13,729.20	\$13,729.20	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4590	W. A. Murphy Inc.	120668	INVOICE	9/13/02	10/13/02	\$4,227.00	\$4,227.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
	WAMPUM HARDWARE												
4636	COMPANY	120659	INVOICE	9/13/02	10/13/02	\$11,550.00	\$11,550.00	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4694	WESCO, INC.	120627	INVOICE	8/29/02	9/28/02	\$3,198.12	\$0.00	\$3,198.12	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4694	WESCO, INC.	120649	INVOICE	9/06/02	10/06/02	\$6,747.30	\$6,747.30	\$0.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
4798	WORKIZER WORK PROD, INC.	120507	INVOICE	8/06/02	9/05/02	\$455.00	\$0.00	\$455.00	\$0.00	\$0.00	254	Slurry Explosive Corp.	9/30/02
						\$1,028,438.29	\$554,818.02	\$308,102.76	\$65,286.94	\$100,230.57			

**EMPLOYEE PLANS**

Slurry Explosive Corporation and Universal Tech Corporation contribute to the following Employee Benefit Plans (copies of which have been provided to Buyers):

1. LSB Industries, Inc. and Designated Subsidiaries Medical, Dental, Vision and Behavioral Health Plan.
2. LSB Industries, Inc. and Designated Subsidiaries Savings Incentive Plan (401k).
3. LSB Industries, Inc. and Designated Subsidiaries Flexible Spending Account (Section 125 Cafeteria Plan).
4. LSB Industries, Inc. and Designated Subsidiaries Base Life Insurance Plan.
5. LSB Industries, Inc. and Designated Subsidiaries Voluntary Life Insurance Plan.
6. LSB Industries, Inc. and Designated Subsidiaries Long Term Disability Base Plan.
7. LSB Industries, Inc. and Designated Subsidiaries Long Term Disability Supplemental Plan.
8. LSB Industries, Inc. and Designated Subsidiaries Short Term Disability/Weekly Income Benefit Plan.
9. LSB Industries, Inc. and Designated Subsidiaries Employee Assistance Program.

ERISA affiliates include the following companies:

ACP International Limited  
Cherokee Nitrogen Company  
    ClimaChem, Inc.  
ClimaCool Corp.  
Climate Master International Limited  
Climate Master, Inc.  
Climate Mate, Inc.  
    ClimateCraft Technologies, Inc.  
ClimateCraft, Inc.  
Clipmate Corporation  
Crystal City Nitrogen Company  
DSN Corporation  
El Dorado Acid, L.L.C.

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El Dorado Acid II, L.L.C.  
El Dorado Chemical Company  
El Dorado Nitric Company  
El Dorado Nitrogen, L.P.  
Hercules Energy Mfg. Corporation  
International Environmental Corporation  
Koax Corp.  
L&S Automotive Technologies, Inc.  
LSA Technologies Inc.  
LSB Australia Pty. Ltd.  
LSB Chemical Corp.  
LSB Holdings, Inc.  
LSB-Europa Limited  
Northwest Capital Corporation  
Northwest Financial Corporation  
Prime Financial Corporation  
Prime Holdings Corporation  
Pryor Plant Chemical Company  
Slurry Explosive Corporation  
Summit Machine Tool Inc. Corp.  
Summit Machine Tool Manufacturing Corp.  
Summit Machinery Company  
The Climate Control Group, Inc.  
The Environmental Group International Limited  
The Environmental Group, Inc.  
ThermalClime, Inc.  
Tower Land Development Corp.  
TRISON Construction, Inc.  
Universal Tech Corporation

**EXCEPTIONS TO COMPLIANCE WITH LEGAL REQUIREMENTS**

Due to certain alleged violations of explosives storage and related regulations, in February 2002, the government regulator of explosives companies, the Bureau of Alcohol, Tobacco and Firearms ("BATF"), issued an order revoking the manufacturing license of Slurry Explosive Corporation ("SEC") for its Hollowell Facility to produce certain explosives products and confiscated certain high explosives inventory. The license revocation order was upheld by an administrative law judge after an administrative trial. SEC and LSB is currently reviewing its legal alternatives regarding the license revocation. In addition, SEC and LSB received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of SEC. SEC has complied with such subpoena. On December 2, 2002, SEC and LSB received two additional Subpoenas from the U.S. Attorney's office of Wichita, Kansas seeking additional business records of SEC. SEC and LSB will coordinate with the U.S. Attorney's office concerning their timely compliance with these subpoenas.

UTeC filed an application with the BATF to obtain a manufacturing license for the Hollowell Facility. On September 30, 2002, Universal Tech Corporation ("UTeC") obtained from the BATF the license to manufacture explosives at the Hollowell Facility.

As a result of a review by the BATF of SEC's Pryor, Oklahoma facility on November 26, 2002, it was brought to SEC's attention that BATF considered surrounding, offsite buildings to be inhabited dwellings which would substantially reduce allowable storage quantities for explosives and blasting agents at the facility from the approved storage quantities allowed as a result of the BATF's inspection of the unchanged site conditions in July, 2002. On November 26, 2002, SEC reduced the on-site storage quantities so as to comply with the new requirements.

See also those matters disclosed in Part 3.17(a).

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**GOVERNMENTAL AUTHORIZATIONS; EXCEPTIONS TO COMPLIANCE**

A. The following is a list of Governmental Authorizations that are held by Slurry Explosive Corporation ("SEC") (copies of which have been provided to Buyers):

1. Bureau of Alcohol, Tobacco and Firearms ("BATF") Explosives Licenses:

- a. Oklahoma City, Oklahoma - No license has been issued to-date. Status: SEC applied for a license in April, 2002. The BATF completed an inspection of the site, and the application is in the BATF regional office in Dallas, Texas for further review and final determination.
- b. Web City, Missouri - License #5-MO-050-20-2D-0414. License type: Manufacture of High Explosives. SEC submitted a renewal application to the BATF in March, 2002. The BATF conducted a site inspection in March, 2002. The license expired on April 1, 2002. The BATF issued a letter allowing the site to operate for twelve (12) months.
- c. Pryor, Oklahoma - License #5-OK-049-20-2F-04352. License type: Manufacture of High Explosives. SEC submitted a renewal application to the BATF in April, 2002. The BATF conducted a site inspection in May, 2002 and found no major violations. The license expired on June 1, 2002. The BATF issued a letter authorizing SEC to continue operation of the site with an expired license for six (6) months. Another extension will be issued if determination is not made by October 20, 2002.

2. State of Kansas Boiler Inspections (all expire March 14, 2003):

- a. 45274H
- b. 45275
- c. 5065H
- d. 30740H

3. Kansas Department of Health and Environment: Owner ID #43752; Facility ID #43752; Purpose: 8,800 gallon above ground diesel tank #A001.

4. Acknowledgment letter dated January 23, 1995 from the Kansas Department of Health and Environment regarding receipt of Industrial Stormwater Permit Application for the Hallowell, Kansas facility.

5. Oklahoma Department of Environmental Quality Authorization to Discharge Under the OPDES Storm Water Industrial General Permit - Authorization No. OKGP00370; expires October 2, 2005.

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6. Federal Communication Corporation Radio Station Authorization: Call sign WPUK805; File #0000761031.
7. Defense Logistics Agency Central Contractor Registration No. 198451981 (permits export/import of propellant in explosive grade material).
8. International Fuel Tax Association ("IFTA") License #731330903; expires December 31, 2002. The IFTA License covers the following states and Canadian provinces: Alberta, Alabama, Arkansas, Arizona, British Columbia, California, Colorado, Connecticut, Delaware, Florida, Georgia, Iowa, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Massachusetts, Manitoba, Maryland, Maine, Michigan, Minnesota, Missouri, Mississippi, Montana, New Brunswick, North Carolina, North Dakota, Nebraska, Newfoundland, New Hampshire, New Jersey, New Mexico, Nova Scotia, Nevada, New York, Ohio, Oklahoma, Ontario, Oregon, Pennsylvania, Prince Edward Island, Quebec, Rhode Island, South Carolina, South Dakota, Saskatchewan, Tennessee, Texas, Utah, Virginia, Vermont, Washington, Wisconsin, West Virginia, and Wyoming.
9. New Mexico Hazardous Material Transportation Permit #00000840884; expires January 29, 2003.
10. Colorado Hazardous Material Transportation Permit #HMP-02166; expires November 3, 2002.
11. California Hazardous Material Transportation License - Control #151491; License #130394; CHP Carrier #CA-135088; expires February 28, 2003.
12. Kansas Sales Tax Registration Certificate #10100290.
13. Ohio Alliance for Uniform HazMat Transportation Procedures - Uniform Program ID #UPM-0343566-OH.
14. Kansas Corporation Commission: KSMCID 112681; USDOT #343566; expires December 31, 2002.
15. Arkansas Sales and Use Tax Permit #105669-76-001.
16. Colorado Retailers Use License #09-78925-0000.
17. Connecticut Sales and Use Tax Permit Registration #7279334-000; expires September 30, 2004.
18. Florida Sales and Use Tax Registration Certificate #78-00-080522-63-6.

19. Georgia Sales and Use Tax Registration Certificate #154-79-02353-7; State Taxpayer Identifier #20006567258.
20. Iowa Use Tax Registration #2-00-127156.
21. Illinois Use Tax Registration Certificate #2152-1336; expires April, 2004.
22. Kentucky Sales and Use Tax Permit, Account #088889.
23. Louisiana Sales Tax Registration Certificate #6938575-001 X.
24. Michigan Use Tax Registration Account #73-1330903.
25. Minnesota Sales and Use Tax Permit #3587694.
26. Nebraska Retailers Use Tax Permit ID #02-6670679; Serial #641706.
27. New Mexico Registration Certificate ID #02-117466-00-0
28. North Dakota Sales and Use Permit #126986.
29. Oklahoma Sales Tax Permit #468543; expires February 26, 2004.
30. Tennessee Sales and Use Tax Registration Account #101724332.
31. Washington Tax Registration, Unified Business ID#601 196 131.
32. Missouri Use Tax License ID #13669702.
33. United States Department of Transportation (“DOT”) Registration #343566
34. Hazardous Material Registration #060402 007 017K; expires June 30, 2003.

B. The following is a list of Governmental Authorizations that are held by Universal Tech Corporation (copies of which have been provided to Buyers):

1. BATF Explosives Licenses:
  - a. Riverton, Kansas - Jawhawk Lab: License #5-KS-021-20-4D-08787; License type: Manufacture of High Explosives; license expires April 1, 2004.
  - b. Riverton, Kansas - Underwater Lab and PRUF Plant: License #5-KS-173-20-4D-08786; License type: Manufacture of High Explosives; license expires April 1, 2004.

c. Hallowell, Kansas: License #5-KS-021-20-5K-00109; License type: Manufacture of High Explosives; license expires October 1, 2005.

d. Riverton, Kansas - PRUF Plant: License #5-KS-021-23-4K-10896; License Type: Importer of High Explosives; license expires October 1, 2005.

2. DOT Registration #538045.
3. Hazardous Material Registration #05 16 02 007 003K; expires June 30, 2003.
4. Kansas State Fire Marshal Explosives Storage Site Permit #KSES0034; expires January 12, 2003.
5. Acknowledgment letter dated November 20, 1995 from the Kansas Department of Health and Environment regarding receipt of Notice of Intent for Discharge of Stormwater Runoff from Industrial Activity R&D Lab.
6. Kansas Department of Health and Environment Air Emission Source Construction Permit No. 0210027 for R&D Lab.
7. Bureau of Political-Military Affairs - Office of Defense Trade Controls PM/DTC Code 030311586; expires March 2003 (munitions dealer license).
8. United States/Canada Joint Certification Office of the Defense Logistics Information Service Militarily Critical Technical Data Agreement regarding low security clearance registration.

**LEGAL PROCEEDINGS**

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are aware of those matters reflected in Part 2.1(j) and Part 2.1(k) which could give rise to potential claims by UTeC or SEC and which might relate to or affect the Assets or the Assumed Liabilities. UTeC and SEC are also aware of the following proceedings which might have a material adverse impact on UTeC or SEC, the Assets, the Assumed Liabilities, and/or the Contemplated Transactions:

1. Slurry Explosive Corporation ("Slurry") - Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms ("BATF"). Due to certain alleged violations of explosives storage and related regulations, in February 2002, the government regulator of explosives companies, Bureau of Alcohol, Tobacco and Firearms ("BATF"), issued an order revoking the manufacturing license of Slurry Explosive Corporation ("Slurry") for its Hallowell, Kansas facility ("Hallowell Facility") to produce certain explosives products and confiscated certain high explosives inventory. The license revocation order was upheld by an administrative law judge after an administrative trial.

In addition, Slurry and the Company have received a grand jury subpoena from the U.S. Attorney's office of Wichita, Kansas requesting business records of Slurry. Slurry has complied with the subpoena. On December 2, 2002, SEC and LSB received two additional Subpoenas from the U.S. Attorney's office of Wichita, Kansas seeking additional business records of SEC. SEC and LSB will coordinate with the U.S. Attorney's office concerning their timely compliance with these subpoenas.

Universal Tech Corporation ("UTeC") has acquired the assets associated with the Hallowell Facility. UTeC has received an ATF license to manufacture explosives at the Hallowell Facility.

2. Slurry Explosive Corporation ("SEC") - Kansas Department of Environmental Quality (KDHE). On March 29, 2002, Slurry Explosive Corporation ("Slurry") signed a consent administrative order ("Slurry Consent Order") with the Kansas Department of Health and Environment ("KDHE"), regarding Slurry's Hallowell, Kansas manufacturing facility ("Hallowell Facility") which was effective April 22, 2002. The Slurry Consent Order states that there exists soil and groundwater contamination, and there exists surface water contamination in the strip adjacent to the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent pit is used for fishing. Under the terms of the Slurry Consent Order, Slurry is required to a) submit an environmental assessment work plan to the KDHE for review and approval, b) agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility, and c) provide reports to the KDHE, all of the preceding in accordance with the time frames and formats required in the Slurry Consent Order. The draft work plan was submitted to the KDHE on June 20, 2002. The KDHE has commented on the work plan, and

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Slurry is in the process of preparing a response thereto. Slurry has also received a request by the KDHE to accelerate the investigation of the strip pit due to its public access. All documents related to this Slurry Consent Order have been provided to Buyer.

3. Universal Tech Corporation - Claim by Dyno Nobel under the Underwater Lab Lease. Dyno Nobel, landlord of the lease to Universal Tech Corporation (“UTeC”) on the Underwater Lab has notified UTeC that DYNOL Nobel considers production of explosives at the PRUF Plant to be a violation of the provisions of the Lease, which limits permissible activities at the property. Dyno Nobel is aware of Slurry Explosive Corporation’s (“SEC”) license revocation at the Hallowell, Kansas facility, and Dyno Nobel is aware that the PRUF Plant was the only available production site of product for SEC during the period between the revocation of SEC’s license and the recent receipt by UTeC of the license to manufacture explosives at the Hallowell, Kansas facility. Dyno Nobel appears to be more concerned with future manufacture of product rather than with the past manufacture of product. Dyno Nobel is also concerned that no environmental contamination results from production at the PRUF plant. UTeC has assured Dyno Nobel that production of explosives is being transferred to the Hallowell, Kansas facility, and that no environmental impact has resulted from such production. For this reason, no litigation has commenced and none is expected.

4. Consent Agreement in The Matter of Pollution at Former Gulf Oil Company Jayhawk Plant, Galena, Kansas. Case No. 98-E-0109, Kansas Department of Health and Environment, last signed June 16, 1999, termination upon KDHE’s notice that the terms have been satisfactorily completed.

5. Consent Order entered in The Matter of Pollution at Slurry Explosive Corporation, Hallowell, Kansas. Case No. 02-E-0049, Kansas Department of Health and Environment (“KDHE”), dated April 22, 2002, terminating upon KDHE’s notice that terms have been satisfactorily completed.

6. Stipulation for Compromise Settlement in United States of America v. 1.5 Blasting Agents, et al., Civil Case No. 0201096-WEB, U.S.D.C., District of Kansas dated October, 2002, consenting to the forfeiture of product seized by the ATF.

7. See also those matters disclosed in Part 3.16(a).

**ORDERS**

Except as disclosed in Part 3.17(a), which Part is incorporated herein by reference, Universal Tech Corporation and Slurry Explosive Corporation are aware of no other exceptions required to be disclosed in this Part 3.17(b).

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SELLER CONTRACTS

Universal Tech Corporation ("UTeC") and Slurry Explosive Corporation ("SEC") are parties to and/or subject to those real property-related agreements and documents referenced in Part 3.6, Part 3.7 and Part 3.8(a) (which Parts are incorporated herein by reference). UTeC and SEC are also parties to or subject to the following personal property leases and/or other contracts (copies of which have been provided to Buyers):

UTeC

1. Rights and obligations of UTeC under assignment of Lease Agreement, dated as of April 11, 2001, for seventy monthly payments commencing on October 20, 2001, by and between U.S. Bancorp Leasing & Financial and SEC, regarding certain equipment associated with the Hallowell, Kansas Facility, pursuant to assignment in May 14, 2002 Asset Purchase and Sale Agreement in the section of this list entitled "Agreement between SEC and UTeC" below.
  2. Equipment Lease between G.E. Capital Modular Space and UTeC, dated March 29, 1995, expiring March 29, 1995 but continuing on a month to month basis thereafter, regarding office trailer at Underwater Lab, Hallowell, Kansas.
  3. Equipment Lease between United Leasing, Inc. and UTeC, commencing March 16, 2000, and continuing for 60 months, regarding G25E Daewoo Forklift.
  4. Equipment Lease between United Leasing, Inc. and UTeC, commencing February 16, 2001, and continuing for 36 months, regarding 2001 Chevy Silverado pickup.
  5. Equipment Lease between Sharp Financial Company and UTeC, commencing August 19, 2002, and continuing for 60 months, regarding Canon copier at R&D Lab, Riverton, Kansas.
  6. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 17, 1999, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at the Pruf Plant, Hallowell, Kansas.
  7. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated May 1, 1995, continuing on a quarterly by quarterly basis until terminated, regarding water cooler at UTeC's Underwater Lab, Hallowell, Kansas.
  8. Drinking Water Cooler Rental Contract between UTeC and Robert Howland, d/b/a Beverage Distributing Co., dated September 27, 1985, continuing on a 6 months by 6 months basis until terminated, regarding water cooler at UTeC's R&D Lab, Riverton, Kansas.
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9. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, dated June 28, 1995, renewed through June, 2003, regarding two (2) tying machines at UTeC's Pruf Plant, Hallowell, Kansas.
10. Lease Agreement between Tipper Tie, a Dover Industries Company, and UTeC, renewed through January, 2003, regarding a tying machine at UTeC's Underwater Lab, Hallowell, Kansas.
11. Month to month Q.C. Testing Fee Agreement between UTeC and Ireco (now Dyno Nobel, Inc.), dated October 14, 1991, regarding quality control testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
12. Testing Fee Agreement between UTeC and Nelson Brothers LLC, dated September 27, 2002, regarding specifically delineated testing by UTeC at UTeC's Underwater Lab, Hallowell, Kansas.
13. Irrevocable \$178,597.12 (US) Letter of Credit from Banco Ganadero as issuing bank confirmed by Banco Bilbao Vizcaya Argentaria for the benefit of UTeC, issued September 5, 2002, and with expiry date of December 4, 2002, regarding sales to Industria Militar.
14. Quote from UTeC to Industria Militar for \$453,717.51 (US) in sales of raw materials during first half of 2003.
15. Technology and Know-How License Agreement between UTeC and Explosivos de Norteamerica S.A. de C.V., dated January 1, 1997, terminating on January 1, 2007, regarding use of UTeC technology and know-how to manufacture and sell product in Mexico on an exclusive basis so long as a 2,000 metric tons per year volume is sustained.
16. License and Processing Agreement between SEC and TPL, Inc., dated December 9, 1999, for continuing one year terms until 12 months notice is given, regarding the use of SEC's Technical Information to produce product solely for SEC.
17. Proprietary Information Disclosure Agreement between SEC and TPL, Inc., dated October 3, 1999, terminating October 3, 2004, regarding each party's Proprietary Information.
18. Service Agreement between UTeC and LSB Industries, Inc., ("LSB") dated December 23, 1992, terminable (with notice) on December 23, 2004, or upon LSB giving 90 days notice to terminate at any time, regarding LSB's performance of certain administrative services for UTeC or terminable at any time upon written agreement of the parties.
19. Listing of UTeC employees and their repayment obligations who have received advances made by UTeC.



20. Employment Agreement between UTeC and Oldrich Machacek dated June 5, 1990, terminating upon 60 days notice.
21. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.
22. Non-Qualified Stock Option Agreement – 1998 between LSB and Oldrich Machacek, dated April 22, 1998, expiring on April 22, 2008 regarding option on 5,000 shares of LSB stock.
23. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated July 8, 1999, expiring July 8, 2009, regarding option on 5,000 shares of LSB stock.
24. Incentive Stock Option Agreement between LSB and Oldrich Machacek dated November 29, 2001, expiring on November 29, 2011, regarding option on 5,000 shares of LSB stock.
25. Postage Meter Rental Agreement between UTeC and Pitney Bowes, dated September 23, 2002, continuing for one year, regard UTeC's assumption of SEC's obligations for a postage meter at the Hallowell, Kansas Facility.
26. Consulting Agreement between UTeC and Pieter de Wit, dated January 1, 1996, as orally amended and extended to December 31, 2002, regarding the providing of consulting services related to demilitarization projects.
27. Consent Agreement in The Matter of Pollution at Former Gulf Oil Company Jayhawk Plant, Galena, Kansas, Case No. 98-E-0109, Kansas Department of Health and Environment, last signed June 16, 1999, termination upon KDHE's notice that the terms have been satisfactorily completed.
28. Phase IV Agreement, dated June 16, 1999, by and among Inspec USA, Inc., Chevron Chemical Company LLC, Chevron USA, Inc., Koch Chemical Company and UTeC, regarding UTeC's R&D Lab, Riverton, Kansas.
29. Confidentiality Agreement, last signed October 16, 2001, and continuing for five (5) years, by and between UTeC and Aliachem a.s., regarding confidential information provided for discussion of the possible sale of a business owned by Aliachem a.s.
30. Mortgage, Assignment of Rents and Security Agreement executed by UTeC in favor of Guggenheim Investment Management, LLC, et al. ("Guggenheim"), dated May 24, 2002, filed June 6, 2002 at 3:15 PM in Book 290 of Mortgages at Pages 217-243 in the office of the Register of Deeds, Cherokee County, Kansas.
31. Mortgage, Assignment of Rents and Security Agreement executed by UTeC, in favor of Foothill Capital Corporation, et al. ("Foothill"), dated May 24, 2002,

filed June 6, 2002 at 3:25 PM in Book 290 of Mortgages at Pages 244-272 in the office of the Register of Deeds, Cherokee County, Kansas.

32. Mortgage Subordination and Standstill Agreement in favor of Guggenheim, executed by Foothill, Guggenheim and UTeC, filed June 6, 2002 at 3:35 PM in Book 92 of Miscellaneous at Pages 673-686 in the office of the Register of Deeds, Cherokee County, Kansas.

SEC

1. Confidential Rail Transportation Contract between SEC and Union Pacific Railroad Company ,dated effective January 1, 2002, expiring July 31, 2002 but informally continuing, regarding line-haul transportation.
2. Equipment Lease #8 between United Leasing, Inc. and SEC last signed on December 9, 1999 and commencing on November 15, 1999, and continuing for 60 months, regarding a Plastic Tube Filling and Scaling Machine.
3. Master Rental Agreement between Associates Leasing, Inc. and SEC, commencing on December 30, 1998, and continuing for 60 months, regarding a new Daewoo Model G20S/LPS.
4. O.S.P. Program Sales Agreement between American Business Systems and SEC, dated September 25, 1998, and continuing for five years, regarding a copier machine.
5. Standard Uniform Rental Service Agreement between Cintas Corporation and SEC, dated November 16, 2001, and continuing for 60 months with automatic renewals for like periods unless terminated 60 days before end of any term, regarding garment services for employee uniforms.
6. Equipment Lease between G.W. Van Keppel Company/Associates Leasing, Inc. (assigned to Citicapital Commercial Leasing Corporation) and SEC, commencing September 22, 2000, and continuing 66 months, regarding Svadala hydraulic track drill.
7. Equipment Lease between Midwest Leasing Co. and SEC, dated May 6, 2002, and continuing for 12 months (at which time SEC becomes owner), regarding 1986 Tempe Reefer Cooling Unit for Kinepak Plant located at Hallowell, Kansas Facility.
8. Equipment Lease between Citicapital Commercial Leasing Corporation and SEC, commencing December 28, 2001, and continuing 60 months, regarding Svadala hydraulic track drill.
9. Equipment Lease #6 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Hallowell, Kansas Facility.

10. Equipment Lease #7 between United Leasing, Inc. and SEC, commencing February 15, 2001, and continuing 24 months, regarding 1995 International Tractor at Pryor, Oklahoma Facility.
11. Conditional Sale Agreement between Transport International Tool, Inc. and SEC, dated July 17, 2001, commencing October 1, 2001 and continuing 48 months, regarding the purchase of 49 over-the-road trailers.
12. Purchase Agreement between General Dynamics Ordnance and Tactical Systems and SEC, dated March 11, 2002, final payment due October 15, 2002, regarding watergel slurry production equipment purchased from Marion, Illinois.
13. Equipment Lease #1 between United Leasing, Inc. and SEC, commencing February 26, 2001, and continuing 36 months, regarding 2001 Chevy Silverado pickup at Pryor, Oklahoma Facility.
14. Equipment Lease #10 between United Leasing, Inc. and SEC, commencing January 15, 2002, and continuing 36 months, regarding 1999 Ford F-250 pickup at Hallowell, Kansas Facility.
15. Equipment Lease #2 between United Leasing, Inc. and SEC, commencing February 15, 1998, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
16. Equipment Lease #5 between United Leasing, Inc. and SEC, commencing March 15, 1999, and continuing 60 months, regarding semi-tank trailer at Pryor, Oklahoma Facility.
17. Equipment Lease #3 between United Leasing, Inc. and SEC, commencing September 15, 1998, and continuing 60 months, regarding 1998 Mack pumper truck at Pryor, Oklahoma Facility.
18. Emergency Response Telecommunication Service Agreement between Chem-Tel, Inc. and SEC dated March 25, 1997, renewed through December 31, 2002, regarding 24-hour emergency phone answering services.
19. Contract Service Agreement between Midwest Leasing Co. and SEC, dated May 2, 1997, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0049, 1995 Kenworth.
20. Contract Service Agreement between Midwest Leasing Co. and SEC, dated September 18, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0055, 1999 Peterbilt.
21. Contract Service Agreement between Midwest Leasing Co. and SEC, dated June 25, 1999, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0058, 2000 Peterbilt.

22. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 23, 1998, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0053, 1999 Peterbilt.
23. Contract Service Agreement between Explo-Transport Co. and SEC, dated September 14, 2000, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0059, 2001 Peterbilt.
24. Contract Service Agreement between Explo-Transport Co. and SEC, dated July 13, 2001, and renewed on annual basis until terminated with 60 days notice, regarding use of Truck No. 0060, 2000 Peterbilt.
25. Lease between R.K. Black, Inc. and SEC, commencing February 23, 1998, and continuing for 60 months, regarding two (2) Lanier copiers for SEC's Oklahoma City, Oklahoma office.
26. Rental Agreement between Pitney Bowes, Inc. and SEC, dated April 4, 1989, expired April 4, 1989, but now paid quarterly, in advance, regarding postage meter for SEC's Oklahoma City, Oklahoma office.
27. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 9, 2002, regarding security patrol at Hallowell, Kansas Facility.
28. Quarterly (i.e. requires 90 day notice to terminate) Security and/or Patrol Services Agreement dated April 22, 2002, regarding telephone for security patrol at Hallowell, Kansas Facility.
29. Cleaning Service Contract between SEC and Safety-Kleen Systems, Inc., dated May 2, 2002, expires May 2, 2003, regarding cleaning/services provided to SEC at Hallowell, Kansas Facility.
30. Construction Agreement between SEC and Mid Central Contract Services, Inc., dated August 7, 2002, regarding construction efforts at Hallowell, Kansas Facility for \$208,721.00.
31. Service Agreement between SEC and U.S. Cellular dated September 23, 2002, expiring September 23, 2003, for cell phone services at Pryor, Oklahoma Facility.
32. Pricing Agreement between SEC and Heartland Cement through January 31, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.
33. Pricing Agreement between SEC and Lone Star Industries through January 1, 2003, regarding turnkey drilling and blasting services by SEC's Pryor, Oklahoma Facility.

34. Wireless Services Agreement between SEC and AT&T Wireless, expiring April, May (two phones) and December, 2003, regarding four cell phone services at Hallowell, Kansas Facility.
  35. Marketing and Supply Agreement between SEC and Austin Powder Company dated October 5, 1994, terminated as to exclusivity only effective October 5, 1997, but otherwise terminable upon sixty days notice prior to the October 5 automatic annual renewal, regarding Austin Powder Company's marketing and distributing efforts of watergel products for forest fire fighting and timber boundary demarcation applications.
  36. Non-exclusive License Agreement between SEC and Total Energy Systems Limited ("TES"), dated October 1, 1996, as amended and assigned in that Assignment and Amendment of the Slurry Explosive Corporation License Agreement between SEC, TES and Quantum Explosives Pty. Ltd., dated August 2, 1999, continuing through end of use or breach, regarding use of SEC's patent rights or technical information to manufacture and sell specific products in plants in Australia, New Zealand, New Guinea, Fiji, Myanmar and Solomon Islands.
  37. Master Services Agreement dated March 14, 2002 for SCS Engineers to perform Comprehensive Investigation/Corrective Action Study for SEC and its counsel, Shook Hardy & Bacon LLP.
  38. Service Agreement, between SEC and LSB, dated January 1, 1992, terminating upon notice on January 1, 2004, or upon LSB giving 90 days notice of termination at anytime, regarding LSB's performance of certain administrative service for SEC.
  39. Asset Sale and Purchase agreement between SEC and ICI Explosives USA, Inc. ("ICI"), dated as of November 30, 2000, regarding SEC's acquisition of ICI's Kinepak Business and Kinepak Assets.
  40. Letter reflecting SEC's November 6, 2000, offer of employment to Bob Le Blanc, commencing January 1, 2001, including commissions, with expectations of a one to two year employment period.
  41. Listing of SEC employees and their repayment obligations who have received advances made by SEC.
  42. SEC Employees signature pages exhibiting their agreement to the Assignment of Invention, Confidentiality and Non-Compete provisions of the SEC Employee Handbook.
  43. Confidential Disclosure Agreement between SEC and Boyd J. Wathen ("Wathen"), dated October 8, 2002, with no expiration date, regarding the protection of Wathen's information and ideas related to explosives/blasting agents which incorporate perchlorate and the formulations and methods of making same.
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44. Agreement between SEC and Oil, Chemical and Atomic Workers International Union, AFL-CIO, Local 5-508, dated March 31, 1997, ending February 5, 1999, regarding terms and conditions of employment.
45. Last, Best & Final Package Proposal of SEC for Agreement with Paper, Allied Industrial, Chemical and Energy Workers International Union Local 5-508 AFL-CIO ("PACE"), dated February 3, 1999, regarding changes and renewal of March 31, 1997 Agreement reflected above.
46. Final Offer – SEC's Final Proposal on "Effects" Related to the Company's Inability to Continue to Manufacture Explosives because of Los of License, dated February 13, 2002, amended February 18, 2002, regarding effects on SEC's inability to manufacture on bargaining unit personnel.
47. Consent Order entered in The Matter of Pollution at Slurry Explosive Corporation, Hallowell, Kansas, Case No. 02-E-0049, Kansas Department of Health and Environment ("KDHE"), dated April 22, 2002, terminating upon KDHE's notice that terms have been satisfactorily completed.
48. Confidentiality Agreement between SEC and KESCO, Inc. ("KESCO"), dated September 19, 1994, with no expiration date, regarding information received from KESCO for purposes of evaluating the possible acquisition of KESCO by SEC.
49. Confidentiality Agreement between SEC and Union Espanola de Explosivos, S.A. ("UEE"), dated May 10, 2002, expiring May 10, 2007, regarding SEC's information provided to UEE for purposes of evaluating the possible acquisition of SEC's Hallowell, Kansas Facility.
50. Confidentiality Agreement between SEC and Wimase Limited ("Wimase"), dated June 18, 2002, expiring June 18, 2004, regarding SEC's information provided to Wimase for purpose of evaluating the possible acquisition of SEC's Hallowell, Kansas Facility.
51. Premium Financing Agreement between SEC and Premier Financing Specialists, Inc., dated effective April 1, 2002, ending January 1, 2003, regarding the premium financing on liability policy from Sorema North America Reins Co.
52. Workers Compensation monthly insurance premiums to be paid to Berkley Risk, dated April 1, 2002, expiring April 1, 2003, regarding monthly payments for premiums.
53. Incentive Stock Option Agreement between LSB and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
54. Non-Qualified Stock Option Agreement – 1998 between LSB and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.

55. Incentive Stock Option Agreement between LSB and Paul Keeling, dated July 8, 1999, expiring on July 8, 2009, regarding option on 10,000 shares of LSB stock.
56. Incentive Stock Option Agreement between LSB and Paul Keeling, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
57. Incentive Stock Option Agreement between LSB and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
58. Non-Qualified Stock Option Agreement - 1998, between LSB and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.
59. Incentive Stock Option Agreement between LSB and William Manion, dated July 8, 1999, expiring on July 8, 2009, regarding option on 15,000 shares of LSB stock.
60. Incentive Stock Option Agreement between LSB and William Manion, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
61. 1993 Severance Agreement between LSB and Bill Manion, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
62. 1993 Severance Agreement between LSB and Paul Keeling, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
63. Lease Agreement between SEC and Conseco Finance Vendor Services Corporation, dated December 22, 2000, continuing for 24 months, with \$1.00 purchase option, regarding computers at SEC's Oklahoma City, Oklahoma office.
64. Stipulation for Compromise Settlement in United States of America v. 1.5 Blasting Agents, et al., Civil Case No. 0201096-WEB, U.S.D.C., District of Kansas dated October, 2002, consenting to the forfeiture of product seized by the ATF.
65. Trademark Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain trademarks (to be released at closing).
66. Patent Security Agreement between Foothill and SEC, et al., dated April 13, 2001, regarding the pledge of certain patents (to be released at closing).

Both UTeC and SEC are Parties

1. Loan and Security Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding working capital line of credit (the "Foothill Loan").
2. First Amendment to Loan and Security Agreement, dated August 3, 2001, amending the Foothill Loan.
3. Second Amendment to Loan and Security Agreement, dated May 24, 2002, amending the Foothill Loan (the "Foothill Second Amendment").
4. Lockbox Operating Procedural Agreement between Foothill and UTeC and SEC, et al., dated April 13, 2001, regarding operation of lockbox for receivables.
5. Securities Purchase Agreement between Guggenheim and UTeC and SEC, et al., dated May 24, 2002, regarding the purchase by Guggenheim of certain Notes (the "Securities Purchase Agreement").
6. Guaranty by SEC and UTeC, et al. to Guggenheim, dated May 24, 2002, regarding debt created by Securities Purchase Agreement.
7. Intercreditor Agreement between Foothill, Guggenheim, UTeC and SEC, et al., regarding priorities of security interests of Guggenheim and Foothill.
8. Indenture between ClimaChem, Inc. ("CCI"), Bank One, NA ("BankOne"), UTeC and SEC, et al., as Guarantors, dated November 26, 1997, regarding the issuance of Senior Notes (the "Indenture").
9. Guaranty by UTeC and SEC and other affiliates with respect to the Indenture.
10. First Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated February 8, 1999, amending and supplementing the Indenture.
11. Second Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated June 25, 1999, amending and supplementing the Indenture.
12. Third Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated August 10, 2000, amending and supplementing the Indenture.
13. Fourth Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated May 30, 2001, amending and supplementing the Indenture.
14. Fifth Supplemental Indenture between CCI, BankOne and UTeC and SEC, et al., as Guarantors, dated May 24, 2002, amending and supplementing the Indenture.



Agreements Between SEC & UTeC

1. Asset Purchase and Sale Agreement between SEC and UTeC, dated May 14, 2002, regarding UTeC's purchase of SEC's assets related to Hallowell, Kansas Facility.
2. Services Agreement between SEC and UTeC, dated August 23, 2002, expiring August 23, 2005, upon thirty days notice, regarding SEC providing certain administrative and human resource services.
3. Supply Agreement between SEC and UTeC, dated August 30, 2002, terminating August 30, 2003, upon thirty day notice, regarding UTeC's manufacture of certain product for SEC.
4. \$5,000.00 monthly fee paid by SEC to UTeC for Research, Development and Quality Control work for SEC's Kinepak plant business, effective March, 2002, and continuing until terminated.
5. Contribution Agreement between UTeC, SEC and other affiliates, dated April 13, 2001, addressing contribution relating to the obligations under the Foothill Second Amendment.

**EXCEPTIONS TO COMPLIANCE WITH SELLERS CONTRACTS**

Except as may be reflected in Part 3.17(a), which is incorporated herein by reference, Universal Tech Corporation and Slurry Explosive Corporation are aware of no other exceptions required to be disclosed in this Part 3.19(c).

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**Part 3.20(a)**

Universal Tech Corporation (“UTeC”) and Slurry Explosive Corporation (“SEC”) disclose that UTeC and or SEC are parties or are covered by the following insurance policies in effect after January 1, 2001 (copies of which have been provided to Buyers):

<b>Insurer</b>	<b>Policy Period</b>	<b>Coverage</b>	<b>Limit</b>	<b>Policy Number</b>	<b>Premiums</b>
National Union Fire Ins Co (AIG)	10/1/98-10/1/01	Directors' & Officers'	10,000,000	8569768	\$ 236,250
Birmingham Fire Insurance	11/1/00-11/1/01	Property - 75% - Chemical Group	75,000,000	ST 2606115	\$ 573,318
JLT Risk Solutions	11/1/00-11/1/01	Property - 25% - Chemical Group	25,000,000	LU0029587	\$ 192,665
National Union Fire Ins Co	11/1/00-11/1/01	Umbrella	50,000,000	BE 7401557	\$ 235,243
Westchester Fire Ins Co	11/1/00-11/1/01	Excess Liability	25,000,000	HXA 6477500	\$ 35,000
Continental Western Ins Co	4/1/01-4/1/02	Workers Compensation - Slurry Explosives - Kansas	500,000/500,000/500,000	WC151500194600	\$ 32,992
Oklahoma State Ins Fund	4/1/01-4/1/02	Workers Compensation - Slurry Explosives - Oklahoma	500,000/500,000/500,000	00662855011	\$ 12,800
Federal Insurance Co (Chubb)	4/1/01-4/1/02	Crime/ Fiduciary Coverage	5,000,000 Fid / 10,000,000 Crime	8151 59 65 D	\$ 30,312
Sorema NA Reinsurance	4/1/01-4/1/02	Package - Slurry Explosives	1,000,000 / 5,000,000	12035-EX-2001	\$ 44,723
Sorema NA Reinsurance	4/1/01-4/1-02	Automobile - Slurry Explosives	1,000,000	12036-EX-2001	\$ 48,605
Sorema NA Reinsurance	4/1/01-4/1/02	Excess Liability - Slurry Explosives	5,000,000	12037-EX-2001	\$ 28,700
Legion Indemnity Company	4/18/01-4/18/02	E&O - Universal Tech	1,000,000	LP50640713	\$ 14,368
Companion Life Assurance Co.	1/1/01-12/31/01	Stop-Loss Group Policy	100,000 per person	CLI7362	\$552.83/empl/mo
National Union Fire Ins Co (AIG)	10/1/01-10/1/02	Directors' & Officers'	10,000,000	008744308	\$ 114,400
Birmingham Fire Insurance	11/1/01-11/1/02	Property - 75% - Chemical Group	75,000,000	ST 2606115	\$ 1,025,356
Liberty Insurance Underwriters	11/1/01-11/1/02	Property - 25% - Chemical Group	25,000,000	8M0015730011	\$ 341,785
National Union Fire Ins Co	11/1/01-11/1/02	Umbrella	50,000,000	BE-871-89-68	\$ 334,096
Starr Excess (AIG)	11/1/01-11/1/02	Excess Liability	25,000,000	6394199	\$ 66,000
Continental Western Ins Co	4/1/02-4/1/03	Workers Compensation - Slurry Explosives - Kansas	500,000/500,000/500,000	WC151500194601	\$ 56,620
Oklahoma State Ins Fund	4/1/02-4/1/03	Workers Compensation - Slurry Explosives - Oklahoma	500,000/500,000/500,000	662855002	\$ 16,174
Federal Insurance Co (Chubb)	4/1/02-4/1/03	Crime/ Fiduciary Coverage	5,000,000 Fid / 10,000,000 Crime	8151 59 65	\$ 35,164
Sorema NA Reinsurance	4/1/02-4/1/03	Package - Slurry Explosives	1,000,000 / 5,000,000	12035-EX-2002	\$ 73,524
Sorema NA Reinsurance	4/1/02-4/1/03	Automobile - Slurry Explosives	1,000,000	12036-EX-2002	\$ 64,784
Sorema NA Reinsurance	4/1/02-4/1/03	Excess Liability - Slurry Explosives	5,000,000	12037-EX-2002	\$ 46,000
Underwriters at Lloyds	4/18/02-4/18/03	E&O - Universal Tech	1,000,000	MEO01757900	\$ 17,250
Sun Life Assurance Co. of Canada	1/01/02-1/01/03	Stop-Loss Group Policy	125,000 per person	68715	\$435.21/empl/mo

**SELF INSURANCE ARRANGEMENTS**

Universal Tech Corporation and Slurry Explosives Corporation have the following self-insurance arrangements:

The Dental, Vision, and Weekly Income Benefits are self-insured. The Medical and Behavioral Health are self-insured, with a \$125,000 per claim specific stop loss limit. After that amount, the company has a Reinsurance Policy that pays the remainder of the claim up to a designated limit of \$1,000,000 per covered person under the Plan. A Third-Party Administrator processes the claims. Under the self-insured benefit plan, reserves do not apply. The company accrual is based on claims paid and administrative fees.

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**EXCEPTIONS TO REPRESENTATIONS ON ENVIRONMENTAL MATTERS**

In February 2002, Slurry Explosive Corporation ("SEC") received a proposed consent administrative order ("Consent Order") from the Kansas Department of Health and Environment ("KDHE"), regarding SEC's Hallowell, Kansas manufacturing facility ("Hallowell Facility"). The proposed Consent Order states that there exists soil and groundwater contamination, and there exists surface water contamination in the strip pit adjacent to the Hallowell Facility. There are no known users of the groundwater in the area. The adjacent strip pit is used for fishing. The Consent Order was subsequently signed and become effective on April 22, 2002. Under the terms of the Consent Order, SEC will be required a) to submit an environmental assessment work plan to the KDHE for review and approval, b) to agree with the KDHE as to any required corrective actions to be performed at the Hallowell Facility, and c) to provide reports to the KDHE, all of the preceding in accordance with the time frames and formats required in the Consent Order. The draft work plan was submitted to the KDHE on June 20, 2002. The KDHE has commented on the draft Work Plan and SEC is in the process of preparing a response thereto. SEC has also received a request by the KDHE to accelerate the investigation of the strip pit due to its public access.

On August 7, 2002 the KDHE took samples of surface water and soil samples at the underwater laboratory site in Hallowell, Kansas of Universal Tech Corporation ("UTeC"). The KDHE has indicated that it will test the samples for nitrates and perchlorates

On August 1, 2002, there was an NOx release at the SEC Hallowell, Kansas site. SEC notified the required regulatory agencies in a timely manner and submitted follow-up reports to the same agencies. No negative impact to SEC and the facility is expected from this release incident, such as a fine by the KDHE or the Environmental Protection Agency. Although certainly unusual for SEC, CERCLA/EPCRA reportable releases are quite common throughout the country and seldom result in any regulatory enforcement action unless they are unusually severe with respect to off-site impacts or the frequency of release represents a pattern. Neither was the case in this release incident.

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LIST OF ENVIRONMENTAL REPORTS, STUDIES, ANALYSES,  
TESTS AND MONITORING DATA

1. Consent Agreement 98-E-0109 and related documents:
    - a. January 19, 1996 letter from William Potter, Jayhawk Site Group, to Robert Elder, KDHE.
    - b. Phase IV Agreement and Related Documents
    - c. July 22, 1999 fax from Donald Schrag, attorney, to David Shear and others.
    - d. Declaration of Restrictive Covenants Regarding Groundwater, dated November 11, 1999.
  2. Stormwater Pollution Prevention Plans (3-ring binder) for Pryor, Oklahoma, Hallowell, Kansas, Pruf Plant, including: Certification, Notice of Intent, Pollution Plan, Quarterly Inspections, Quarterly Visual Quality Checks, Annual Inspections/Comprehensive Site Compliance Evaluation Reports, Employee Training Records.
  3. Environmental Assessment Findings for Slurry Explosive Corporation ("SEC") (3-ring binder) presented to Household Commercial, submitted by Maecorp Incorporated, October 21, 1991, Report No. KS-2427
  4. Comprehensive Investigation Corrective Action Study Work Plan (3-ring binder) for SEC, prepared by SCS Engineers, June 2002.
  5. Preliminary Assessment/Screening Site Inspection, SEC, Hallowell, Kansas, prepared by KDHE, August, 1995.
  6. Preliminary Review/Visual Site Inspection Report, Thermex Energy Corporation, Columbus, Kansas, prepared for EPA by A.T. Kearney, Inc., March 1988.
  7. Inspection Report dated August 23, 2002 from Lynn Slugantz, EPA, to John Carver, SEC.
  8. NOX Release at Hallowell, Kansas Plant August 1, 2002, including:
    - a. Form A Release Report submitted August 2, 2002
    - b. Follow-up Report from John Carver, SEC, to Kansas Emergency Management dated August 6, 2002
  9. Real Estate Audit/Compliance Checklist for Pryor, Oklahoma location, from John Carver to David Shear and Ann Muise, dated October 12, 1994.
  10. Disposal of Non-Hazardous Wastewater by Reddi Root'r of Wichita, Kansas, including Manifest 23089 and 24582, and wastewater analysis by M.D. Chemical and Testing.
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11. Disposal of Waste at Jayhawk Lab, including Memos from John Carver to Gary Eck, dated May 12, 2002 and May 30, 2000, and copies of four (4) waste manifests.
  12. Memorandum to file by John Carver dated September 14, 1998 regarding purchase of forty (40) acres at Hallowell, Kansas location.
  13. Air Permit Application for Universal Tech Corporation ("UTeC") Pruf Plant, including:
    - a. KDHE Report of New or Altered Source of Potential Air Pollutants, dated July 18, 1994.
    - b. Construction Permit with cover letter from Eugene Sallee, KDHE, to Oldrich Machacek, UTeC, dated October 31, 1994.
    - c. Air Emission Inventory for SEC Hallowell Plant prepared by Bentley Environmental, dated May 1995, faxed to Carl Christiansen.
    - d. KDHE Report of New or Altered Source of Potential Air Pollutants, dated November 29, 1995.
    - e. Draft letter from Oldrich Machacek, UTeC, to KDHE dated August, 1995.
    - f. Notice on Title V air permits from KDHE.
    - g. Letter from John Carver, UTeC, to KDHE dated March 10, 1998 regarding air permit modification.
    - h. Letter from Daizy Dondass, KDHE, to John Carver, UTeC, dated April 10, 1998 responding to air permit modification.
  14. KDHE Consent Order 02-E-0049 for Hallowell, Kansas plant, including:
    - a. Consent Order, dated March 28, 2002.
    - b. Letter from David Shear, SEC, to Dave Walsh, KDHE, noting change of ownership from SEC to UTeC.
    - c. Memorandum from John Carver, dated September 10, 2002 on initial sampling results on water from strip pit.
  15. Air Emission Inventory for SEC, Hallowell, Kansas, dated May 1995, by Bentley Environmental, including cover letter to John Carver, dated May 3, 1995.
  16. ECS Risk Assessment Survey of SEC, Hallowell, Kansas location, including:
    - a. Letter from Allen Barron, ECS, to Bill Manion, SEC, dated July 5, 2001.
    - b. Letter from Allen Barron, ECS, to Bill Manion, SEC, dated July 23, 2001.
    - c. Letter from Allen Barron, ECS, to Bill Manion, SEC, dated August 14, 2001.
    - d. Letter from Bill Manion, SEC, to Allen Barron, ECS, dated August 22, 2001.
  17. Title II Reports, SEC Hallowell Plant, 1994 through 2001.
  18. Form R Reports, SEC Hallowell Plant, 1994 through 2001.
  19. ECS Application for Pollution Liability Insurance for SEC Hallowell Plant, April 2001.
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20. Dyno-Nobel Closure of Burn Area near UTeC Pruf Plant, including:
    - a. Closure Plan, Thermex Energy Burning Area, Hallowell, Kansas, by Rust Environment, dated July 1995.
    - b. Summary of Non-Hazardous Waste Removal, Thermex Energy Burning Area, Hallowell, Kansas, by Rust Environment, dated March 1996.
    - c. Closure Sampling Results, Thermex Energy Burning Area, Hallowell, Kansas, by Rust Environment, dated March 1996.
    - d. Letter dated May 8, 1995 from Neal Olsen, Dyno-Nobel, to John Carver, LSB.
    - e. Letter dated May 18, 1995 from John Carver, LSB to Neal Olsen, Dyno Nobel.
    - f. Letter dated June 16, 1995 from Neal Olsen, Dyno-Nobel to John Carver, LSB.
    - g. Letter dated September 20, 1995 from Andrea Austin, KDHE, to Neal Olsen, Dyno Nobel.
    - h. Letter dated October 4, 1995 from Neal Olsen, Dyno Nobel to John Carver, LSB.
    - i. Memorandum dated January 31, 1996 from John Carver, LSB, to Gary Eck, UTeC, regarding closure of old process sump.
    - j. Letter dated March 13, 1996 from Jon Hoogenboom, Rust Environment, to Andrea Austin, KDHE, certifying closure of burn area.
  21. Baseline Monitoring Well Installation, Soil Overburden Sampling, and Laboratory Analyses, UTeC Pruf Plant, prepared by Triad Environmental Services dated September 6, 1995.
  22. EPA Inspection, SEC, Pryor, Oklahoma, Tier II Violation, including:
    - a. Letter dated December 18, 1995 from Steve Mason, EPA, to Jim Keen, SEC.
    - b. Letter dated January 16, 1996 from John Carver, SEC, to Steve Mason, EPA.
  23. UTeC Form R - Memorandum dated June 16, 2000 from Gary Eck to John Carver on Form R Exemption.
  24. Tier II Reports, UTeC Pruf Plant and Underwater Lab, 1994 through 2001.
  25. Tier II Reports, SEC Pryor, Oklahoma, 1994 through 2001.
  26. RMP Applicability - memorandum dated February 9, 1998 from John Carver to Mark Stowell, SEC.
  27. Report on Phase I Environmental Risk Assessment, Thermex Energy Corporation, prepared by Allgeier, Martin & Assoc., dated April 1990.
  28. Interim Status Compliance Plans for Thermex Energy prepared by Radian Corporation, dated July 1987.
  29. Closure Plan for Surface Impoundments at Thermex Energy prepared by Radian Corporation dated June 1987.
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30. Letter dated April 27, 1970 from Leonard Imhof, KDHE, to W.B. Macomber, Gulf Oil, regarding complaint received in connection with industrial wastes being dumped into a strip pit.
31. Letter dated July 19, 1974 from Darrel Shumake, Office of the Cherokee County Attorney, to Melville Grey, KDHE, regarding discharge of acid and other pollutants by Gulf Oil at Hallowell, Kansas facility.
32. Letter dated November 6, 1974 from William Towery, KDHE, to B.G. Yoakam, Gulf Oil, regarding appraisal on wastewater facilities serving Hallowell, Kansas facility.
33. Letter dated July 10, 1975 from Kent Lynch, Office of the Cherokee County Attorney, to Melville Grey, KDHE, requesting copies of test results.
34. Letter dated July 15, 1975 from Jack Burris, KDHE, to Kent Lynch, Office of Cherokee County Attorney, transmitting an analysis report and a copy of a map showing sampling locations.
35. Deposition Subpoena, dated December 30, 1976, issued by the U.S. District Court for the District of Kansas to Gerald Stoltenberg in connection with Raymond & Maude Griffitt v. Pittsburg & Midway Coal Mining Co., et al., Civil Action File No. 75-45-C6.
36. KDHE Report of Investigation dated February 5, 1992.
37. Memorandum dated April 9, 1993 from Bill Thornton to Paul Belt, regarding complaining through EPA that environmental laws were being violated at SEC Hallowell, Kansas facility.
38. Telephone Conversation Memo of a call placed by Stan Harter on April 9, 1993 to Marian Massoth, regarding a complaint received from a private citizen regarding discharge occurring from SEC Hallowell, Kansas facility.
39. Telephone Conversation Memo of a call placed by Marian Massoth to Terry Wright, SEC, on April 12, 1993, regarding discharge during deactivation of a pond at the SEC Hallowell, Kansas facility.
40. Telephone Conversation Memo of a call placed by Kelly Finn to Stan Harter on April 12, 1993, regarding lagoon closure at SEC Hallowell, Kansas facility.
41. Telephone Conversation Memo of a call placed by Emily McGuire to Marian Massoth on April 14, 1993, regarding discharge from SEC Hallowell, Kansas facility.
42. Letter dated April 14, 1993 from Randall Rathbun, Depew, Gillen & Rathbun, to Rick Bean, KDHE, requesting authorization to review records of SEC.

43. Memorandum dated July 20, 1993 from Bill Thornton, KDHE, to Eric Staab, documenting KDHE activity concerning SEC since March 5, 1993.
44. Memorandum dated October 4, 1993 from Ed Alvis, Kansas Department of Wildlife and Parks, to Roger Brazier, legal counsel, regarding request from Randall Rathbun to review records of SEC.
45. Kenneth A. Griffitt, et ux. v. Slurry Explosive Corporation, Case No. 94C2514, filed in the Eighteenth Judicial District, District Court of Sedgwick County, Kansas, Civil Department (the "Griffitt Action").
  - a. Memorandum dated December 5, 1994 from Bill Manion, SEC, to David Shear, SEC, regarding the Griffitt Action.
  - b. Summons and Petition served on SEC in connection with the Griffitt Action.
  - c. Journal Entry of Judgement filed by SEC in connection with the Griffitt Action.
  - d. Answer filed by SEC in connection with the Griffitt Action.
  - e. Stipulation of Dismissal with Prejudice filed by Griffitt in connection with the Griffitt Action.
  - f. Order of Dismissal with Prejudice as to Defendant Slurry Explosive Corporation filed in connection with the Griffitt Action.
  - g. General and Final Release, dated October 24, 1996, by Kenneth A. Griffitt and Linda L. Griffitt.
46. Letter dated May 11, 1970 from R.W. Barth, Gulf Oil, to Howard Duncan, KDHE, regarding the registration of the Hallowell, Kansas facility.
47. Memorandum dated May 26, 1970 from Howard Stoltenberg, KDHE, to Leonard Imhof, regarding strip pit water wastes from Gulf Chem Co. blasting powder mix plant.
48. Letter dated June 22, 1970 from Howard Duncan, KDHE, to W.R. Barth, Gulf Oil, regarding water pollution control at the Gulf Hallowell, Kansas facility.
49. Sewarage and Sewage Disposal Application dated July 17, 1970 from Gulf Oil Company to KDHE.
50. Letter dated July 17, 1970 from B.G. Yoakam, Gulf Oil, to Howard Duncan, KDHE, regarding sanitary waste discharge from the Gulf Hallowell, Kansas facility.
51. Memorandum dated August 10, 1970 from Howard Duncan, KDHE, to Leonard Imhof, regarding proposal for water pollution control facilities to serve the Gulf Hallowell, Kansas facility.
52. Memorandum dated September 24, 1970 from Leonard Imhof, KDHE, to Howard Duncan, KDHE, regarding proposal for water pollution control facilities to serve the Gulf Hallowell, Kansas facility.

53. Letter dated November 17, 1970 from B.G. Yoakam, Gulf Oil, to Howard Duncan, KDHE, requesting expediting of approval of water pollution control proposal at Gulf Hallowell, Kansas facility.
54. Letter dated March 18, 1971 from B.G. Yoakam, Gulf Oil, to Howard Duncan, KDHE, regarding approval of construction of water pollution control proposal at Gulf Hallowell, Kansas facility.
55. Memorandum (undated) from Leonard Imhof, KDHE, to N.J. Burris, regarding approval of construction of water pollution control proposal at Gulf Hallowell, Kansas facility.
56. Letter dated March 23, 1971 from George Moore, Kansas Forestry, Fish and Game Commission, to Howard Duncan, KDHE, requesting approval of the construction of water pollution control proposal at Gulf Hallowell, Kansas facility.
57. Letter dated June 29, 1971 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, requesting additional information in connection with the water pollution control proposal at Gulf Hallowell, Kansas facility.
58. Letter dated July 28, 1971 from B.G. Yoakam, Gulf Oil, to Gyula Kovach, KDHE, providing additional information in connection with the water pollution control proposal at Gulf Hallowell, Kansas facility.
59. Letter dated August 11, 1971 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, acknowledging receipt of additional information provided by Gulf Oil in connection with the water pollution control proposal at Gulf Hallowell, Kansas facility.
60. Letter dated September 29, 1971 from B.G. Yoakam, Gulf Oil, to Gyula Kovach, KDHE, transmitting engineering construction drawings and specifications in connection with the water pollution control proposal at Gulf Hallowell, Kansas facility.
61. Letter dated October 26, 1971 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, approving the plans in connection with the water pollution control proposal at the Gulf Hallowell, Kansas facility.
62. Letter dated May 9, 1972 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, requesting completion status of construction of wastewater treatment facilities at Gulf Hallowell, Kansas facility.
63. Letter dated May 24, 1972 from B.G. Yoakam, Gulf Oil, to Gyula Kovach, KDHE, notifying of completion of wastewater treatment facilities at Gulf Hallowell, Kansas facility.
64. Letter dated November 29, 1972 from Robert Hartmann, Kansas Forestry, Fish and Game Commission, to Richard Duty, KDHE, regarding discharge of effluent at Gulf Hallowell,

Kansas facility, and attached memorandum dated June 12, 1972 from Gyula Kovach, KDHE, to Leonard Imhof, KDHE, requesting final inspection of wastewater treatment facilities at Gulf Hallowell, Kansas facility.

65. Letter dated December 15, 1972 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, transmitting letter dated November 29, 1972 from Robert Hartmann, Kansas Forestry, Fish and Game Commission.
66. Letter dated December 20, 1972 from B.G. Yoakam, Gulf Oil, to Gyula Kovach, KDHE, proposing erection of dikes to alleviate effluent discharge at Gulf Hallowell, Kansas facility.
67. Letter dated February 27, 1973 from Gyula Kovach, KDHE, to B.G. Yoakam, Gulf Oil, requesting notification upon completion of dike erection at Gulf Hallowell, Kansas facility.
68. Letter dated March 8, 1973 from B.G. Yoakam, Gulf Oil, to Gyula Kovach, KDHE, informing of completion of dike erection at Gulf Hallowell, Kansas facility.
69. Memorandums dated September 10, 1974 from Bill Towery, KDHE to:
  - a. H.A. Stoltenberg, KDHE, requesting chemical analysis of a sample taken at Gulf Hallowell, Kansas facility.
  - b. Jack Burris in connection with complaint made by Raymond Griffitt regarding discharge at Gulf Hallowell, Kansas facility.
70. Memorandum dated October 10, 1974 from Stoltenberg, KDHE, to W.T. Towery, KDHE, regarding samples collected at Gulf Hallowell, Kansas facility.
71. Letter dated November 20, 1974 from Steven Rogers, KDHE, to B.G. Yoakam, Gulf Oil, transmitting short form C in connection with Permit No. I-NE75-NP01.
72. Letter dated June 23, 1975 from Kent Lynch, Office of the Cherokee County Attorney, to Melville Grey, KDHE, requesting test results.
73. Memorandum dated July 1, 1975 from Bill Towery, KDHE, to N.J. Burris, regarding review of Gulf Hallowell, Kansas facility.
74. KDHE Non-Discharging Wastewater Facility Inspection Form for Gulf Hallowell, Kansas facility inspection performed by William Towery, KDHE, on December 16, 1975.
75. Memorandum dated December 22, 1975 from Bill Towery, KDHE, to Don Carlson, KDHE, regarding inspection of Gulf Hallowell, Kansas facility.

76. Memorandum dated February 12, 1976 from Bill Towery, KDHE, to Don Carlson, KDHE, transmitting wastewater plans and specifications for Gulf Hallowell, Kansas facility (proposal attached thereto).
77. Letter dated November 15, 1976 from William Towery, KDHE, to B.G. Yoakam, Gulf Oil, in connection with site visit of November 9, 1976 to the Gulf Hallowell, Kansas facility.
78. Letter dated February 8, 1979 from John Goetz, KDHE, to Sherill Cantrell, Gulf Oil, regarding issuance of NPDES Permit I-NE75-NP01.
79. Letter dated March 5, 1979 from R.D. Benjamin, Gulf Oil, to John Goetz, KDHE, regarding submission of the NPDES Permit I-NE75-NP01.
80. NPDES Permit No. I-NE75-NP01 Application from Gulf Oil dated March 30, 1979.
81. Letter dated April 2, 1979 from R.D. Benjamin, Gulf Oil, to John Goetz, KDHE, transmitting NPDES Permit Application.
82. Memorandum from Joel Rife, KDHE, to File, regarding site visitation on July 11, 1979.
83. Letter dated July 25, 1979 from Joel Rife, KDHE, to W.L. Jacobberger, Gulf Oil, regarding results of July 11, 1979 site visitation.
84. Telephone Conversation Record of call placed on September 27, 1979 from Bruce Taggart to Joel Rife, KDHE, regarding levee construction by Gulf Oil and Gulf Hallowell, Kansas facility.
85. Letter dated December 21, 1979 from Barbara Bowerman, KDHE, to Dick Benjamin, Gulf Oil, requesting documentation of construction of wastewater treatment facility in order to issue NPDES permit.
86. Letter dated January 3, 1980 from R.D. Benjamin, Gulf Oil, to Joel Rife, KDHE, providing status of construction of wastewater treatment facility at Gulf Hallowell, Kansas facility.
87. KDHE Facility Inspection Form in connection with inspection of Gulf Hallowell, Kansas facility performed by Joel Rife on April 17, 1980.
88. Letter dated May 5, 1980 from Gerald Stoltenberg, KDHE, to Gulf Oil transmitting approved NPDES permit.
89. Letter dated June 5, 1981 from D.L. Caputo, Gulf Oil, to EPA, providing notification of hazardous waste activities at three (3) Gulf Oil facilities.

90. Application for Kansas Hazardous Waste Storage, Treatment, and Disposal Facility Permit, dated June 15, 1981, submitted to KDHE by Gulf Oil for Gulf Hallowell, Kansas facility.
91. Internal Correspondence dated October 29, 1981 from N.E. Gehrig, Gulf Oil, to J.M. Jones, Gulf Oil, regarding delisting of underwater laboratory testing facility.
92. Letter (not dated) from EPA to Gulf Oil returning Part A of a permit application, due to facility being non-regulated.
93. Letter from J.M. Jones, Gulf Oil to John Goetz, KDHE, transmitting Gulf Oil's federal application for a hazardous waste storage permit for Gulf Hallowell, Kansas facility.
94. Memorandum dated December 1, 1982 from Vivek Kamath, Gulf Oil, to File, regarding site inspection performed on November 9, 1982.
95. Memorandum dated January 7, 1983 from Donald Carlson, KDHE, to File, regarding notification by Vivek Kamath, Gulf Oil, of discharge by Gulf Oil of high levels of aluminum to waste stabilization ponds and response thereto.
96. Letter dated January 11, 1983 from M. J. Hilton, Gulf Oil, to John Goetz, KDHE, notifying of future transmission of 1981 and 1982 annual report for non-regulated material.
97. Letter dated January 24, 1983 from Vivek Kamath, KDHE, to Chet McLaughlin, EPA, regarding delisting by EPA of two (2) Gulf Oil facilities.
98. Letter dated August 1, 1983 from Bill Towery, KDHE, and KDHE Waste Stabilization Pond Inspection Form to James Carter, Gulf Oil, regarding site inspection performed by Bill Towery on July 22, 1983 of Gulf Hallowell, Kansas facility.
99. Letter dated August 18, 1983 from John Mitchell, KDHE, to W.L. Jacobberger, Gulf Oil, informing of non-regulated status of Gulf Hallowell, Kansas facility.
100. Letter dated September 14, 1983 from J.L. Carter, Gulf Oil, to William Towery, KDHE, regarding corrective measures taken and to be taken in connection with July 22, 1983 site inspection of Gulf Hallowell, Kansas facility performed by KDHE.
101. Letter dated September 16, 1983 from William Towery, KDHE, to J.L. Carter, Gulf Oil, regarding follow-up inspection of the Gulf Hallowell, Kansas facility to be made by KDHE after implementation of corrective measures.
102. Memorandum dated October 10, 1983 from Donald Carlson, KDHE, to File, regarding land disposal of wastewater at Gulf Hallowell, Kansas facility.

103. Letter dated February 7, 1984 from Allan Abramson, KDHE, to Gulf Oil, transmitting status report on Gulf Hallowell, Kansas facility and requesting corrections thereto and additional information.
104. Letter dated October 24, 1984 from Marla Noak, KDHE, to Jane Ratcliffe, EPA, responding to Gulf Oil's request to withdraw Part A application for two (2) facilities.
105. Letter dated March 30, 1987 from Janel Rogers, KDHE, to Sheila Hoover, Thermex, responding to Thermex's request for delisting petition for two (2) facilities (formerly owned by Gulf Oil).
106. Letter dated April 24, 1987 from Janel Rogers, KDHE, to Sheila Hoover, Thermex, regarding submission by Thermex of Part A Hazardous Waste Permit Application for two (2) Thermex facilities.
107. Letter dated July 31, 1987 from Dwight Burroughs, Thermex, to John Goetz, KDHE, transmitting revised Part A permit application for Thermex Underwater Lab.
108. Memorandum dated August 7, 1987, to Michael Sanderson, EPA, from Suzanne Rudzinski, EPA regarding Thermex/Radian's request for guidance on compliance dates for submitting Part B permit application, issuing or denying a RCRA permit, and complying with minimum technological requirements for surface impoundments.
109. Letter dated August 24, 1987 from John Mitchell, KDHE, to Dwight Burroughs, Thermex, informing of amendment of status of Thermex Hallowell, Kansas facility to a hazardous waste transporter.
110. Letter dated October 14, 1987 from Dwight Burroughs, Thermex, to Bill Towery, KDHE, regarding site inspection performed by KDHE of Thermex Hallowell, Kansas facility on September 3, 1987.
111. Letter dated November 4, 1987 from William Towery, KDHE, to Dwight Burroughs, Thermex, regarding correction of deficiencies noted during June 24, 1987 site inspection performed by KDHE of Thermex Hallowell, Kansas facility.
112. Memorandum dated November 30, 1987 from Donald Carlson, KDHE to John Goetz, KDHE, regarding resolution of problems at Thermex Hallowell, Kansas facility.
113. Letter of Warning dated December 7, 1987 from John Goetz, KDHE, to Dwight Burroughs, Thermex, regarding deadline of implementation of activities outlined in hydrogeologic investigation prepared by Radian Corporation.
114. Memorandum dated December 9, 1987 from Bill Towery, KDHE, to John Goetz, KDHE, regarding November 30, 1987 site inspection of Thermex Hallowell, Kansas facility.

115. Letter dated December 16, 1987 from Donald Carlson, KDHE, to Dwight Burroughs, Thermex, granting of permission for remedial action in connection with Thermex Hallowell, Kansas facility.
116. Letter dated December 17, 1987 from Dwight Burroughs, Thermex, to John Goetz, KDHE, regarding implementation of hydrogeologic investigation plan.
117. Letter dated April 4, 1988 from Oldrich Machacek, Thermex, to John Goetz, KDHE, regarding re-evaluation by Thermex of regulatory status of Thermex Hallowell, Kansas facility.
118. Letter dated January 26, 1989 from Oldrich Machacek, Thermex, to Steve Broslavick, KDHE, submitting information to enable the KDHE to make a ruling on a waste exemption request by Thermex for the Thermex Hallowell, Kansas facility
119. Letter dated August 2, 1989 from Oldrich Machacek, Thermex, to Steve Broslavick, KDHE, regarding chromium crosslinkers and generation and disposal of waste explosives at the Thermex Hallowell, Kansas facility.
120. Attendance Record dated August 15, 1990.
121. Special Report by Gulf Oil dated April 27, 1970 regarding washdown water sample taken at Gulf Hallowell, Kansas facility.
122. Letter dated March 17, 1971 from Nicholas Duffett and Howard Stoltenberg, KDHE, to Myrl Rennie, and Memorandum dated March 17, 1971 from Howard Stoltenberg, KDHE, to Leonard Imhof, KDHE, regarding results of water samples collected February 28, 1971 and March 6, 1971 from strip pit near Gulf Hallowell, Kansas facility.
123. Memorandum dated November 14, 1974 from Howard Stoltenberg, KDHE, to W.T. Towery, KDHE, regarding samples collected November 1, 1974 from streams in Cherokee County which may possibly be contaminated by mine wastes from Gulf Hallowell, Kansas facility.
124. Memorandum dated November 22, 1974 from Howard Stoltenberg, KDHE, to W.T. Towery, KDHE, regarding sample survey (collected November 15, 1974) of the Cherry Creek Basin in Cherokee County below the discharge from the Pittsburg and Midway Mining Co.
125. Letter dated October 28, 1986 from Clifford Baker, Wilson Laboratories, to Sheila Hoover, Thermex, regarding additional information on analysis performed on behalf as a subcontractor of QWAL Laboratories.
126. Letter dated November 19, 1985 from Thermex to Steve Broslavick, KDHE, regarding analysis of holding ponds by QWAL Laboratories.



127. Letter dated November 24, 1987 from Dwight Burroughs, Thermex, to John Goetz, KDHE, requesting permission for land application of wastewater at Thermex Hallowell, Kansas facility.
128. Letter dated December 11, 1987 from Dwight Burroughs, Thermex, to John Goetz, KDHE, transmitting lab report on wastewater from surface impoundments at Thermex Hallowell, Kansas facility.
129. Letter dated June 27, 1989 from Dale Kennedy, Aptus Environmental Services, to Gary Eck, Thermex, transmitting laboratory analysis report for sample received from Thermex on June 7, 1989.
130. Letter dated August 13, 1990 from Gary Eck, Thermex, to Mike Sanderson, EPA, regarding proper classification of sludge materials from wastewater pond located at Thermex Hallowell, Kansas facility.
131. Memorandum from Stan Harter, Mined Land Wildlife Area, to John Silovsky, in connection with detail of events regarding plan of SEC for cleanup of SEC Hallowell, Kansas facility.
132. Letter dated September 8, 1995 from Travis Kogl, KDHE, to Stan Harder, Mined Land Wildlife Area, regarding analytical results for surface water and soil samples collected by the KDHE from the Mined Land Wildlife Area.
133. Conversation Record dated March 22, 2000 regarding site visit for purpose of sample collection at SEC Hallowell, Kansas facility.
134. Letter dated February 25, 2002 from Christopher McDonald, Shook, Hardy and Bacon, to John Carver, LSB Chemical Corp., and Dave Hempelman, SCS Engineers, transmitting materials received from the Department of Wildlife & Parks on SEC.
  - a. Letter dated February 20, 2002 from Rob Riggan Kansas Department of Wildlife & Parks to Chris McDonald, Shook, Hardy, Bacon, transmitting water quality tests and correspondence relating to water quality issues associated with SEC.
135. Letter dated February 8, 2001 from Christopher McDonald, Shook, Hardy & Bacon, to Ronald Hammerschmidt, KDHE, requesting access to and copies of all documents and information relating to SEC located in Hallowell, Kansas.
136. Letter dated February 21, 2000 from Gene Curtis, Thiokol Propulsion, to Ron Hammerschmidt, KDHE, regarding FOIA request to review environmental records for the UTeC Hallowell, Kansas facility.
137. Letter dated March 5, 1999 from Rick Bean, KDHE, to Terry Wright, SEC, regarding nitrate contamination in the soil and ground water at the SEC Hallowell, Kansas facility.

138. Letter dated September 14, 1995 from KDHE to Peter Culver, EPA, regarding screening site inspection of SEC Hallowell, Kansas facility.
139. Letter dated September 19, 1995 from Travis Kogl, KDHE, to Terry Wright, SEC, transmitting results for samples collected at SEC Hallowell, Kansas facility by the KDHE as part of a Preliminary Assessment/Screening Site Inspection.
140. Latitude and Longitude Calculation Worksheet #1 for SEC Hallowell, Kansas facility performed by Angela Babbit on July 11, 1995.
141. Part of a memorandum from Steve Broslavick, KDHE, regarding an August 15, 1993 meeting.
142. Letter dated August 18, 1993 from Kelly Finn, KDHE, to Terry Wright, SEC, regarding dewatering of a pit adjacent to SEC Hallowell, Kansas facility.
143. Conversation Record dated August 17, 1993 of telephone calls between Kelly Finn, KDHE, and (a) Chuck Getchell, SEDO, regarding approval to dewater; (b) Rex Heape, SEDO, regarding land application; (c) Terry Wright, SEC, regarding dewatering of stormwater pond; and (d) Rex Heape, SEDO, regarding land application.
144. Conversation Record dated August 16, 1993 of telephone calls between Kelly Finn, KDHE, and (a) Rod Geisler, KDHE, regarding irrigation with stormwater from a pond; and (b) Terry Wright, SEC, regarding dewatering.
145. Memorandum dated August 4, 1993 from Stan Harter, Mined Land Wildlife Area, to Ed Alvis, transmitting memorandum of agreement to establish responsibilities for the cleanup of the settling ponds and grounds at SEC Hallowell, Kansas facility.
146. Letter dated July 19, 1993 from Kelly Finn, KDHE, to Terry Wright, SEC, regarding discharge to a stream from a detention pond at SEC Hallowell, Kansas facility.
147. Memorandum from Kelly Finn, KDHE, to Marian Massoth, KDHE, regarding inspection of SEC Hallowell, Kansas facility by SEDO staff.
148. Memorandum dated November 2, 1992 from Steve Broslavick, KDHE, to Don Carlson, KDHE, transferring oversight of the closure of the SEC Hallowell, Kansas facility's lagoon system to the Bureau of Water.
149. Letter dated October 22, 1992 from Terry Wright, SEC, to Steve Broslavick, KDHE, regarding closure plan for EPA.
150. Letter dated December 3, 1991 from Terry Wright, SEC, to Steve Broslavick, KDHE, regarding closure plan for EPA.

151. Letter dated October 16, 1991 from Steve Broslavick, KDHE, to Terry Wright, SEC, regarding closure plan for EPA.

152. Letter dated August 5, 1991 from Terry Wright, SEC, to Steve Broslavick, KDHE, regarding final test on sludge.

153. Letter dated March 20, 1991 from Terry Wright, SEC, to Steve Broslavick, KDHE, regarding purchase by SEC from Thermex of Hallowell, Kansas facility.

## EXECUTIVE INFORMATION

Employee Name	Employer	Job Title	Hire Date	H(ourly)/ S(alaried)	Current Rate*	Previous Rate	Date Last	Car Allowance*	Eligibility			
							Rate Change		Hire Date	Accum Vacation**	Accum Sick Leave**	
					(\$)	(\$)				(\$)	(days)	(days)
Daniel D Clanton	SEC	Sr. Technical Sales Representative	1/28/1989	S	2,307.70	1,888.47	2/10/2000	265.39	1/28/1989	6	N/A	
Deanna Jean Cox	SEC	Marketing Assistant	11/1/2000	H	11.00	10.00	11/13/2001		11/1/2000	5	48	
Terri L Davis	SEC	Administrative Services Manager	3/6/1989	S	1,230.77	1,153.85	9/19/2000		3/6/1989	12	N/A	
Jason Eric Herron	SEC	Driller	7/16/2001	H	10.00	9.00	10/2/2001		7/16/2001	5	16	
Travis R Holt	SEC	Driller	9/9/2002	H	10.00				9/9/2002	0	0	
Paul S Keeling	SEC	Vice President/Marketing	1/28/1989	S	3,692.31	3,538.47	11/13/2001	230.77	1/28/1989	8	N/A	
James W Keen	SEC	Mine Services & Retail Sales Manager	1/28/1989	S	2,500.00	2,384.62	2/10/2000	265.39	1/28/1989	12	N/A	
Janice E Keen	SEC	Mine Services & Retail Sales Office Manager	1/28/1989	S	863.47	9.75	2/4/2002		1/28/1989	9	N/A	
Jonathan P Keen	SEC	Blaster/Driller	9/9/2002	H	12.00				9/9/2002	0	0	
Lori M Keen	SEC	Mine Service & Retail Sales Office Assistant	1/10/1994	H	9.25	8.50	1/28/2002		1/10/1994	9	16	
Robert Kenneth Le Blanc	SEC	Kinepak Product Manager	12/29/2000	S	2,884.64			265.39	12/29/2000	1	N/A	
Brian F Loader	SEC	Technical Sales Representative	9/15/1997	S	2,115.39	1,807.70	2/10/2000	265.39	9/15/1997	10	N/A	
William Manion	SEC	President	1/28/1989	S	4,423.08	3,653.85	2/10/2000	230.77	1/28/1989	10	N/A	
Houston L McCarty	SEC	Blaster/Driller	11/4/1992	H	14.50	12.25	1/28/2002		11/4/1992	8	16	
Alfred J Mitchell III	SEC	Logistics Manager	8/31/2002	S	1,576.93	1,386.54	8/31/2002	115.39	1/31/2000	0	N/A	
Danny W Osburn	SEC	Drilling & Blasing Supervisor	1/30/1989	S	1,538.47	1,496.16	2/10/2000		1/30/1989	8	N/A	
Kent Allen Sampson	SEC	Technical Sales Representative	9/9/1996	S	1,923.08	1,615.39	2/10/2000	265.39	9/9/1996	15	N/A	
Roger L Spence	SEC	Blaster/Driller	8/11/1998	H	12.00	11.00	4/4/2001		8/11/1998	5	40	
Jerry E Standlee	SEC	Field Service Representative	1/28/1989	H	12.00	11.00	5/5/2000		1/28/1989	8	0	
Paul V Sterk	SEC	Technical Sales Representative	12/31/2001	S	1,846.16			230.77	12/31/2001	0	N/A	
Lawrence D Tappana	SEC	Technical Sales Representative	1/28/1989	S	1,511.54	1,434.63	10/13/1998	265.39	1/28/1989	10	N/A	
Tommy W Tipton	SEC	Blaster/Driller	1/3/1992	H	12.25	11.25	5/5/2000		1/3/1992	1	0	
Darrell G Williams	SEC	Field Service Representative	8/31/2002	S	1,461.54	1,384.62	1/21/2002		12/31/1995	0	N/A	
Ronald Kent Allen	UTC	Mixer	8/31/2002	H	12.00	9.25	10/14/2002		10/2/1989	1.68	4	
Larry G Andrews	UTC	Mixer/Leadman	10/2/1989	H	12.50	11.20	10/14/2002		10/2/1989	0.37	32	
Michael A Ash	UTC	Production Worker	7/28/1998	H	9.50	9.00	12/11/2001		7/28/1998	2.05	96	
Scot E Ash	UTC	Mixer/Leadman	3/17/1997	H	12.50	11.50	10/14/2002		3/17/1997	8.55	96	
Michael Allen Bolt	UTC	Nitrate Logistics Supervisor	8/31/2002	S	1,538.47	1,522.31	1/7/2002		8/31/1998	1.12	N/A	
Tana Kay Bolt	UTC	Administrative Assistant	8/19/2002	S	923.08	9.50	8/19/2002		12/24/1999	7.29	N/A	
Darrell Wayne Boyes	UTC	Kinepak Production Manager	8/31/2002	S	1,500.00	1,403.85	3/18/2002		1/15/2001	11.05	N/A	
Rernest Ray Brumback	UTC	Plant Superintendent	8/31/2002	S	1,480.77	1,355.00	10/14/2002		10/2/1989	0.37	N/A	
Kenneth E Burton	UTC	Plant Manager - PRUF Plant	10/2/1989	S	1,615.39	1,461.54	4/19/2000		10/2/1989	15.37	N/A	
Robert D Burton	UTC	Kinepak Lead Operator	8/31/2002	H	11.50	10.00	10/14/2002		12/8/1997	1.68	4	
Rocky D Burton	UTC	Packaging Machine Operator	4/15/1997	H	11.50	10.90	10/22/2002		4/15/1997	4.9	28	
Ronald Dean Dowling	UTC	Packaging Machine Operator	10/7/2002	H	11.50	10.50	10/16/2002		10/7/2002	0.11	0	
Cathlene Dunn	UTC	Production Utility	5/26/1998	H	9.25	8.70	10/7/2002		5/26/1998	0.16	0	
Gary R Eck	UTC	Lab Manager	9/30/1991	S	2,692.31	2,567.70	4/19/2000		9/30/1991	140	N/A	
Therese A Eck	UTC	Temporary Lab Technician	5/22/2000	H	6.25	6.00	5/21/2001		5/22/2000	N/A	N/A	
Forrest D Fox	UTC	Mixer - Leadman	8/31/2002	H	12.50	11.20	8/31/2002		4/8/1991	1.68	4	
Carl Lawrence Jones	UTC	Production Utility	8/31/2002	H	9.25	9.75	8/31/2002		10/2/1989	1.68	4	
Michael Alan Jones	UTC	Compliance Manager	8/31/2002	S	2,000.00	1,634.62	3/18/2002	115.39	1/3/2001	11.55	N/A	

Employee Name	Employer	Job Title	Hire Date	H(ourly)/S(alaried)	Current Rate*	Previous Rate	Date Last	Eligibility				
							Rate	Car Allowance*	Hire Date	Accum Vacation**	Accum Sick Leave**	
							Change			(days)	(days)	
					(\$)	(\$)		(\$)				
Joan R Lee	UTC	Office Manager	9/30/1991	S	1,057.70	980.77	4/19/2000			9/30/1991	7.5	N/A
Bobby Gene Little	UTC	Production Utility	8/31/2002	H	9.25	9.75	8/31/2002			3/29/1996	1.12	4
Wallace Long	UTC	Production Supervisor	8/31/2002	S	1,375.00	1,334.62	6/2/2000			1/28/1989	10.56	N/A
Oldrich Machacek	UTC	President	6/6/1990	S	3,846.16	3,644.62	4/4/2001	161.54		6/6/1990	14	N/A
Wade Messer	UTC	Production Utility	5/8/2000	H	9.25	8.70	10/7/2002			5/8/2000	0.11	0
Petra Niegisch	UTC	Production Utility	5/31/2000	H	9.25	8.70	10/7/2002			5/31/2000	0.11	0
Mike J Pace	UTC	Testing Technician	10/21/1991	S	1,307.70	1,192.31	4/19/2000			10/21/1991	5	N/A
Dino Parise	UTC	Production Worker	3/10/2000	H	9.50	9.00	12/11/2001			3/10/2000	5.89	88
Edward M Piatrowski	UTC	Analytical Chemist	4/18/1994	S	1,230.77	1,115.39	4/19/2000			4/18/1994	6	N/A
Nick L Rainey	UTC	Test Site Supervisor/Scientist	9/30/1991	S	1,653.85	1,584.62	4/19/2000			9/30/1991	14	N/A
Curtis D Shoemaker	UTC	Logistics Driver	10/2/2002	S	1,200.00	15.00	10/7/2002			8/1/2001	0.25	N/A
Alan T Smith	UTC	Mixer	5/18/1998	H	12.00	10.50	10/14/2002			5/18/1998	4.05	32
Franklin D Stark	UTC	Maintenance Mechanic	8/31/2002	H	11.50	11.00	8/31/2002			12/9/1996	1.68	4
Kevin D Tallent	UTC	Physicist/Project Scientist	2/13/1995	S	1,346.16	1,269.24	4/19/2002			2/13/1995	15	N/A
Michelle Terry	UTC	Production Utility	7/25/2001	H	9.25	9.75				7/25/2001	0.11	0
Timothy K Terry	UTC	Mixer	8/31/1998	H	12.00	10.10	10/14/2002			8/31/1998	1.12	24
Darin S Wall	UTC	Testing Technician	12/5/1994	S	980.77	884.62	4/19/2002			12/5/1994	0	N/A
Harse Waters	UTC	Warehouse Operator	10/7/2002	H	10.00					10/7/2002	0.11	0
Troy White	UTC	Warehouse Operator	8/1/1996	H	10.00	10.90	10/7/2002			8/1/1996	0.16	0
Clive Charles Whiteside	UTC	Plant Manager	7/8/2002	S	3,269.24			161.54		7/8/2002	2.6	N/A
Cody Robert Zook	UTC	Production Worker	5/2/2002	H	9.25	8.00	10/14/2002			5/2/2002	6.66	12
Jose Acosta	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
Maria D Acosta	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
John David Clifton	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
Steven Lee Cook	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
David H Hadley	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
Tommy Allen Long	UTC	Quality Control Technician	10/23/2002	H	13.00					10/23/2002		
Sandra K Martorana	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		
Joyce Yvonne Smith	UTC	Utility Worker	11/4/2002	H	7.50					11/4/2002		

Parttime - hasn't been paid since 2/24/02

Kenny Campbell UTC 10/11/1999 H 8.50

\*bi-weekly

\*\*as of 10/11/02

**EXCEPTIONS TO REPRESENTATIONS CONCERNING  
LABOR DISPUTES**

On February 8, 2002, a Collective Bargaining Agreement between Slurry Explosive Corporation ("SEC") and Paper, Allied Industrial, Chemical and Energy Workers International Union Local 5-508 AFL-CIO (the "Union") expired by its own terms. The parties were in process of negotiating a renewal agreement immediately before the Bureau of Alcohol, Tobacco and Firearms rescinded SEC's license to manufacture explosives. The negotiations are now on hold, indefinitely.

As a result of SEC's loss of its license to manufacture explosives, the Union filed an unfair labor practice charge claiming SEC failed to bargain in good faith over "effects". Unfair Labor Practice Charge Case No. 17-CA-21548-1 has been settled through the process of negotiations. Accordingly, the National Labor Relation Board has closed the case.

On November 25, 2002, Universal Tech Corporation ("UTeC") received a Notice of Charge of Discrimination from the Equal Employment Opportunity Commission in connection with a Charge of Discrimination by Ms. Jama R. White (a former employee of SEC) wherein Ms. White alleges against UTeC her belief that she was not recently hired by UTeC because of a sexual harassment complaint she asserted with SEC in September, 2001. This charge is under investigation and a timely response will be filed.

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Part 3.24(d)

**PATENTS; EXCEPTIONS TO REPRESENTATIONS;**  
**ASSIGNMENT OF INVENTIONS BY EMPLOYEES/FORMER EMPLOYEES**

A. The following employees, by signing a "Personnel Policies Manual Acknowledgment" in connection with their receipt of the Slurry Explosive Corporation ("SEC") Handbook (copies of which have been provided to Buyers), have agreed to assignment of any inventions, improvements, discoveries or information relating to the business of the Seller:

Terri Davis	Alfred Mitchell
Jason Herron	Mark Hamilton
Travis Holt	Jack Muller
Paul Keeling	Danny Osburn
Janice Keen	Kent Sampson
Jonathan Keen	Roger Spence
Jim Keen	Jerry Standlee
Lori Keen	Paul Sterk
Bob LeBlanc	Larry Lappana
Brian Loader	Tom Tipton
William Manion	Darrell Williams
Houston McCarty	

B. In addition to the foregoing, the following employees/former employees executed Assignments (copies, or evidence thereof, have been provided to Buyers) in connection with the specific patents listed below:

<u>Employee/ Former Employee</u>	<u>Assignee</u> & #160;	<u>United States Serial/Reg No.</u>
Oldrich Machacek Gary Eck Neil Gehrig	SEC (as assigned)	4,718,954
Paul Keeling	SEC	5,763,816
Paul Keeling Brian Loader	SEC	09/638,131
Oldrich Machacek Gary Eck Brent Gilion	Universal Tech Corporation ("UTeC")	5,608,184

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<u>Employee/ Former Employee</u>	<u>Assignee</u>	;	<u>Serial/Reg. No.</u>	United States
Oldrich Machacek Gary Eck	UTeC		6,214,140	

C. The following patents are registered in the name of SEC:

<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Registration</u>	Place of	<u>Date</u>	< / f o n t > I s s u e
"Explosive Compositions"	4,718,954	United States	United States	01/12/88	
"Improved Explosive Primer"	5,763,816	United States	United States	06/09/98	
"Continuous Explosive Charge Assembly and Method for Loading Same in an Elongated Cavity"	09/638,131- <sup>1</sup> 2,341,942 <sup>1</sup>	United States Canada	United States	Pending Pending	

These patents were to be assigned to UTeC pursuant to that certain Asset Purchase Agreement, dated May 14, 2002, between SEC and UTeC.

License: License Agreement, dated October 1, 1996, between Slurry Explosive Corporation and Total Energy Systems Limited, as amended and assigned to Quantum Explosives Pty. Ltd., pursuant to an Assignment and Amendment of the Slurry Explosive Corporation License Agreement, dated August 2, 1999.

D. The following patents are registered in the name of UTeC:

<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Registration</u>	Place of	<u>Date</u>	Issue
"Alternative Use of Military Propellants as Novel Blasting Agents"	5,608,184 PCT/US96/01284	United States Europe	United States Europe	03/04/97 pending	
"Development of New High Energy Blasting Products Using Demilitarized Ammonium Picrate"	6,214,140	United States	United States	04/10/01	

<sup>1</sup> This patent was initially rejected by the U.S. Patent and Trademark Office ("USPTO"). An Amendment to the application was filed on February 13, 2002. On June 17, 2002, a Response to Restriction Requirement was filed with the USPTO. SEC received a Final Office Action Notice from the USPTO dated September 23, 2002. The deadline for responding to the Final Office Action Notice is December 23, 2002. The deadline can be extended up to three months, or until March 23, 2003, upon the payment of additional fees. Under no circumstance can the response deadline be extended beyond March 23, 2003.



<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Registration</u>	Place of	Issue
			<u>Date</u>	
"Beneficial Use of Energy-Containing Wastes" <sup>2</sup>	5,536,897	United States		07/16/96
"Beneficial Use of Energy-Containing Wastes" <sup>2</sup>	5,612,507	United States		03/18/97

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<sup>2</sup> Fifty percent (50%) owned with United Technologies Corporation.

MARKS; EXCEPTIONS TO REPRESENTATIONS

A. The following Marks are registered in the name of Slurry Explosive Corporation ("SEC"):

<u>Patent</u>	<u>Serial/Reg. No.</u>	<u>Registration</u>	<u>Place of</u> <u>Date</u>	<u>&amp; # 1 6 0 ;</u>	<u>Issue</u>
"Slurran"	904,559	United States	12/22/70		
	936,412	United States	06/27/82		
	344634	Australia	04/02/80		
"Detagel"	1,081,629	United States	01/10/78		
	344632	Australia	02/04/80		
"TOPrime"	2,078,089	United States	07/08/97		
"XPAK"	2,243,373	United States	05/04/99		
"Kinepak"	936410	United States	06/27/72		
	199650	Canada	06/07/74		
"Kinepouch"	1114751	United States	03/13/79		
	437922	Canada	01/06/95		
"Kinestik"	1077342	United States	11/15/77		
"Perimex"	76291486	United States	Pending		

All of these Marks were to be assigned to Universal Tech Corporation ("UTeC") pursuant to that certain Asset Purchase Agreement, dated May 14, 2002, between SEC and UTeC. No assignment was filed with the U.S. Patent and Trademark office.

B. There are no marks registered under the name of UTeC.

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**NET NAMES; EXCEPTIONS TO REPRESENTATIONS**

The following net name has been registered in the name of Seller:

slurryexplosive.com

The following net names have been assigned to Seller by the company who originally registered the names:

xpak.biz  
slurran.biz  
perimex.biz  
kinestik.biz  
kinepak.biz  
kinepouch.biz  
detagel.biz

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**RELATED PERSON TRANSACTIONS**

1. The following Seller Contracts referenced in Part 3.19(a) (which Part is incorporated herein by reference) could constitute transactions between either of the Sellers and a Related Person:
    - (a) Rights and obligations of Universal Tech Corporation ("UTeC") under assignment of Lease Agreement, dated as of April 11, 2001, for seventy monthly payments commencing on October 20, 2001, by and between U.S. Bancorp Leasing & Financial and Slurry Explosive Corporation ("SEC"), regarding certain equipment associated with the Hallowell, Kansas Facility, pursuant to assignment in May 14, 2002 Asset Purchase and Sale Agreement in the section of this list entitled "Agreement between SEC and UTeC" below.
    - (b) Service Agreement between UTeC and LSB Industries, Inc., ("LSB") dated December 23, 1992, terminable (with notice) on December 23, 2004, or upon LSB giving 90 days notice to terminate at any time, regarding LSB's performance of certain administrative services for UTeC.
    - (c) Listing of UTeC employees and their repayment obligations who have received advances made by UTeC.
    - (d) Employment Agreement between UTeC and Oldrich Machacek dated June 5, 1990, terminating upon 60 days notice.
    - (e) Incentive Stock Option Agreement between LSB and Oldrich Machacek dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.
    - (f) Non-Qualified Stock Option Agreement – 1998 between LSB and Oldrich Machacek, dated April 22, 1998, expiring on April 22, 2008 regarding option on 5,000 shares of LSB stock.
    - (g) Incentive Stock Option Agreement between LSB and Oldrich Machacek dated July 8, 1999, expiring July 8, 2009, regarding option on 5,000 shares of LSB stock.
    - (h) Incentive Stock Option Agreement between LSB and Oldrich Machacek dated November 29, 2001, expiring on November 29, 2011, regarding option on 5,000 shares of LSB stock.
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- (i) Non-exclusive License Agreement between SEC and Total Energy Systems Limited (“TES”), dated October 1, 1996, as amended and assigned in that Assignment and Amendment of the Slurry Explosive Corporation License Agreement between SEC, TES and Quantum Explosives Pty. Ltd., dated August 2, 1999, continuing through end of use or breach, regarding use of SEC’s patent rights or technical information to manufacture and sell specific products in plants in Australia, New Zealand, New Guinea, Fiji, Myanmar and Soloman Islands.
- (j) Service Agreement, between SEC and LSB, dated January 1, 1992, terminating upon notice on January 1, 2004, or upon LSB giving 90 days notice of termination at anytime, regarding LSB’s performance of certain administrative service for SEC.
- (k) Letter reflecting SEC’s November 6, 2000, offer of employment to Bob Le Blanc, commencing January 1, 2001, including commissions, with expectations of a one to two year employment period.
- (l) Listing of SEC employees and their repayment obligations who have received advances made by SEC.
- (m) SEC Employees signature pages exhibiting their agreement to the Assignment of Invention, Confidentiality and Non-Compete provisions of the SEC Employee Handbook.
- (n) Incentive Stock Option Agreement between LSB Industries, Inc., (“LSB”) and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
- (o) Non-Qualified Stock Option Agreement – 1998 between LSB and Paul Keeling, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.
- (p) Incentive Stock Option Agreement between LSB Industries, Inc., (“LSB”) and Paul Keeling, dated July 8, 1999, expiring on July 8, 2009, regarding option on 10,000 shares of LSB stock.
- (q) Incentive Stock Option Agreement between LSB Industries, Inc., (“LSB”) and Paul Keeling, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
- (r) Incentive Stock Option Agreement between LSB Industries, Inc., (“LSB”) and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 3,000 shares of LSB stock.

- (s) Non-Qualified Stock Option Agreement - 1998, between LSB and William Manion, dated April 22, 1998, expiring on April 22, 2008, regarding option on 5,000 shares of LSB stock.
- (t) Incentive Stock Option Agreement between LSB Industries, Inc., ("LSB") and William Manion, dated July 8, 1999, expiring on July 8, 2009, regarding option on 15,000 shares of LSB stock.
- (u) Incentive Stock Option Agreement between LSB Industries, Inc., ("LSB") and William Manion, dated November 29, 2001, expiring on November 29, 2011, regarding option on 10,000 shares of LSB stock.
- (v) 1993 Severance Agreement between LSB and Bill Manion, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
- (w) 1993 Severance Agreement between LSB and Paul Keeling, dated March 26, 1993, expiring March 26, 2003, with automatic three year renewals unless terminated with 60 days notice.
- (x) Asset Purchase and Sale Agreement between SEC and UTeC, dated May 14, 2002, regarding UTeC's purchase of SEC's assets related to Hallowell, Kansas Facility.
- (y) Services Agreement between SEC and UTeC, dated August 23, 2002, expiring August 23, 2005, upon thirty days notice, regarding SEC providing certain administrative and human resource services.
- (z) Supply Agreement between SEC and UTeC, dated August 30, 2002, terminating August 30, 2003, upon thirty day notice, regarding UTeC's manufacture of certain product for SEC.
- (aa) \$5,000.00 monthly fee paid by SEC to UTeC for Research, Development and Quality Control work for SEC's Kinepak plant business, effective March, 2002, and continuing until terminated.

2. The following Real Property leases referenced n Part 3.7 (which Part is incorporated herein by reference) could constitute transactions between either of the Sellers and a Related Person:

- (a) Industrial Lease from UTeC to SEC, dated May 14, 2002, regarding the Hallowell, Kansas Facility.
- (b) Lease from Prime to SEC, dated February 15, 1995, regarding SEC's Pryor, Oklahoma Facility.

3. The following real property deeds referenced in Part 3.6 (which Part is incorporated herein by reference) could constitute transactions between either of the Sellers and a Related Person:
  - (a) Corrective Warranty Deed from Slurry Explosive Corporation ("SEC") to Universal Tech Corporation ("UTeC") dated May 31, 2002, recorded June 6, 2002 in Book 253, Page 604, regarding Hallowell, Kansas Facility.
  - (b) Warranty Deed from James W. Keen and Janice E. Keen to Prime Financial Corporation ("Prime"), dated January 6, 1995, recorded January 9, 1995 in Book 789, Page 459 (Mayes County, Oklahoma), regarding SEC's Pryor, Oklahoma Facility.
  
4. The following Employee Benefit Plans referenced in Part 3.15(a) (which Part is incorporated herein by reference) could constitute transactions between either of the Sellers and a Related Person:
  - (a) LSB Industries, Inc. and Designated Subsidiaries Medical, Dental, Vision and Behavioral Health Plan.
  - (b) LSB Industries, Inc. and Designated Subsidiaries Savings Incentive Plan (401k).
  - (c) LSB Industries, Inc. and Designated Subsidiaries Flexible Spending Account (Section 125 Cafeteria Plan).
  - (d) LSB Industries, Inc. and Designated Subsidiaries Base Life Insurance Plan.
  - (e) LSB Industries, Inc. and Designated Subsidiaries Voluntary Life Insurance Plan.
  - (f) LSB Industries, Inc. and Designated Subsidiaries Long Term Disability Base Plan.
  - (g) LSB Industries, Inc. and Designated Subsidiaries Long Term Disability Supplemental Plan.
  - (h) LSB Industries, Inc. and Designated Subsidiaries Short Term Disability/Weekly Income Benefit Plan.
  - (i) LSB Industries, Inc. and Designated Subsidiaries Employee Assistance Program.
  
5. As referenced in Section A of Part 3.24(d) (which Part is incorporated herein by reference), the following employees, by signing a "Personnel Policy Manual Acknowledgment" in connection with their receipt of the Slurry Explosive Corporation Handbook, have agreed to assignment of any inventions, improvements, discoveries or

information relating to the business of the Seller and such could constitute transactions between either of the Sellers and a Related Person:

Terri Davis	Alfred Mitchell
Jason Herron	Mark Hamilton
Travis Holt	Jack Muller
Paul Keeling	Danny Osburn
Janice Keen	Kent Sampson
Jonathan Keen	Roger Spence
Jim Keen	Jerry Standlee
Lori Keen	Paul Sterk
Bob LeBlanc	Larry Lappana
Brian Loader	Tom Tipton
William Manion	Darrell Williams
Houston McCarty	

6. The following employees/former employees have executed Assignments in connection with specific patents referenced in Section B of Part 3.24 (which Part is incorporated herein by reference), and such could constitute transactions between either of the Sellers and a Related Person:

<u>Employee/Former Employee</u>	<u>Assignee</u>	United States <u>Serial/Reg. No.</u>
Oldrich Machacek Gary Eck Neil Gehrig	Slurry Explosive Corporation (as assigned)	4,718,954
Paul Keeling	Slurry Explosive Corporation	5,763,816
Paul Keeling Brian Loader	Slurry Explosive Corporation	09/638,131,
Oldrich Machacek Gary Eck Brent Gilion	Universal Tech Corporation	5,608,184
Oldrich Machacek Gary Eck	Universal Tech Corporation	6,214,140

7. Other transactions as may be reflected on the Balance Sheet and Interim Balance Sheet previously provided to Buyer, including, without limitation, intercompany notes and employee accounts receivables, could constitute transactions between either of the Sellers and a Related Person, which Balance Sheet and Interim Balance Sheet are incorporated herein by reference.



8. The self-insurance arrangements disclosed as part 3.20(b) (which Part is incorporated herein by reference) could constitute transactions between either of the Sellers and a Related Person.



SECOND AMENDMENT TO THE  
NITRIC ACID SUPPLY, OPERATING AND MAINTENANCE AGREEMENT  
BY AND AMONG EL DORADO NITROGEN, L.P., EL DORADO CHEMICAL COMPANY, AND BAYER MATERIALSCIENCE LLC

This Second Amendment to the Nitric Acid Supply, Operating and Maintenance Agreement (this "Second Amendment") is made and entered into on this 16th day of June 2010, by and among EL DORADO NITROGEN, L.P., a Texas limited partnership ("EDNLP"), EL DORADO CHEMICAL COMPANY, an Oklahoma corporation ("El Dorado"), and BAYER MATERIALSCIENCE LLC, a Delaware limited liability company ("BMS").

**PREAMBLE**

WHEREAS, EDNLP, El Dorado and BMS are parties to that certain Nitric Acid Supply, Operating and Maintenance Agreement ("Agreement") dated October 23, 2008 and amended by the First Amendment dated June 29, 2009; and

WHEREAS, the parties desire to and have agreed to amend the Nitric Acid Supply, Operating and Maintenance Agreement to incorporate the details of a project to reduce N<sub>2</sub>O emissions and the details surrounding the handling of credits;

Therefore, in consideration of the premises and the mutual covenants and agreements set forth herein, the parties hereto, intending to be legally bound, agree as follows:

**AGREEMENT**

1. Definitions. Capitalized terms used herein not otherwise defined herein shall have the meaning specified in the Agreement.

2. Section 1, Definitions. The following definitions are hereby added

Abatement Catalyst – Shall mean the catalyst which after installed in the Nitric Acid Facility, as part of the N<sub>2</sub>O Emission Project, shall serve to reduce N<sub>2</sub>O emissions.

Climate Action Reserve or CAR – Shall mean a national program focused on ensuring environmental integrity of greenhouse gas emissions reduction projects which developed protocols to provide regulatory-quality guidelines for project development.

Climate Reserve Tons or CRT – Shall mean carbon offset credits more fully described in the CAR protocols which can be sold through the CAR system.

Initial Baseline Period – Shall mean the period of time which defines the initial level of emissions of N<sub>2</sub>O, to be used as the baseline for comparing subsequent total reduced N<sub>2</sub>O emissions in order to generate verifiable CRTs.

PORTIONS OF THIS DOCUMENT HAVE BEEN OMITTED FROM THIS PUBLIC FILING PURSUANT TO A REQUEST BY LSB INDUSTRIES, INC. FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.

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Project Developer – Shall mean a third party which will assist in the development, implementation and management of the N<sub>2</sub>O Emission Project.

N<sub>2</sub>O - Shall mean nitrous oxide. N<sub>2</sub>O shall not be considered a Spill as set forth in definition 1.76 of the Agreement. N<sub>2</sub>O is currently not regulated under the Clean Air Act as referenced in Definition 1.35, Environmental Health and Safety Laws.

N<sub>2</sub>O Emission Project – Shall mean the initiative whose intent is to reduce N<sub>2</sub>O emissions from the Nitric Acid Facility through the addition of a secondary Abatement Catalyst.

3. Section 2, Nitric Acid. The following section is hereby added as Section 2.7, N<sub>2</sub>O Emission Project as follows:

“A. For the remainder of the Initial Term, and for any extension of the Initial Term and Renewal Term(s) thereafter for so long as BMS determines to continue the N<sub>2</sub>O Emission Project, the parties shall work together to reduce N<sub>2</sub>O emissions from the Nitric Acid Facility. A secondary Abatement Catalyst shall be installed after appropriate modifications are made to the Nitric Acid Facility. The purchase of such Abatement Catalyst and related items shall be treated as any other BMS Capital Addition. EDNLP shall not enter into any agreements or commit to make reasonable expenditures associated with this N<sub>2</sub>O Emission Project without BMS’s prior written consent. At the expiration or termination of the Term, any CRTs generated by the Nitric Acid Facility subsequent to the expiration or termination date of this Agreement shall be for the sole benefit of BMS.

B. EDNLP shall lead the project by using reasonable efforts to conduct thorough research, collect data according to CAR guidelines and hire a Project Developer. The Project Developer shall review all relevant data and data collection method(s), and also prepare the appropriate documents for submission to the CAR. The Project Developer shall interact with the CAR to ensure timely approval. EDNLP shall provide the reasonable supporting information necessary to complete such documents.

C. The Initial Baseline Period to be used during this project shall be the level of N<sub>2</sub>O emissions per ton Nitric Acid production from the Nitric Acid Facility from late October 2009 through approximately June 2010. The parties expect to install the Abatement Catalyst in June of 2010. In the event that the Abatement Catalyst is not installed in June of 2010, the Initial Baseline Period shall be determined by the level of N<sub>2</sub>O emissions per ton Nitric Acid production from the Nitric Acid Facility from the time the Nitric Acid Facility starts production after the June 2010 Catalyst change through the date upon which such Catalyst is next changed, which is currently estimated to be February 2011.

The decision to install, replace or repair the Abatement Catalyst, if needed, shall be at BMS’s discretion, unless required to meet emission standards established by Law.

D. EDNLP shall arrange for an accredited third party to verify the reduction of N<sub>2</sub>O emissions during each verification period. After verification, CRT credits related to the N<sub>2</sub>O Emission Project shall be deposited into EDNLP's CAR account. Upon receipt of verified CRT credits, EDNLP shall, at BMS's option, either i) sell a portion of the CRTs in order to generate funds to reimburse BMS for all cumulative expenses and expenditures BMS incurred, including but not limited to Abatement Catalyst costs and capital costs, and BMS management costs, as well as those expenditures and expenses considered reimbursable to EDNLP from BMS as described herein or ii) determine the amount of credits that could be sold at the then current market value to cover the costs and transfer such number of CRTs to BMS's CAR account, at which time BMS shall cover such expenses without selling such CRT credits. Notwithstanding anything to the contrary, the BMS management costs shall not exceed \$100,000 through June 30, 2014, and \$100,000 for each five year extension or renewal of the Term, if any.

Once and if all such costs are reimbursed to BMS, the remaining CRTs shall be shared between BMS and EDNLP based on the percentage \*\*\*. Once EDNLP's percentage is so determined, notwithstanding anything to the contrary, EDNLP shall receive not less than \*\*\* percent (\*\*\*) of such remaining CRTs. EDNLP's percentage shall not change during the life of the project. This percentage shall be payable for the remainder of the Initial Term, and for any extension of the Initial Term and Renewal Term(s) thereafter for so long as BMS determines to continue the N<sub>2</sub>O Emission Project.

At BMS's option, EDNLP shall then either i) transfer BMS's portion of the CRTs to BMS's CAR account or ii) sell the CRTs on BMS's behalf and transfer the proceeds to BMS. Payments due BMS under this Section shall be made by EDNLP within ten (10) days of receipt of funds from the sale of the CRTs.

E. BMS agrees to reimburse EDNLP for all reasonable third party, out of pocket expenses associated with the execution of the project, including but not limited to: Project Developer fees, which include 5% of CRTs generated by the project; related CRT requirements; CAR membership fees; verifier costs; Continuous Emissions Monitoring System ("CEMS") maintenance costs including software upgrades; CRT issuance and transfer fees on the CAR exchange; and reasonable EDNLP management costs not otherwise reimbursed under this Agreement. Notwithstanding anything to the contrary, the EDNLP management fixed costs shall not exceed \$100,000 through June 30, 2014, and \$100,000 for each five year extension or renewal of the Term, if any. These costs shall not be considered an Excluded Fixed Cost as set forth in Definition 1.42 (D) of the Agreement.

\*\*\* INDICATES INFORMATION IN THIS DOCUMENT WHICH HAS BEEN OMITTED FROM THIS PUBLIC FILING PURSUANT TO A REQUEST BY LSB INDUSTRIES, INC. FOR CONFIDENTIAL TREATMENT BY THE SECURITIES AND EXCHANGE COMMISSION. THE OMITTED INFORMATION HAS BEEN FILED SEPARATELY WITH THE SECRETARY OF THE SECURITIES AND EXCHANGE COMMISSION FOR PURPOSES OF SUCH REQUEST.

F. If this project does not generate enough CRTs or if the sale price of the CRTs is not sufficient to cover the costs paid by BMS, in no event shall EDNLP be liable for any reimbursements to BMS for expenses incurred or reimbursed by BMS. Both parties agree that the total cumulative expenditures incurred by BMS, including amounts reimbursed by BMS to EDNLP, must be covered prior to the sharing of any CRTs.”

4. Section 3. Maintenance and Operating Services. The following section is hereby added as a final paragraph to Section 3:

“In order to register the N<sub>2</sub>O emission project as set forth in Section 2.7 herein, EDNLP shall submit to CAR an Attestation of Title form (“AT Form”) indicating that EDNLP has exclusive rights to the greenhouse gas reductions or removals associated with the project and for which CAR will issue CRTs. BMS does not object to the submission of the AT Form in EDNLP’s name, provided that any related CRTs are handled as described herein.”

5. No Other Changes. Subject to the changes immediately above, all other provisions of the Project and Supply Agreement remain in full force and effect without modification.

6. Representations and Warranties. BMS hereby represents and warrants to EDNLP, and EDNLP represents to BMS as follows:

(a) this Second Amendment has been duly and validly authorized, executed and delivered by such party and constitutes the legal, valid and binding obligations of each such party enforceable against it in accordance with their respective terms; and

(b) the execution, delivery and performance of this Second Amendment by such party will not:

(i) violate or conflict with its charter or bylaws;

(ii) breach or result in a default (or an event which, with the giving of notice or the passage of time, or both, would constitute a default) under, require any consent under, result in the imposition of any lien under or give to others any rights or termination, acceleration, suspension, revocation, cancellation or amendment of any agreement to which it is a party;

(iii) breach or otherwise violate any order, writ, judgment, injunction or decree issued by any governmental person or entity which names such party or is directed to such party or any of its respective properties or assets;

(iv) violate any Laws; or

(v) require any consent, authorization, approval, exemption or other action by, or any filing, registration or qualification with, any governmental

person or entity other than those which have been made or obtained prior to the date hereof.

7. Counterparts; Telefacsimile Execution. This Second Amendment may be executed in any number of counterparts, and by each of the parties on separate counterparts, each of which, when so executed, shall be deemed an original, but all of which shall constitute but one and the same instrument. Delivery of an executed counterpart of this Second Amendment by electronic scan or telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Second Amendment. Any party delivering an executed counterpart of this Second Amendment by electronic scan or telefacsimile also shall deliver a manually executed counterpart of this Second Amendment, but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability or binding effect of this Second Amendment.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment to the Nitric Acid Supply, Operating, and Maintenance Agreement effective the date first above written.

BAYER MATERIALSCIENCE LLC

By: /s/ David Law

Name: David Law

Title: V.P. Basic Chemicals Production

EL DORADO NITROGEN, L.P.

By: /s/ Anne O. Rendon

Name: Anne O. Rendon

Title: President

EL DORADO CHEMICAL COMPANY

By: /s/ Tony Shelby

Name: Tony Shelby

Title: Vice President





LSB INDUSTRIES, INC.  
SUBSIDIARY LISTING  
Revised April 1, 2010

LSB INDUSTRIES, INC. (Direct subsidiaries in bold italics)

**Consolidated Industries Corp.**

Summit Machine Tool Manufacturing L.L.C. (*f/k/a* Summit Machine Tool Manufacturing Corp.)

LSB-Europa Limited

ClimateCraft Technologies, Inc.

Cherokee Nitrogen Holdings, Inc.

Pryor Chemical Company

Chemical Transport L.L.C.

ThermaClime, L.L.C. (*f/k/a* ThermaClime, Inc.)

The Climate Control Group, Inc.

XpediAir, Inc.

International Environmental Corporation

Climate Master, Inc.

ClimateCraft, Inc.

ThermaClime Technologies, Inc.

CEPOLK Holdings, Inc.

ClimaCool Corp.

TRISON Construction, Inc.

Koax Corp.

LSB Chemical Corp.

Northwest Financial Corporation

El Dorado Chemical Company

Chemex I Corp.

Cherokee Nitrogen Company

El Dorado Nitric Company

El Dorado Acid, L.L.C. (General Partner of El Dorado Nitrogen, L.P.)

El Dorado Nitrogen, L.P. (1% ownership)

El Dorado Acid II, L.L.C. (Limited Partner of El Dorado Nitrogen, L.P.)

El Dorado Nitrogen, L.P. (99% ownership)

**Prime Financial L.L.C. (*f/k/a* Prime Financial Corporation)**

Prime Holdings Corporation

Note: All subsidiaries are Oklahoma corporations, except for Climate Master, Inc., which is a Delaware corporation, and El Dorado Nitrogen, L.P., which is a Texas limited partnership.

**CERTIFICATION**

I, Jack E. Golsen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LSB Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Jack E. Golsen  
Jack E. Golsen  
Chairman of the Board and  
Chief Executive Officer

**CERTIFICATION**

I, Tony M. Shelby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LSB Industries, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in this case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2010

/s/ Tony M. Shelby  
Tony M. Shelby  
Executive Vice President of Finance  
and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"). I, Jack E. Golsen, Chairman of the Board and Chief Executive Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

/s/ Jack E. Golsen  
Jack E. Golsen  
Chairman of the Board and  
Chief Executive Officer  
(Principal Executive officer)

August 5, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein, and not for any other purpose.

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LSB Industries, Inc. ("LSB") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tony M. Shelby, Executive Vice President of Finance and Chief Financial Officer of LSB, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of LSB.

/s/ Tony M. Shelby  
Tony M. Shelby  
Executive Vice President of Finance and  
Chief Financial Officer  
(Principal Financial Officer)

August 5, 2010

This certification is furnished to the Securities and Exchange Commission solely for purpose of 18 U.S.C. §1350 subject to the knowledge standard contained therein and not for any other purpose.