

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended March 31, 1995

OR

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

For The transition period from to

Commission file number 1-7677

LSB INDUSTRIES, INC.

Exact name of Registrant as specified in its charter

DELAWARE

73-1015226

State or other jurisdiction of incorporation or organization

I.R.S. Employer Identification No.

16 South Pennsylvania, Oklahoma City, Oklahoma 73107

Address of principal executive offices (Zip Code)

(405) 235-4546

Registrant's telephone number, including area code

None

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

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

YES x NO

The number of shares outstanding of the Registrant's voting Common Stock, as of May 10, 1995 is 12,938,097 shares excluding 1,810,419 shares held as treasury stock.

PART I

FINANCIAL INFORMATION

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

The accompanying condensed consolidated balance sheet of LSB Industries, Inc. at March 31, 1995 and the condensed consolidated statements of income and cash flows for the three month periods ended March 31, 1995 and 1994 have been subjected to a review, in accordance with standards established by the American Institute of Certified Public Accountants, by Ernst & Young LLP, independent auditors, whose report with respect thereto appears elsewhere in this Form 10-Q. The financial statements mentioned above are unaudited and reflect all adjustments, consisting primarily of adjustments of a normal recurring nature, which are, in the opinion of management, necessary for a fair presentation of the interim periods. The results of operations for the three months ended March 31, 1995 are not necessarily indicative of the

results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1994, was derived from audited financial statements as of that date.

LSB INDUSTRIES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Information at March 31, 1995 is unaudited)
 (Dollars in thousands)

	March 31, 1995	December 31, 1994
ASSETS		
<hr/>		
Current assets:		
Cash and cash equivalents	\$ 4,534	\$ 2,610
Trade accounts receivable, net of allowance	48,459	42,720
Inventories:		
Finished goods	38,873	33,926
Work in process	12,185	9,796
Raw materials	17,917	15,611
Total inventory	<u>68,975</u>	<u>59,333</u>
Supplies and prepaid items	7,077	6,386
Total current assets	<u>129,045</u>	<u>111,049</u>
Property, plant and equipment, net	76,614	73,684
Investments and other assets:		
Loan receivable, secured by real estate	16,702	17,243
Other assets, net of allowance	20,072	19,305
	<u>\$ 242,433</u> =====	<u>\$ 221,281</u> =====

(Continued on following page)

LSB INDUSTRIES, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Continued)
 (Information at March 31, 1995 is unaudited)
 (Dollars in thousands)

	March 31, 1995	December 31, 1994
LIABILITIES, PREFERRED AND COMMON STOCKS AND OTHER STOCKHOLDERS' EQUITY		
<hr/>		
Current liabilities:		
Drafts payable	\$ 371	\$ 1,291
Accounts payable	33,455	29,496
Accrued liabilities	8,861	8,062
Current portion of long-term debt	11,809	9,716
Total current liabilities	<u>54,496</u>	<u>48,565</u>
Long-term debt	96,647	81,965
Contingencies (Note 7)		
Redeemable, noncumulative convertible preferred stock, \$100 par value; 1,588 shares issued and outstanding (1,597 in 1994)	151	152

Non-redeemable preferred stock, common stock and other stockholders' equity (Note 6):		
Series B 12% cumulative, convertible preferred stock, \$100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series 2 \$3.25 convertible, exchangeable Class C preferred stock, \$50 stated value; 920,000 shares issued and outstanding	46,000	46,000
Common stock, \$.10 par value; 75,000,000 shares authorized, 14,620,516 shares issued (14,620,156 in 1994)	1,462	1,462
Capital in excess of par value	37,370	37,369
Retained Earnings	13,515	12,883
	<u>100,347</u>	<u>99,714</u>
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 1,574,604 shares (1,559,590 in 1994)	9,008	8,915
	<u>91,139</u>	<u>90,599</u>
Total non-redeemable preferred stock, common stock and other stockholders' equity	<u>\$ 242,433</u>	<u>\$ 221,281</u>
	=====	=====

See accompanying notes

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
Three Months Ended March 31, 1995 and 1994
(Dollars in thousands, except per share amounts)

	1995	1994
	<u> </u>	<u> </u>
Revenues:		
Net sales	\$ 65,269	\$ 63,851
Other income	662	501
	<u>65,931</u>	<u>64,352</u>
Costs and expenses:		
Cost of sales	49,127	49,493
Selling, general and administrative	12,869	11,168
Interest	2,388	1,681
	<u>64,384</u>	<u>62,342</u>
Income from continuing operations before provision for income taxes	1,547	2,010
Provision for income taxes	99	152
Income from continuing operations	<u>1,448</u>	<u>1,858</u>
Income from discontinued operations, net of income taxes (Note 2)	-	346
Net income	<u>\$ 1,448</u>	<u>\$ 2,204</u>
	=====	=====
Net income applicable to common stock (Note 4)	<u>\$ 629</u>	<u>\$ 1,380</u>
	=====	=====
Average common shares outstanding (Note 4):		
Primary	13,552,256	14,413,581
Fully diluted	13,573,199	15,084,247
Earnings per common share (Note 4):		
Primary:		
Income from:		
Continuing operations	\$.05	\$.08
Discontinued operations	-	.02
Net income	<u>\$.05</u>	<u>\$.10</u>
	=====	=====
Fully diluted:		
Income from:		
Continuing operations	\$.05	\$.08

Discontinued operations	-	.02
Net income	\$.05	\$.10

See accompanying notes

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended March 31, 1995 and 1994
(Dollars in thousands)

	1995	1994
Cash flows from continuing operations:		
Income from continuing operations	\$ 1,448	\$ 1,858
Adjustments to reconcile income from continuing operations to cash flows provided (used) by continuing operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	1,667	1,671
Other	256	237
Provision for bad debts	180	367
Gain on sale of assets	(105)	(161)
Cash provided (used) by changes in assets and liabilities:		
Trade accounts receivable	(7,061)	(8,358)
Inventories	(8,625)	(717)
Supplies and prepaid items	(669)	2,831
Accounts payable	4,046	12,687
Accrued liabilities	878	(897)
Net cash provided (used) by continuing operations	(7,985)	9,518
Cash flows from investing activities of continuing operations:		
Capital expenditures	(4,563)	(3,975)
Principal payments on notes receivable	542	-
Proceeds from sales of equipment and real estate properties	456	780
Increase in other assets	(1,472)	(577)
Net cash used by investing activities of continuing operations	(5,037)	(3,772)

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(CONTINUED)
(Unaudited)
Three Months Ended March 31, 1995 and 1994
(Dollars in thousands)

	1995	1994
Cash flows from financing activities of continuing operations:		
Payments on long-term and other debt	\$ (666)	\$ (688)
Long-term and other borrowings	3,662	-
Net change in revolving debt facilities	13,779	23,910
Net change in drafts payable	(920)	(628)
Dividends paid on preferred stocks (Note 6)	(816)	(824)
Purchases of treasury stock (Note 6)	(93)	(343)
Net proceeds from issuance of common stock (Note 6)	-	46
Net decrease in receivables sold to discontinued operations	-	(20,087)

Net cash provided by financing activities of continuing operations	14,946	1,386
Net increase in cash and cash equivalents from continuing operations	1,924	7,132
Net decrease in cash and cash equivalents from discontinued operations	-	(2,222)
Net increase in cash and cash equivalents from all activities	1,924	4,910
Cash and cash equivalents at beginning of period	2,610	2,781
Cash and cash equivalents at end of period	\$ 4,534	\$ 7,691

See accompanying notes

Note 1:

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The accompanying financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. The Company's financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank") was sold on May 25, 1994. The condensed consolidated statement of income for the three months ended March 31, 1994 presents the operation of Equity Bank as income from discontinued operations. The condensed consolidated statement of cash flows for the three months ended March 31, 1994 has been restated for changes in balance sheet classification adopted at December 31, 1994, as a result of reclassification due to discontinued operations of the Company's Financial Services Business.

Note 2:

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On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994, (the "Acquisition Agreement"), the Company sold its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser") for approximately \$92 million. The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank.

Under the Acquisition Agreement and using the proceeds from sale of Equity Bank, the Company acquired from Equity Bank, prior to closing, certain subsidiaries of Equity Bank ("Retained Corporations") that own the real and personal property and other assets contributed by the Company to Equity Bank at the time of the acquisition of the predecessor of Equity Bank by the Company for Equity Bank's carrying value of the assets contributed of approximately \$67.4 million, which approximated fair value. The carrying value of the assets in the consolidated financial statements of the Company continues to be historical cost. At the time of closing of the sale of Equity Bank, the Company also acquired: (A) the loan and mortgage on and an option to purchase Equity Tower located in Oklahoma City, Oklahoma ("Equity Tower Loan"), for an amount equal to Equity Bank's carrying value of approximately \$13.9 million; (B) other real estate owned by Equity Bank that was acquired by Equity Bank through foreclosure for an amount equal to Equity Bank's carrying value of approximately \$3.6 million (the Equity Tower Loan and other real estate owned are collectively called the "Retained Assets"); and (C) certain other loans for \$3.1 million previously owned by Equity Bank. In addition, the Company acquired the outstanding accounts receivable sold to Equity Bank by the Company and its subsidiaries under various purchase agreements, dated March 8, 1988 (the "Receivables") for \$6.9 million, which approximated fair value.

Note 3:

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At March 31, 1995, the Company had net operating loss ("NOL") carryforwards for tax purposes of approximately \$42 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately \$630,000, which expire beginning in 1995.

The Company's provision for income taxes for the three months ended March 31, 1995 of \$0.1 million is for current state income taxes and federal alternative minimum tax.

Note 4:

Series B 12% preferred stock (\$3.00 per share)						(60)		(60)
Redeemable preferred stock (\$10.00 per share)						(16)		(16)
Series 2 preferred stock (\$.81 per share)						(743)		(743)
Dividend received on Common treasury stock						3		3
Purchase of treasury stock							(93)	(93)
		(1)						
Balance at March 31, 1994	14,621	\$1,462	\$48,000	\$37,370	\$13,515	\$(9,008)	\$(200)	\$91,139
	=====	=====	=====	=====	=====	=====	=====	=====

(1)

Includes 1,574,604 shares of the Company's Common Stock held in treasury. Excluding the 1,574,604 shares held in treasury, the outstanding shares of the Company's Common Stock at March 31, 1995 were 13,045,912.

Note 7:

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The Company's Chemical Business is in the process of completing the installation of an additional nitric acid plant in Arkansas. The Company anticipates the total expenditures to complete the installation will be approximately \$17.8 million, of which \$15.4 million had been incurred at March 31, 1995.

Following is a summary of certain legal actions involving the Company:

- A. In 1987, the U.S. Government notified one of the Company's subsidiaries, along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in (i) the estimated total cost of clean-up of the site and (ii) the percentage of the total waste which was alleged to have been contributed to the site by the Company, accordingly, no provision for any liability for the clean-up of this site which may result has been made in the accompanying financial statements. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.
- B. As a result of a preliminary environmental assessment report prepared by the State of Arkansas, the primary manufacturing facility of the Company's Chemical Business has been placed in the Environmental Protection Agency's ("EPA") tracking system of sites which are known or suspected to be a site of a release of hazardous waste (the "System"). Inclusion in the System does not represent a determination of liability or a finding that any response action is necessary. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment and advised the Company that the site has had certain releases of contaminants. On July 18, 1994, the Company received a report from the State of Arkansas which contained findings of alleged violations of certain environmental laws and requested the Company to conduct further investigations to better determine the compliance status of the Company and releases of contaminants at the site. On May 2, 1995, the Company signed a Consent Administrative Agreement ("Agreement") with the State of Arkansas. The Agreement provides for the Company to remediate and close a certain landfill, 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, and pay a civil penalty of \$25,000. While the Company is at this time unable to determine the ultimate cost of compliance with the Agreement, the Company has determined the subsidiary's cost to be at least \$450,000; therefore, the Company included a provision for environmental costs of \$450,000 in the 1994 results of operations. Based on information presently available, the Company does not believe that compliance with the Agreement, or the facility being placed in the System, should have a material adverse effect on the Company or the Company's financial condition.
- C. A subsidiary of the Company was named in April 1989 as a third party defendant in a lawsuit alleging defects in fan coil units installed in a commercial building. The amount of damages sought by the owner against the general contractor and the subsidiary's customer are substantial. The subsidiary's customer alleges that to the extent defects exist in the fan coil units, it is entitled to recovery from the subsidiary. The Company's subsidiary generally denies their customer's allegations and that any failures in the fan coil units were a result of improper design by the customer, improper installation, or other causes beyond the subsidiary's control. The subsidiary has in turn filed claims against

the suppliers of certain materials used to manufacture the fan coil units to the extent any failures in the fan coil units were caused by such materials. Discovery in these proceedings and settlement discussions are continuing. The Company does not believe resolution of the matter will have a material adverse effect on the Company or the Company's financial condition.

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

In 1994, the Company guaranteed approximately \$2 million of debt of a start-up aviation company in exchange for a 20% ownership interest, to which no value has been assigned as of March 31, 1995. This debt requires interest only payments until September 1996 at which time the outstanding principal and interest are due in full.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's March 31, 1995 Condensed Consolidated Financial Statements.

OVERVIEW

The Company is a diversified holding company which is engaged, through its subsidiaries, in the Chemical Business, the Environmental Control Business, the Automotive Products Business and the Industrial Products Business.

Information about the Company's continuing operations in different industry segments for the three months ended March 31, 1995 and 1994 is detailed below.

	Three Months Ended March 31, 1995	Three Months Ended March 31, 1994
	(In thousands) (Unaudited)	
Sales:		
Chemical	\$ 31,939	\$ 30,952
Environmental Control	21,622	20,252
Automotive Products	7,879	8,564
Industrial Products	3,829	4,083
	<u>\$ 65,269</u>	<u>\$ 63,851</u>
	=====	=====
Gross profit:		
Chemical	\$ 6,246	\$ 6,088
Environmental Control	6,685	5,387
Automotive Products	2,087	2,012
Industrial Products	1,124	871
	<u>\$ 16,142</u>	<u>\$ 14,358</u>
	=====	=====
Operating profit (loss):		
Chemical	\$ 2,927	\$ 2,889
Environmental Control	2,976	2,093
Automotive Products	48	(115)
Industrial Products	(350)	(217)
	<u>5,601</u>	<u>4,650</u>
General corporate expenses	(1,666)	(959)
Interest expense	(2,388)	(1,681)
	<u>Income from continuing operations before provision for income taxes</u>	<u>Income from continuing operations before provision for income taxes</u>
	<u>\$ 1,547</u>	<u>\$ 2,010</u>
	=====	=====

RESULTS OF OPERATIONS

Three months ended March 31, 1995 vs. Three months ended March 31, 1994.

Revenues

Total revenues for the three months ended March 31, 1995 and 1994 were \$65.9 million and \$64.4 million, respectively (an increase of \$1.5 million). Sales increased \$1.4 million.

Net Sales

Consolidated net sales included in total revenues for the three months ended March 31, 1995 were \$65.3 million, compared to \$63.9 million for the first three months of 1994, an increase of \$1.4 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of \$1 million, primarily due to the higher price of ammonia being partially passed through to customers in the form of price increases, (ii) increased sales in the Environmental Control Business of \$1.4 million primarily due to increased heat pump sales to a customer which is retrofitting certain of the air conditioning and heating systems on a US military base, offset by decreased fan coil sales resulting from filling excess backlog orders in the first quarter of 1994 which had been created by the effects of a strike in 1992, (iii) decreased sales in the Automotive Products Business of \$.7 million due to a reduced customer base, and (iv) decreased sales in the Industrial Products Business of \$.3 million, primarily due to decreased sales to a foreign customer offset by increases in sales of machine tools.

Gross Profit

Gross profit was 24.7% for the first three months of 1995, compared to 22.5% for the first three months of 1994. The improvement in the gross profit percentage was due primarily to (i) higher prices and improved absorption of costs due to increased production volumes in the Environmental Control Business, (ii) higher prices in the Industrial Products Business, and (iii) discontinued sales to some low margin/high volume customers in the Automotive Products Business.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 19.7% in the three months ended March 31, 1995 and 17.5% in the first three months of 1994. This increase in SG&A as a percent of sales was primarily due to: (i) decreased sales to a foreign customer in the Industrial Products Business with a less than equivalent corresponding reduction in SG&A costs, (ii) costs incurred on abandoned acquisitions and certain long-term projects, (iii) higher sales commissions expense in the Environmental Control Business and (iv) increased insurance costs in 1995 versus 1994. These factors were offset in part by sales increases due to higher ammonia prices in the Chemical Business with no corresponding increase in SG&A costs.

Interest Expense

Interest expense for the Company was approximately \$2.4 million during the three months ended March 31, 1995 compared to approximately \$1.7 million during the three months ended March 31, 1994. The increase primarily resulted from higher interest rates and higher average balances of borrowed funds.

Income Before Taxes

The Company had income from continuing operations before income taxes of \$1.5 million in the first quarter of 1995 compared to \$2 million in the three months ended March 31, 1994. The decreased profitability of \$.5 million was primarily due to higher SG&A costs and interest expense offset by improved gross profit as previously discussed.

Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income

tax purposes as discussed elsewhere herein and in Note 3 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the three months ended March 31, 1995 and the three months ended March 31, 1994 are for current state income taxes and federal alternative minimum taxes.

Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business sold in May 1994. Income from discontinued operations, net of expenses, was \$.3 million in the first quarter of 1994.

Liquidity and Capital Resources

The Company is a diversified holding company and its liquidity is dependent, in large part, on the operations of its subsidiaries and credit agreements with lenders.

Sources of Funds

In December 1994, the Company and certain of its subsidiaries finalized a new working capital line of credit. This line of credit consolidated substantially all of the Company's working capital lines of credit into one comprehensive funding source. This working capital line of credit is evidenced by six separate loan agreements ("Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory and proprietary rights of the Company and the subsidiaries that are parties to the Agreements. The Agreements provide for revolving credit facilities ("Revolver") for total direct borrowings up to \$65 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables and bears interest at the Lender's prime lending rate plus one-half percent (.5%). The rate in effect at March 31, 1995 was 9.5%. The initial term of the Agreements is through December 31, 1997, and is renewable thereafter for successive thirteen month terms. The Lender or the Company may terminate the Agreements at the end of the initial term or at the end of any renewal term without penalty, except that the Company may terminate the Agreements after the second anniversary of the Agreements without penalty. At March 31, 1995, the available borrowings, based on eligible collateral, approximated \$5.2 million. Borrowings under the Revolver outstanding at March 31, 1995, were \$57.8 million. The Agreements require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. The annual interest on the outstanding debt under the Revolver at March 31, 1995 at the rate then in effect would be approximately \$5.5 million.

In addition to the Agreements discussed above, the Company has the following term loans in place:

- (1) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corporation ("Chemical"), which substantially comprise the Company's Chemical Business, are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended, provides for a seven year term loan of \$28.5 million ("Term Loan"). The balance of the Term Loan at March 31, 1995 was \$15.8 million. Annual principal payments on the Term Loan are \$5.1 million in 1995, \$5.2 million in 1996 and a final payment of \$5.5 million on March 31, 1997. The Loan Agreement also provides for a revolving credit facility which provides for a maximum available credit line of approximately \$5.6 million at March 31, 1995, all of which was borrowed at March 31, 1995. The availability under this revolving credit facility decreases by \$1.8 million annually in 1995 and 1996 with the remainder due in March 1997. Annual interest at the agreed to interest rates, if calculated on the aggregate \$21.4 million outstanding balance at March 31, 1995 would be approximately \$2.6 million. The Term Loan is secured by substantially all of the assets not otherwise pledged under the credit facility previously discussed and capital stock of Chemical. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, is .65:1 or below.

(2) The Company's wholly-owned subsidiary, DSN Corporation ("DSN") is a party to several loan agreements with a financing company (the "Financing Company") for two (2) projects which DSN will complete during 1995. These loan agreements are for a construction loan (the "Construction Loan") which provides for \$16.5 million to be used to construct, equip, reerect, and refurbish a nitric acid plant (the "DSN Plant") being placed into service by the Chemical Business at it's El Dorado, Arkansas facility, a loan for approximately \$1.2 million to purchase additional railcars to support the DSN Plant (the "Railcar Loan"), and a loan for approximately \$1.1 million to finance the construction of a mixed acid plant (the "Mixed Acid Plant") in North Carolina (the "Mixed Acid Loan"). At March 31, 1995, DSN had outstanding borrowings of \$12.8 million under the Construction Loan and no outstanding borrowings under the Railcar Loan or the Mixed Acid Loan. The Construction Loan will be repaid upon the completion of construction and acceptance of the DSN Plant as capable of production, with proceeds of a permanent loan ("DSN Permanent Loan"). Completion of construction, funding of the remaining \$3.7 million and conversion to the DSN Permanent Loan are expected to occur during late May or early June 1995. The DSN Permanent Loan will have a repayment schedule of eighty-four (84) equal consecutive monthly installments of principal and interest, payable in arrears. The interest rate per annum will fix for the entire loan term at the rate per annum for a five year United States Treasury Security ("Treasury Rate") as determined at the close of business on the third business day prior to the making of the DSN Permanent Loan plus 2.70%. As of May 1, 1995, the Treasury Rate was 6.87%, which would result in an interest rate of 9.57%. The Railcar Loan and the Mixed Acid Loan will be repaid under the same terms as the Construction Loan. Upon the earlier of completion of construction of the Mixed Acid Plant or August 1, 1995, the Mixed Acid Loan will have a repayment schedule of eighty-four (84) equal consecutive monthly installments of principal and interest, payable in arrears. The rate of interest on the Mixed Acid Loan will be the Treasury Rate, as defined above, plus 2.70%.

(3) A subsidiary of the Company ("Borrower") entered into a loan agreement ("Agreement"), effective as of May 4, 1995, with Bank IV Oklahoma, N.A. ("Bank"). Pursuant to the Agreement, the Bank loaned \$9 million to the Borrower, evidenced by a Promissory Note ("Note"). The Note bears interest per annum at a rate equal to one percent (1%) above the prime rate in effect from day to day as published in the Wall Street Journal. The outstanding principal balance of the Note is payable in sixty (60) monthly payments of principal and interest commencing on May 31, 1995. Payment of the Note is secured by a first and priority lien and security interest in and to the Borrower's right, title, and interest in the loan documents relating to the real property and office building known as the Bank IV Tower located in Oklahoma City, Oklahoma (the "Tower"), the Management Agreement relating to the Tower, and the Option to Purchase Agreement covering the real property on which the Tower is located.

Foreign Subsidiary Financing

On March 7, 1995 the Company guaranteed a revolving credit facility (the "Facility") between its wholly-owned Australian subsidiary Total Energy Systems, Ltd. ("TES") and Bank of New Zealand. The Facility is intended to assist TES in meeting its working capital and trade finance requirements. The Facility allows for borrowings up to an aggregate of approximately \$3.7 million based on specific percentages of qualified eligible assets. Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee from the Company. The interest rate on this debt is the Bank of New Zealand Corporate Base Lending Rate plus .5% (11.5% at May 1, 1995). The Facility is subject to renewal at the discretion of Bank of New Zealand based upon annual review. The next annual review is due on March 31, 1996.

Cash Flows

Net cash used by operating activities of continuing operations in the first three months of 1995, after adjustment for net non-cash expenses of \$2 million, was \$8 million. This cash usage included the following changes in assets and liabilities: (i) increases in accounts receivable of \$7.1 million, (ii) inventory increases of \$8.6 million, (iii) increases in supplies and prepaid items of \$0.7 million, and (iv) increases in accounts payable and accrued liabilities of \$4.9 million. The increase in accounts receivable was due primarily to increased sales by approximately \$10 million over the fourth quarter of 1994 in all businesses, including seasonal sales increases in the Chemical Business. The increase in inventories was due primarily to higher sales levels in all businesses, stocking up in the Chemical Business for the spring fertilizer season and increases in the Automotive Products Business due to purchases of new products in excess of the sales demand for those products. The increase in supplies and prepaid items resulted primarily from increased repair supplies in the Chemical Business. The increase in accounts payable and accrued liabilities was due primarily to increased inventory purchases.

Investing activities during the first three months of 1995 included (i) capital expenditures of \$4.6 million, relating primarily to the construction of a new nitric acid production facility in the Chemical Business, (ii) principal payments received on certain loans receivable of \$.5 million, (iii) proceeds of \$.5 million from the sale of assets, primarily real estate, and (iv) an increase in other assets of \$1.5 million due primarily to deferred costs of certain long-term projects. Cash flows provided by financing activities included net borrowings of \$15.9 million, offset by dividends paid of \$.8 million and treasury stock purchases of \$.1 million.

In summary, during the three months ended March 31, 1995, recurring cash requirements for required debt service payments, dividends on Company stocks, and purchases of treasury stock approximated \$1.5 million. In addition, the Company spent approximately \$4.6 million for capital improvements, primarily in connection with the DSN Plant being constructed by the Chemical Business. The expenditures noted above, plus the cash used by operations of \$8 million, resulted in a borrowing requirement of approximately \$14.1 million against the Company's revolving credit facilities.

Future cash requirements include working capital requirements for anticipated sales increases in all businesses, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the revolving credit facilities previously discussed. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Environmental Control and Automotive Products Businesses, both of which have increased their inventories beyond required levels. In the first quarter of 1995, the Chemical Business incurred additional costs of \$2.9 million to continue installation of the DSN Plant. The Company anticipates incurring \$2.4 million in the second quarter to complete this project, which is expected to begin full production by June 1995. As previously noted, the Company expects to borrow an additional \$3.7 million during the second quarter related to the DSN Plant. During the first quarter of 1995, the Chemical Business spent \$.4 million in connection with the Mixed Acid Plant. An additional \$1.1 million is expected to be incurred on the Mixed Acid Plant in 1995. The Company also has planned capital expenditures for the Environmental Control Business to acquire certain machinery and equipment for approximately \$3 million in 1995.

Management believes that cash flows from operations, the Company's revolving credit facilities, and other sources will be adequate to meet its presently anticipated capital expenditure, working capital, debt service, and dividend requirements. The Company currently has no material commitment for capital expenditures, other than those related to the Chemical Business completion of an additional concentrated nitric acid plant and a mixed acid plant as discussed above.

In May 1995, the Company purchased 226,926 shares of treasury stock for an aggregate purchase price, including commissions, of approximately \$1.2 million.

During the first quarter of 1995, the Company declared and paid the following aggregate dividends: (1) \$12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock, which is the annual dividend on this series of preferred stock for 1995; (2) \$.81 per share on each outstanding share of its \$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; and (3) \$10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock, which is the annual dividend on this series of preferred stock for 1995. The Company expects to continue the payment of an annual cash dividend on its common stock equal to \$.06 per share in the future in accordance with the policy adopted by the Board of Directors and the cash dividends on the Company's outstanding series of preferred stock pursuant to the terms of such preferred stock.

Foreign Sales Contract

In 1992, a subsidiary of the Company signed an agreement to supply a foreign customer with equipment, technology and technical assistance to manufacture certain types of automotive products. Payments scheduled under the contract totaled \$44 million, \$17 million of which has been billed with \$13.9 million collected by the Company as of March 31, 1995. In addition, the subsidiary agreed to use its best efforts to purchase approximately \$6 million of bearing products each year over the next five (5) years.

In May 1995, the subsidiary negotiated an amendment to the Agreement with the foreign customer and an agreement with a syndication of foreign lenders whereby the lenders acquired, without recourse to the Company or such subsidiary, approximately \$24 million of the unpaid contract amount billable by the Company. Under the amendment with the foreign customer and the agreement with the foreign lenders, the Company received approximately \$5

million, net of fees, and a commitment from the foreign customer to provide approximately \$21 million of bearing products, without charge. The Company is to receive such bearing products when and if the foreign customer repays the debt of the foreign customer discussed above which the foreign lenders acquired from the subsidiary. The commitment of the foreign customer to provide the Company \$21 million in bearing products, at no additional cost, is to be further increased to include interest at 7 1/2% per annum until such commitment has been fulfilled by the delivery of bearing products to the Company, which delivery is not expected to begin prior to the year 2000. In connection with the amendment with the foreign customer, the Company has modified its purchase commitment from a best efforts arrangement to a firm commitment to purchase approximately \$6 million of bearing products over each of the next five years, at predetermined prices, not in excess of market prices, subject to the customer's ability to deliver product to the Company meeting defined quality standards.

Revenues, costs and profits related to the contract are being recognized in two separate phases. The first phase involves the purchase, modification, development and delivery of the machinery, tooling, designs, and other technical information and services. Sales recognized during this phase have been limited to cash receipts and approximately \$3.1 million originally expected to have been received in 1993 through 1995 which \$3.1 million is included in other assets in the accompanying condensed consolidated balance sheet at March 31, 1995.

Contract revenues related to bearing products to be received under the \$21 million delivery commitment discussed above, will be deferred until such products are received.

Potential Business Acquisitions

During 1994 the Company, through a subsidiary, loaned \$2.1 million to a French manufacturer of HVAC equipment. Under the loan agreement, the Company has the option to exchange its rights under the loan for 80% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its \$2.1 million loan. At this time the decision has not been made to exercise such option and the \$2.1 million loan net of a \$650,000 reserve is carried on the books as a note receivable in other assets.

The Company is presently negotiating a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization to enhance the marketing of the Company's air conditioning products. The Company anticipates that the stock option will have a four (4) year term, and a total option granting price of \$1 million payable in installments during the first year of the stock option, with an option fee of \$.5 million payable upon signing of the option and annual \$.1 million payments for yearly extensions of the stock option thereafter for up to three (3) years. Upon exercise of the stock option by the Company, or upon the occurrence of certain performance criteria which would give the grantors of the stock option the right to accelerate the date on which the Company must elect whether to exercise, the Company shall pay certain cash and issue promissory notes for the balance of the exercise price of the subject shares. The total exercise price of the subject shares is \$4 million, less the amounts paid for the granting and any extensions of the stock option. The Company expects to obtain the stock option in 1995, however, there are no assurances that such stock option will be obtained or that it will ultimately be exercised.

A subsidiary of the Company invested approximately \$2.8 million during May 1995 to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project has been awarded a contract to retrofit residential housing units at a US Army base. The contract calls for installation of energy-efficient equipment (including air conditioning and heating equipment), which will reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent (77%) of all energy and maintenance savings during the twenty (20) year contract term. The Project estimates that the cost to retrofit the residential housing units at the US Army base will be approximately \$17.9 million. The Project has received a loan from a lender to finance up to approximately \$14 million of the cost of the Project. The Company is not guaranteeing any of the obligations of the Project.

The Company believes it will be able to finance the cash requirements associated with the stock option agreement and the Project from existing cash reserves and cashflow from Company operations in the event the Company elects to consummate the stock option agreement discussed above.

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

Availability of Company's Loss Carryovers

The Company anticipates that its cash flow in future years will benefit to some extent from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years. As of March 31, 1995, the Company had available NOL carryovers of approximately \$42 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1993, and on the Company's estimates for 1994. These NOL carryovers will expire beginning in the year 1999.

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

Contingencies

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

ERNST & YOUNG LLP

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100 North Broadway
Oklahoma City, OK 73102
Phone: 405 278 6800
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Independent Accountants' Review Report

Board of Directors
LSB Industries, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of LSB Industries, Inc. and subsidiaries as of March 31, 1995, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 1995 and 1994. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of LSB Industries, Inc. as of December 31, 1994, and the related consolidated statements of operations, non-redeemable preferred stock, common stock and other stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 21, 1995, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1994, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

There are no additional material legal proceedings pending against the Company and/or its subsidiaries not previously reported by the Company in Item 3 of its Form 10-K for the fiscal period ended December 31, 1994, which Item 3 is incorporated by reference herein.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits.

The Company has included the following exhibits in this report:

4.1 Loan Agreement dated as of May 4, 1995, by and among Prime Financial Corporation, as borrower, LSB Industries, Inc, Summit Machine Tool Manufacturing Corp., L&S Bearing Co., International Environmental Corporation, El Dorado Chemical Company, Climate Master, Inc., as the guarantors, and Bank IV Oklahoma, N.A. The total amount of long-term debt represented by this loan agreement does not exceed ten percent of the total assets of the registrant and its subsidiaries on a consolidated basis; therefore, no copy of such loan agreement has been filed herewith. Rather, the Company agrees to furnish a copy of such loan agreement to the Commission upon request.

4.2 First Amendment to Preferred Share Purchase Rights Plan, dated as of May 24, 1994, between the Company and Liberty National Bank and Trust Company of Oklahoma City.

10.1 First Amendment to Non-Qualified Stock Option Agreement, dated March 2, 1994, and Second Amendment to Stock Option Agreement, dated April 3, 1995, each between the Company and Jack E. Golsen.

10.2 Pre-payment Agreement, dated April 20, 1995, and Supply Agreement, dated May 8, 1995, each by and between L&S Automotive Products Company, Inc. and ZVL-LSA A.S. and each pertaining to the Technical License, Technology Assistance, Engineering and Manufacturing Plant Sales Agreement, dated July 6, 1992, between L&S Automotive Products Company, Inc. and ZVL-ZKL A.S., which the Company hereby incorporates by reference from Exhibit 28.1 to the Company's Form 10-Q for the quarter ended September, 30, 1992.

11.1 Statement Re: Computation of Per Share Earnings.

15.1 Letter Re: Unaudited Interim Financial Information.

27.1 Financial Data Schedule

(B) Reports of Form 8-K.

The Company did not file any reports on Form 8-K during the quarter ended March 31, 1995.

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 19th day of May, 1995.

LSB INDUSTRIES, INC.

By: /s/ Tony M. Shelby

Tony M. Shelby,
Senior Vice President of Finance
(Principal Financial Officer)

By: /s/ Jim D. Jones

Jim D. Jones
Vice President, Controller and
Treasurer (Principal Accounting Officer)

FIRST AMENDMENT TO PREFERRED SHARE PURCHASE RIGHTS PLAN
RIGHTS AGREEMENT BETWEEN LSB INDUSTRIES, INC. AND
THE LIBERTY NATIONAL BANK AND TRUST COMPANY
OF OKLAHOMA CITY, N.A. (RIGHTS AGENT)
DATED AS OF FEBRUARY 16, 1989

THIS FIRST AMENDMENT TO PREFERRED SHARE PURCHASE RIGHTS PLAN ("Amendment") is hereby entered into between LSB Industries, Inc. (the "Company") and THE LIBERTY NATIONAL BANK AND TRUST COMPANY OF OKLAHOMA CITY ("Liberty") and shall be deemed effective as of the 24th day of May, 1994.

W I T N E S S E T H:

WHEREAS, the Company and Liberty, as Rights Agent, entered into a Rights Agreement dated as of February 16, 1989 (the "Rights Agreement"); and

WHEREAS, Section 27 of the Rights Agreement permits the Company to amend or supplement the Rights Agreement without the approval of the holders of the Rights (as defined in the Rights Agreement) or the Rights Certificates (as defined in the Rights Agreement) in order to cure any ambiguity, to correct or supplement any provision of the Rights Agreement which may be defective or inconsistent with any other provisions in the Rights Agreement, or to make any other changes or amendments to any of the provisions contained in the Rights Agreement or with respect to the Rights which the Company may deem necessary or desirable, and with any such amendment or supplement to be evidenced by a writing signed by the Company and Liberty as the Rights Agent; and

WHEREAS, neither as of the date hereof nor as of the date that the Company sold, directly or indirectly, all of the outstanding shares of stock of Equity Bank for Savings, F.A. ("Equity Bank") has (i) any person become an Acquiring Person under the terms of the Rights Agreement or (ii) there occurred a Distribution Date under the terms of the Rights Agreement; and

WHEREAS, the Company and Liberty desire to amend the Rights Agreement to eliminate from the provisions of clause (c) of Section 13 of the Rights Agreement the sale or transfer of the outstanding stock or the assets of Equity Bank by the Company or the earning power attributable to Equity.

NOW, THEREFORE, the Rights Agreement is hereby amended as follows:

1. Clause (c) of Section 13 of the Rights Agreement is hereby amended by adding after the end of the parenthetical and before the word "to" in the 12th line on page 38 of the Rights Agreement the following words:

". . . , except for the sale of Equity Bank for Savings, F.A. ("Equity Bank") or any or all of the assets of Equity Bank or the earning power attributable to Equity Bank, . . ."

2. This Amendment amends and modifies the Rights Agreement only to the extent specifically amended or modified herein and no other terms, conditions or provisions of the Rights Agreement are amended or modified by this Amendment.

3. The Rights Agreement, as amended and modified by this Amendment, remains in full force and effect pursuant to its terms.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and attested on April 26, 1995, effective as of the 24th day of May, 1994.

LSB INDUSTRIES, INC.

By: _____
Title: President

ATTEST:

Secretary

[SEAL]

LIBERTY NATIONAL BANK & TRUST
COMPANY OF OKLAHOMA CITY, N.A.
("Rights Agent")

By: _____
Title: _____

ATTEST:

_____ Secretary

[SEAL]

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EXTENSION OF NON-QUALIFIED STOCK OPTION AGREEMENT
BETWEEN LSB INDUSTRIES, INC AND JACK E. GOLSEN

Pursuant to the authorization of the LSB Industries, Inc. Board of Directors at a meeting held on February 10, 1994, the Non-Qualified Stock Option Agreement originally made the 1st day of June 1989 between LSB Industries, Inc. and Jack E. Golsen (the "Agreement") is hereby amended as set forth below. This amendment shall be effective immediately upon execution by the parties.

1. The last sentence of Section 1. of the Agreement is amended to read:

The Board of Directors of the Company originally adopted and granted this option on June 1, 1989 and extends this option on February 10, 1994 for an additional five (5) year period beginning on June 1, 1994 and terminating on June 1, 1999.

2. Section 3. of the Agreement is amended to read:

Grant of Option and Option Price. Subject to the terms and conditions hereof, the Company hereby grants to Optionee as of the close of business on the first day of June, 1989 through June 1, 1994 and the Company hereby extends the option effective June 1, 1994 through June 1, 1999, the right, privilege and option to purchase 165,00 shares of the Company's common stock, par value \$.10, at an option price of \$2.6256 shares.

3. Section 6.(b) is hereby amended to read as follows:

(b) On June 1, 1999.

Except as amended hereby the terms and conditions of the Agreement, attached hereto as Exhibit 1, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereunto have caused this Agreement to be executed this 2nd day of March, 1994.

LSB Industries, Inc.

By: /s/ Tony M. Shelby

Tony M. Shelby
Senior Vice President

Attest:

/s/ David Shear

Secretary

"OPTIONEE"

/s/ Jack E. Golsen

Jack E. Golsen

AMENDMENT TO NON-QUALIFIED STOCK OPTION AGREEMENT
BETWEEN LSB INDUSTRIES, INC. AND JACK E. GOLSEN

Pursuant to the authorization of the LSB Industries, Inc. ("LSB") Board of Directors, as set forth in a unanimous consent by the Board of Directors of LSB dated April 3, 1995, the Non-Qualified Stock Option Agreement originally made the 1st day of June, 1989 between LSB Industries, Inc. and Jack E. Golsen (the "Agreement") is hereby amended as set forth below. This amendment shall be effective immediately upon execution by the parties.

1. Section 4. of the Agreement is amended to read:

Time of Exercise of Option.

(a) If this Option Agreement has not been terminated pursuant to

Section 6 hereof, subject to the terms and conditions contained herein, the option herein granted may be exercised by Optionee, in whole or in part, in the following manner during a four (4) year period commencing on June 1, 1995, unless waived by the Board of Directors of the Company or a Committee thereof: For three (3) calendar years, commencing on June 1, 1995, there shall be a limit on the number of shares covered by this Option that may be exercised, in whole or in part, by the Optionee in a calendar year to Thirty Three Thousand (33,000) shares or twenty percent (20%) of the total number of option shares and for the fourth (4th) calendar year, commencing on June 1, 1998, the number of shares that may be exercised, in whole or in part, by the Optionee shall be Sixty-Six Thousand (66,000) shares or forty percent (40%) of the total number of option shares; provided however, that the right to exercise the option shall be cumulative.

(b) Upon the death of Optionee or a change in control of the Company, this Option shall become immediately exercisable in full, notwithstanding the four (4) year vesting schedule provided herein. A "change in control" shall be deemed to have occurred upon any of the following events: (i) consummation of any of the following transactions: any merger, recapitalization, or other business combination of the Company pursuant to which the Company is the non-surviving corporation, unless the majority of the holders of Common Stock immediately prior to such transaction will own at least fifty percent (50%) of the total voting power of the then outstanding securities of the surviving corporation immediately after such transaction; (ii) a transaction in which any person, corporation or other entity (A) shall purchase any Common Stock pursuant to a tender offer or exchange offer, without the prior consent of the Board of Directors of (B) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Company representing fifty percent (50%) or more of the total voting power of the then outstanding securities of the Company; or (iii) if, during any period of two (2) consecutive years, individuals who, at the beginning of such period, constituted the entire Board of Directors and any new director whose election by the Board of Directors, or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election by the stockholders was previously so approved, cease for any reason to constitute a majority thereof.

(c) The Board of Directors may, in its sole discretion, accelerate the vesting of all or any part of this Option and/or waive any limitations or restrictions, if any, for all or any part of this Option.

Except as amended hereby the terms and conditions of the Agreement and amendments thereto, attached hereto as Exhibit 1, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereunto have caused this Agreement to be executed this 7th day of April, 1995.

LSB Industries, Inc.

By: /s/ Tony M. Shelby

Tony M. Shelby
Senior Vice President

Attest:

/s/ David Shear

Secretary

"OPTIONEE"

/s/ Jack E. Golsen

Jack E. Golsen

PRE-PAYMENT AGREEMENT

THIS AGREEMENT, dated the 20th day of April, 1995, by and between ZVL-LSA, a.s., a corporation organized and existing under the laws of the Slovak Republic and having its principal place of business at Nadrazna, SK-909 01 Skalica, Slovak Republic (hereinafter referred to as "Seller"); and L&S Automotive Products Co., a corporation organized and existing under the laws of the State of Oklahoma and having its principal place of business at 16 South Pennsylvania, Oklahoma City, OK 73101, U.S.A. (hereinafter referred to as "Purchaser");

W I T N E S S E T H:

WHEREAS Purchaser desires to acquire tapered automotive roller bearings, as more specifically defined herein, from Seller, and Seller desires to deliver such products on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein, the parties hereto agree as follows:

ARTICLE I. Definitions.

1.1 As used herein, the term "Products" shall mean tapered automotive roller bearings with the specifications as described in Exhibit A.

1.2 As used herein, the term "Minimum Volume" shall mean, Products in the aggregate ordered by Purchaser for delivery and shipped from Seller's plant during each semi-annual (or other) period identified on Exhibit B and having a value as further set forth on such exhibit. The Purchaser also agrees to comply with the provisions of the Technical License, Technology Assistance, Engineering and Manufacturing Plant Sales Agreement dated July 6, 1992 between Seller and Purchaser (along with any amendments and addendums thereto especially the provisions concerning the obligatory purchase of products (the "L&S Agreement")).

ARTICLE II. Sale and Purchase of the Products

2.1 Subject to the terms and conditions set forth herein, Purchaser agrees to acquire from Seller and Seller agrees to deliver to Purchaser during the term of this Agreement Products in an amount equal to the Minimum Volume for each semi-annual period identified on Exhibit B.

2.2 For each period identified on Exhibit B during the term of this Agreement, Purchaser agrees to place orders or have orders placed with Seller, for delivery from Seller of Products in an amount equal to or greater than the Minimum Volume, as calculated in accordance with Section 1.2 hereof. Purchaser shall place such orders prior to the commencement of the semi-annual period in which delivery is to be made by Seller.

ARTICLE III. Product Specifications

3.1 Except as otherwise agreed upon by the parties, it is the intent of the parties hereto that the Products shall be manufactured in the same manner and will contain the same specifications as equivalent products which Seller previously supplied to Purchaser which meet the acceptance standards under Article IV below.

ARTICLE IV. Acceptance Standards

4.1 Exhibit A contains quality specifications, mutually agreed upon by the parties hereto, which shall govern acceptance of the Products sold hereunder by Purchaser. Such specifications may be modified as agreed to in writing by the parties.

ARTICLE V. Quality Control

5.1 Seller shall be solely responsible for assuring the quality of the Products and their conformity to the standards set forth in Exhibit A.

5.2 In the event Purchaser shall receive Products from Seller that do not comply with this warranty, Purchaser shall immediately notify Seller of such nonconformity and shall instruct Seller to suspend future shipments of the Product. A third party independently qualified inspection company (the "Company") must visit the Seller's production facilities in Skalica within 10 days of Purchaser notifying Seller of receipt of nonconforming Products. Seller agrees to provide such Company's employees

and/or agents full access to Seller's production facilities including access to all materials used in connection with the Products, the energy sources utilized in connection with the Products, the energy sources utilized in connection with manufacture of the products and books and records relating to the specifications used in the manufacture of the Products. Within 10 days of the arrival of such Company's employees or agents at Seller's facility in Skalica, the employees and/or agents of such Company shall submit a written report to Seller and Purchaser stating whether Seller's Products conform to the specifications set forth in Exhibit A. Upon receipt of a report specifying that Seller's Products meet the specifications in Exhibit A, Seller may resume and continue delivery of Products and Purchaser must accept such immediate and future deliveries, and Purchaser agrees to absorb the Company's costs for the investigation. If the report states that the Seller's Products do not meet the specifications in Exhibit A, Seller agrees to absorb the Company's costs for the investigation and Seller shall have two options: (i) make sure changes that are necessary to insure that the Products meet the specifications in Exhibit A within 20 days, and deliver conforming replacement Products to Purchaser within 30 days of implementing such changes or (ii) purchase products made by other parties which meet the specifications set forth in Exhibit A and deliver such substitute products to Purchaser within 180 days. Seller shall have the right and obligation to arrange for the disposition of the affected product at its sole cost and expense. Seller and Purchaser agree to abide by the decision of the Company and comply with the provisions of this Section 5.2.

5.3 Notwithstanding the sole responsibility of Seller with regard to quality control, Purchaser shall have access to Seller's production facilities during normal business hours with reasonable notice to Seller, in order to verify that the Products conform to the specifications set forth in Exhibit A.

5.4 Seller shall maintain appropriate records of the specifications used in the manufacture of all Products. These records shall be made available to Purchaser upon reasonable request or during a visit by Purchaser described in Section 5.3.

ARTICLE VI. Price

6.1 The total contract price for the Products shall be as set forth in Exhibit B. The selling price for the Products at the time of each purchase order shall be agreed to by the parties; provided, however, in no event shall the selling prices be increased or decreased more than the percentage (%) determined by the following from one year to the next:

- 1) the inflation or deflation rate in the U.S.A. as measured by the Wholesale Price Index as published by the U.S. Department of Commerce; and provided, however, that
- 2) prices will not increase or decrease beyond the increases or decreases announced and published by major competitive bearing companies within the U.S. such as Federal Mogul, SKF and Chicago Rawhide during the period year and the Purchaser agrees to provide, upon written request, information as to the pricing by those companies, to the extent available.

6.2(a)(1) If Purchaser stops issuing delivery orders because of issues relating to quality of the Products under that Supply Agreement dated as of even date herewith between Purchaser and Seller and, as a result thereof, certain parties who are holders of drafts ("Drafts") and creditors to Seller claim under a guarantee or aval issued by Vseobecna Uverova Banka, a.s. ("VUB"), dated as of even date herewith, then the Basic Amount under this Agreement shall be automatically reduced by the amount of any payment by VUB, and Exhibit B shall be recalculated.

(2) If thereafter, the Company states in its report delivered under Section 5.2, that the Products meet the specifications in Exhibit A, then any reduction of Minimum Volume under this Agreement shall become "permanent" and the amounts due under Exhibit B shall be recalculated.

(3) If the Company states in its report that the Products do not meet the specifications in Exhibit A then any reduction in Minimum Volume is reinstated.

(b) If there exists sufficient funds in the escrow account established pursuant to that Escrow Agreement of even date herewith at any time to pay the drafts (and as a result, there is no demand under the guarantees or avals), then there shall be no reduction in the Minimum Volume under this Agreement due.

ARTICLE VII. Payment

7.1 The Seller acknowledges as of the date of this Agreement, it is obligated to deliver Products, limited exclusively to the Products in Exhibit A, to the Purchaser, at no additional cost to the Purchaser, the Products equal to the amount set forth on Exhibit B.

ARTICLE VIII. Delivery

8.1 Delivery of the Products by Seller to Purchaser shall be made FOB Hamburg or other European port, such other location as the parties may, upon mutual agreement, from time to time designate, which agreement of Purchaser shall not be unreasonably withheld. Any freight and insurance expense from Skalica, Slovak Republic, to such port shall be borne solely by Seller.

8.2 Delivery shall be deemed complete when Seller gives Purchaser notice that a shipment of Products ordered by Purchaser is available for pick-up at Hamburg or such other European Port or such other location as the parties may, upon mutual agreement, designate.

ARTICLE IX. Title/Risk of Loss

9.1 Title and risk of loss or damage to the Products sold hereunder shall pass to Purchaser when Seller, pursuant to an order placed by Purchaser, delivers the Products in accordance with Section 8.2.

ARTICLE X. Warranty, Indemnity

10.1 IN LIEU OF ALL OTHER WARRANTIES (INCLUDING MERCHANTABILITY AND FITNESS FOR PURPOSE), SELLER WARRANTS TO PURCHASER THAT ALL PRODUCTS MANUFACTURED FOR PURCHASER UNDER THIS AGREEMENT SHALL MEET PURCHASER'S PRODUCT SPECIFICATIONS AS SET FORTH IN EXHIBIT A, AND ARE FREE FROM DEFECTS EXCEPT DEFECTS WHICH MAY BE INHERENT IN THE SAID SPECIFICATIONS SET FORTH IN EXHIBIT A.

Subject to the last paragraph of this Article X, Seller shall indemnify and hold Purchaser harmless from and against any and all liability, loss or damage, and all direct out-of-pocket cost or expense, arising out of the breach of the above warranty.

Subject to the last paragraph of this Article X, in the event of complaints, demands, claims, or legal actions alleging illness, injury, death or damage as a result of the use of any goods manufactured by Seller hereunder, Seller shall indemnify and hold Purchaser harmless from and against any and all liability, loss or damage, and all direct out-of-pocket cost or expense, of whatsoever nature and by whomsoever asserted arising out of, resulting from or in any way connected with such complaint, demand, claim or legal action, except that Seller shall not be responsible for, and shall not be required to indemnify Purchaser against, any liability for injury, death or damage attributable to defects in Products which independent investigation discloses originated after the goods left the custody and control of Seller or were not attributable to any act of omission of Seller prior to shipment.

PURCHASER SHALL BE ENTITLED TO RECOVER CONSEQUENTIAL OR SPECIAL DAMAGES (COLLECTIVELY "PURCHASER'S SPECIAL DAMAGES") INCURRED BY PURCHASER DUE TO ACTS OR OMISSIONS OF SELLER'S SUPPLIERS OR OTHERS ARISING OUT OF OR RELATING TO ANY BREACH OF THIS WARRANTY TO THE EXTENT AND SOLELY TO THE EXTENT THAT SELLER RECOVERS AND COLLECTS PURCHASER'S SPECIAL DAMAGES FROM ITS SUPPLIERS OR OTHERS, AND SELLER IS OBLIGATED TO PROMPTLY TAKE ALL REASONABLE ACTION, INCLUDING BUT NOT LIMITED TO THE INSTITUTION OF LEGAL PROCEEDINGS, IN ORDER TO RECOVER PURCHASER'S DAMAGES FROM ITS SUPPLIERS OR OTHERS, AND SELLER SHALL BEAR THE COST OF SUCH ACTION (PROVIDED THAT SUCH COSTS MAY BE OFFSET AGAINST ANY RECOVERY PURSUANT TO A JUDGMENT OR SETTLEMENT AGREED TO BY PURCHASER FROM SELLER'S SUPPLIERS OR OTHERS), WHICH ACTION SHALL BE TAKEN IN CONSULTATION WITH PURCHASER. EXCEPT AS SPECIFICALLY SET FORTH IN THE PRECEDING SENTENCE, PURCHASER WAIVES ANY AND ALL RIGHT OR CLAIM TO RECOVER PURCHASER'S SPECIAL DAMAGES FROM SELLER PROVIDED THAT THIS WAIVER SHALL NOT APPLY TO LIABILITY FOR COMMISSION BY SELLER OF (I) AN INTENTIONAL TORT OR (II) GROSS NEGLIGENCE. Anything in this Article to the contrary notwithstanding, Purchaser must assert any claim of breach under this warranty, if at all, within one (1) year after the due date of the invoice in regard to the goods in question by written notice specifying the grounds for such claim. In any and all actions, proceedings and investigations in regard to any claim by any third person arising from an alleged breach of this warranty, seller shall pay any damages which must be paid as a result of any judgment or settlement and all costs of the defense thereof (including reasonable counsel fees) on the following conditions: (i) Purchaser shall promptly notify Seller of any such complaint, demand, claim or legal action; (ii) Purchaser shall have control of

said defense, but Seller shall have the right and opportunity to participate therein; (iii) Purchaser shall select defense counsel subject to Seller's consent; and (iv) Purchaser shall have the right to accept any settlement in compromise subject to the consent of Seller, which shall not be unreasonably withheld, and Seller shall have the right to demand that Purchaser accept any settlement or compromise of the claim which does not otherwise adversely affect Seller and, if Purchaser refuses such acceptance, Seller may elect to pay Purchaser the amount of such proposed settlement in full satisfaction of Seller's further obligations hereunder with respect to such claim.

ARTICLE XI. Term and Termination

11.1 This Agreement shall commence on April 20, 1995 and become effective after the Escrow Account referred to in the Escrow Agreement dated as of even date herewith itself has become effective and shall end after fulfillment of the obligations under this Agreement referred to in Exhibit B or at a date agreed to by all parties hereto.

ARTICLE XII. Force Majeure

12.1 Any failure or delay in the performance by either party hereto of its obligations hereunder shall not constitute a breach of this Agreement only if such failure or delay arises out of or results primarily from fire, storm, flood, lightning, earthquakes, or other acts of God, or explosion, insurrections, strikes, unavailability of fuel, utilities or raw materials, epidemics or quarantine restrictions, partial or entire failure of production facilities, inability to obtain transportation, government restrictions or any other cause not within the control of the party affected which by the exercise of reasonable diligence such party is unable to prevent or overcome ("Force Majeure").

12.2 The occurrence of Force Majeure, as described in Section 12.1 hereof, shall not excuse either party from the performance of its obligations or duties hereunder, but shall merely suspend such performance during the continuance of Force Majeure. The party prevented from performing its obligations or duties because of Force Majeure shall immediately notify the other party to this Agreement of the occurrence and particulars of such Force Majeure and shall provide the other party, from time to time, with its best estimate of the duration of such Force Majeure and with notice of the termination thereof. If the Force Majeure, as described in Section 12.1 hereof, occurs and continues for more than one year, the party who is not prevented or delayed from performing by an occurrence of Force Majeure shall have the right to terminate this Agreement without penalty upon thirty (30) days written notice. Upon such termination of this Agreement the value of the undelivered portion of the pre-paid purchase amount as set forth on Exhibit B shall be immediately paid to Purchaser.

ARTICLE XIII. Legal Relationship of the Parties

13.1 The relationship between the parties hereto is that of independent contractors and not of principal-agent or employer-employee. Neither party is in any way the legal representative of the other and has no right or authority to assume or undertake any obligation or make any representation on behalf of the other party.

ARTICLE XIV. General Conditions

14.1 This Agreement, and the rights and obligations of the parties herein set forth, shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto and may not be assigned, transferred or subcontracted except to parents, subsidiaries, or otherwise related corporations of either party, with prior written notice to the other party, provided the parties hereto remain liable under this Agreement. This Agreement is not subject to voluntary or involuntary alienation except as provided herein.

14.2 The parties' remedies herein set forth shall be cumulative, and in addition to any other or further remedies available to it at law or in equity. The exercise by a party of any of its remedies specifically enumerated herein shall not preclude that party from exercising such other or further remedies.

14.3 The failure or omission of either party hereto to insist, in any instance, upon strict performance by the other party of any term or provision of this Agreement or to exercise any of its rights hereunder shall not be deemed to be a modification of any term hereof or a waiver or relinquishment of the future performance of any such term or provision by such party, nor shall such failure or omission constitute a waiver of the right of such party to insist upon future performance by the other party of any such term or provision.

14.4 In the event that individual provisions of this Agreement are or are held to be invalid, the validity of the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect. The parties agree to negotiate in good faith in order to replace the invalid provisions with valid provisions that conform as closely as possible to the economic and commercial intent of the invalid provisions.

14.5 Unless otherwise provided, all notices and other communications which are required or permitted to be given under this Agreement shall be in writing and shall be deemed given if delivered by hand, by mail (three (3) business days after being sent by certified mail, return receipt requested) or when received if delivered by commercial express delivery service or by telex or telefax (if a confirmatory mailing is made) to a party at its address set forth below:

If to Seller:

ZVL-LSA, a.s.
909 Skalica
Slovakia
Attention: Dipl. Ing. Zdenko Hosek

If to Purchaser:

L&S Automotive Products Co.
16 South Pennsylvania
Oklahoma City, OK 73101
Attention: Mr. David Goss

Either party may change its address for the receipt of such notices by giving written notice to the other party in the manner herein provided.

14.6 This Agreement shall be governed by, and shall be construed and interpreted in accordance with, the law of the Republic of Austria.

14.7 This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof, and all other prior or contemporaneous agreements of the parties with respect to such subject matter are hereby merged into this Agreement. This Agreement shall not be changed, modified or amended otherwise than by a further written agreement signed by the parties hereto. In the event of any conflict between the terms of this Agreement and of any purchase order, the terms of this Agreement shall be controlling.

14.8 Any controversy or claim arising out of or relating to this Agreement, or the negotiation or breach thereof, shall be settled by arbitration with the Vienna rules of the International Arbitral Tribunal of Bundeswirtschaftskammer Osterreich in Vienna and judgment upon an award rendered by the arbitrators may be entered in any court having jurisdiction thereof. According to Sec. 598 Sec. 2 ZPO (Zivilprozessordnung, Austrian Code of Civil Procedure) Section 595 Sec. 1 Line 7 ZPO shall not apply. The arbitration shall be held in the English language in Vienna and shall be conducted before three (3) arbitrators, with each party appointing an arbitrator, who will jointly agree upon a third arbitrator, Chairman of the Arbitration Panel. The arbitrators are empowered to award reimbursement of attorneys' fees, taxes and other costs of arbitration in accordance with Vienna rules of the International Arbitral Tribunal of the Bundeswirtschaftskammer Osterreich in Vienna. The provisions of this section shall not be deemed to preclude any party hereto from seeking preliminary injunctive relief to protect or enforce its rights thereunder within the competence of the competent court of the Slovak Republic or the Republic of Austria or State or Federal courts located in the State of Oklahoma, USA, or (not) to prohibit any (universal) such court from making preliminary findings of fact in connection with granting or denying such preliminary injunctive relief pending arbitration, or to preclude any party thereto from seeking permanent injunctive or other equitable relief after and in accordance with the decisions of the arbitrators, if those taking part require the court for such proceeding.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Agreement to be executed by their respective duly authorized officers as of the day and year first above written.

ZVL-LSA, a.s.

By: _____
Name:

Title:

By: _____

Name:

Title:

L&S AUTOMOTIVE PRODUCTS CO.

By: _____

Name: David Goss

Title: Senior Vice President
- Operations

SUPPLY AGREEMENT

THIS AGREEMENT, dated the 8th day of May, 1995, by and between ZVL-LSA, a.s., a corporation organized and existing under the laws of the Slovak Republic and having its principal place of business at Nadrazna 909 01 Skalica, Slovak Republic (hereinafter referred to as "Seller"); and L & S Automotive Products Co., a corporation organized and existing under the laws of the State of Oklahoma and having its principal place of business at 16 South Pennsylvania, Oklahoma City, OK 73101, U.S.A. (hereinafter referred to as "Purchaser");

W I T N E S S E T H:

WHEREAS Purchaser desires to acquire tapered automotive roller bearings, as more specifically defined herein, from Seller, and Seller desires to deliver such products on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein, the parties hereto agree as follows:

ARTICLE I. Definitions.

1.1 As used herein, the term "Products" shall mean tapered automotive roller bearings with the specifications as described in Exhibit A.

1.2 As used herein, the term "Minimum Volume" shall mean the Products in the aggregate ordered by Purchaser for delivery and shipped from Seller's plant during each semi-annual (or other) period identified on Exhibit B and in an amount which when multiplied by the relevant price shall equal the U.S. Dollar amount set forth on such exhibit according to the relevant time period identified thereon. The Purchaser shall also agree to comply with that Technical License, Technology Assistance, Engineering and Manufacturing Plant Sales Agreement dated July 6, 1992 between Seller and Purchaser, along with any amendments and addendums thereto especially the provisions concerning the obligatory purchase of products (the "L&S Agreement").

ARTICLE II. Sale and Purchase of the Products

2.1 Subject to the terms and conditions set forth herein, Purchaser agrees to acquire from Seller and Seller agrees to deliver to Purchaser during the term of this Agreement Products in an amount equal to the Minimum Volume for each period identified on Exhibit B.

2.2 For each period identified on Exhibit B during the term of this Agreement, the Purchaser agrees to place orders (or already has placed orders prior to the date of this Agreement), for delivery from Seller of Products in an amount equal to or greater than the Minimum Volume, as calculated in accordance with Section 1.2 hereof. If the Minimum Volume of such orders are not placed in regard to delivery in any one calendar year, the Purchaser agrees that such failure will cause irreparable injury to the Seller. The Purchaser further acknowledges the impossibility of ascertaining the amount of damages that would be suffered by Seller, especially as it relates to Seller's obligations with respect to certain drafts executed by it and sold by Purchaser to certain financial institutions. The Purchaser thereby agrees that if Seller shall sue for such failure and Seller shall not be in breach of this Agreement, Purchaser shall pay as liquidated damages, and not as a penalty, the amount equal to the value of shipments required to be shipped after the date of breach as set forth on Exhibit B. Notwithstanding any term of this Section 2.2, Purchaser shall not be obligated to receive or

pay for any Product that does not comply with the acceptance standards under Article IV hereof.

ARTICLE III. Product Specifications

3.1 It is the intent of the parties hereto that the Products shall be manufactured in the same manner and will contain the same specifications as equivalent products which Seller supplied to Purchaser during the months prior to the date hereof which meet the acceptance standards set forth under Article IV hereof.

ARTICLE IV. Acceptance Standards

4.1 Exhibit A contains quality specifications, mutually agreed upon by the parties hereto, which shall govern acceptance of the Products sold hereunder by Purchaser. Such specifications may be modified as agreed to in writing by the parties.

ARTICLE V. Quality Control

5.1 Seller shall be solely responsible for assuring the quality of the Products and their conformity to the standards set forth in Exhibit A.

5.2 In the event Purchaser shall receive Products from Seller that do not comply with this warranty, Purchaser shall immediately notify Seller of such nonconformity and shall instruct Seller to suspend future shipments of the Product. A third party independent qualified inspection company (the "Company") must visit the Seller's production facilities in Skalica within 10 days of Purchaser notifying Seller of receipt of nonconforming Products. Seller agrees to provide such Company's employees and/or agents full access to Seller's production facilities including access to all materials used in connection with the Products, the energy sources utilized in connection with the manufacture of the products and books and records relating to the specifications used in the manufacture of the Products. Within 10 days of the arrival of such Company's employees or agents at Seller's facility in Skalica, the employees and/or agents of such Company shall submit a written report to Seller and Purchaser stating whether Seller's Products conform to the specifications set forth in Exhibit A. Upon receipt of a report specifying that Seller's Products meet the specifications in Exhibit A, Seller may resume and continue delivery of Products and Purchaser must accept such immediate and future deliveries, and Purchaser agrees to absorb the Company's costs for the investigation. If the report states that the Seller's Products do not meet the specifications in Exhibit A, Seller agrees to absorb the Company's costs for the investigation and Seller shall have two options: (i) make such changes that are necessary to insure that the Products meet the specifications in Exhibit A within 20 days, and deliver conforming replacement Products to Purchaser within 30 days of implementing such changes or (ii) purchase products made by other parties which meet the specifications set forth in Exhibit A and deliver such substitute Products to Purchaser within 180 days.

5.3 Notwithstanding the sole responsibility of Seller with regard to quality control, Purchaser shall have access to Seller's production facilities during normal business hours with reasonable notice to Seller, in order to verify that the Products conform to the specifications set forth in Exhibit A.

5.4 Seller shall maintain appropriate records of the specifications used in the manufacture of all Products. These records shall be made available to Purchaser upon reasonable request or during a visit by Purchaser described in Section 5.3 or Article XI.

ARTICLE VI. Price

6.1 Pricing for the first year's order will be that of the "Sample Bearing Order" Exhibit "B", Revised Purchase Price, page #3. Pricing after the first year's shipment will be as follows:

A) The selling prices shall be negotiated annually with prices set four (4) months prior to the end of each calendar year for the succeeding calendar year;

B) In no event shall the selling prices be increased or decreased more than the percentage (%) determined by the following from one year to the next:

1) the inflation or deflation rate in the U.S.A. as measured by the Wholesale Price Index as published by the U.S. Department

of Commerce; and provided, however, that

- 2) prices will not increase or decrease beyond the increases or decreases announced and published by major competitive bearing companies within the U.S. such as Federal Mogul, SKF and Chicago Rawhide during the prior year and Purchaser agrees to provide upon written request, information as to pricing by those companies, to the extent available.

ARTICLE VII. Payment

7.1 The terms of payment for the Products sold hereunder shall be net cash due within five (5) days after Purchaser's receipt of a copy of Seller's invoice and a copy of an Ocean Bill of Lading relating to the shipment.

7.2 Payment by Purchaser for the Products sold hereunder shall be made in favor of Seller to an account established by Vseobecna Uverova Banka with Bank Austria Aktiengesellschaft, New York Branch (the "Bank"). Payment instructions are as follows: Credit Morgan Guaranty Trust Co., New York, NY, ABA number 021-000-238 for the account of Bank Austria AG, account number 63-000-260 for further credit to Vscobecna Uverova Banka, account number 199350, Attention: Mr. David Darling. Payment shall be made in U.S. Dollars, the lawful currency of the United States of America. Purchaser shall pay the invoice price of the Products in full and without any deduction or set-off of any kind whatsoever. Any dispute, including any dispute regarding the amount of such invoice price shall be the subject of good faith negotiation between the parties. In the event of any dispute regarding quality specifications, orders under this Agreement may be suspended until such dispute is resolved.

7.3 Interest will be charged daily on any sum not paid on the due date, or the payment of which is deferred for any reason, except if such deferral occurs due to an act or omission of the Seller, at a varying rate of two (2) percentage points per annum above the rate of interest per annum ("Prime Rate") announced by Morgan Guaranty Trust Co., New York, to be in effect from time to time for prime domestic commercial loans of ninety (90) day maturities, adjusted as of the date of each such variance in the Prime Rate, from the due date to the date of Seller's receipt of full payment, provided, however, that such rate of interest shall in no event exceed the maximum rate of interest permissible under applicable law.

ARTICLE VIII. Delivery

8.1 Delivery of the Products by Seller to Purchaser shall be made at FOB Hamburg or other European port, or such other location as the parties may, upon mutual agreement, from time to time designate, which agreement of Purchaser shall not be unreasonably withheld. Any freight and insurance expense from Skalica, Slovak Republic, to such port, shall be borne solely by Seller.

8.2 Delivery shall be deemed complete when Seller gives Purchaser notice that a shipment of Products ordered by Purchaser is available for pick-up at Hamburg, or such other European port or such other location as the parties may, upon mutual agreement, designate.

ARTICLE IX. Title/Risk of Loss

9.1 Title and risk of loss or damage to the Products sold hereunder shall pass to Purchaser when Seller, pursuant to an order placed by Purchaser, delivers the Products in accordance with Section 8.2.

ARTICLE X. Cash Against Documents

10.1 All original (and negotiable forms of) ocean bills of lading and other title documents from Purchaser with respect to each shipment of the Products during the terms of this Agreement shall be delivered solely to the Bank. The Seller shall courier to the Bank in connection with each shipment of the Products, such bills of lading and title documents, in each case endorsed in blank, along with invoices of Seller. The Bank shall promptly notify the Purchaser of receipt of such documents and deliver a photocopy of such documents to Purchaser by telefax. At the time of receipt of payment in full of the invoice made by Purchaser through payment into the escrow account referred to in Section 7.2, the Bank shall promptly send by courier the bills of lading and other title documents to Purchaser. The Bank shall bear no responsibility in connection with any failure of such courier to deliver such documents. In the event that Purchaser fails to make payment timely, the Bank shall have the right to retain the bills of lading and other

title documents and, take any remedy permitted by law in connection with such non-payment.

10.2 The Bank shall charge fees for handling documents equal to 1/8th of 1% of the invoice amount (\$75.00 minimum) which fee shall be paid by Purchaser.

10.3 Purchaser and Seller jointly and severally agree to hold the Bank harmless, and indemnify the Bank from and against, any and all claims, losses, liabilities, damages, costs or expenses whatsoever, including attorneys' fees and disbursements, howsoever arising from or in connection with any handling, transfer, delivery, surrender or endorsement of any document at any time(s) held by the Bank, or arising out of any action for injunctive or other judicial or administrative relief and affecting, directly or indirectly, the Bank.

ARTICLE XI. Warranty, Indemnity

11.1 IN LIEU OF ALL OTHER WARRANTIES (INCLUDING MERCHANTABILITY AND FITNESS FOR PURPOSE), SELLER WARRANTS TO PURCHASER THAT ALL PRODUCTS MANUFACTURED FOR PURCHASER UNDER THIS AGREEMENT SHALL MEET PURCHASER'S PRODUCT SPECIFICATIONS AS SET FORTH IN EXHIBIT A, AND ARE FREE FROM DEFECTS EXCEPT DEFECTS WHICH MAY BE INHERENT IN THE SAID SPECIFICATIONS SET FORTH IN EXHIBIT A.

Subject to the last paragraph of this Article XI, Seller shall indemnify and hold Purchaser harmless from and against any and all liability, loss or damage, and all direct out-of-pocket cost or expense, arising out of the breach of the above warranty.

Subject to the last paragraph of this Article XI, in the event of complaints, demands, claims or legal actions alleging illness, injury, death or damage as a result of the use of any goods manufactured by Seller hereunder, Seller shall indemnify and hold Purchaser harmless from and against any and all liability, loss or damage, and all direct out-of-pocket cost or expense, of whatsoever nature and by whomsoever asserted arising out of, resulting from or in any way connected with such complaint, demand, claim or legal action, except that Seller shall not be responsible for, and shall not be required to indemnify Purchaser against, any liability for injury, death or damage attributable to defects in Products which independent investigation discloses originated after the goods left the custody and control of Seller or were not attributable to any act of omission of Seller prior to shipment.

PURCHASER SHALL BE ENTITLED TO RECOVER CONSEQUENTIAL OR SPECIAL DAMAGES (COLLECTIVELY "PURCHASER'S SPECIAL DAMAGES") INCURRED BY PURCHASER DUE TO ACTS OR OMISSIONS OF SELLER'S SUPPLIERS OR OTHERS ARISING OUT OF OR RELATING TO ANY BREACH OF THIS WARRANTY TO THE EXTENT AND SOLELY TO THE EXTENT THAT SELLER RECOVERS AND COLLECTS PURCHASER'S SPECIAL DAMAGES FROM ITS SUPPLIERS OR OTHERS, AND SELLER IS OBLIGATED TO PROMPTLY TAKE ALL REASONABLE ACTION, INCLUDING BUT NOT LIMITED TO THE INSTITUTION OF LEGAL PROCEEDINGS, IN ORDER TO RECOVER PURCHASER'S DAMAGES FROM ITS SUPPLIERS OR OTHERS, AND SELLER SHALL BEAR THE COST OF SUCH ACTION (PROVIDED THAT SUCH COSTS MAY BE OFFSET AGAINST ANY RECOVERY PURSUANT TO A JUDGMENT OR SETTLEMENT AGREED TO BY PURCHASER FROM SELLER'S SUPPLIERS OR OTHERS), WHICH ACTION SHALL BE TAKEN IN CONSULTATION WITH PURCHASER. EXCEPT AS SPECIFICALLY SET FORTH IN THE PRECEDING SENTENCE, PURCHASER WAIVES ANY AND ALL RIGHT OR CLAIM TO RECOVER PURCHASER'S SPECIAL DAMAGES FROM SELLER PROVIDED THAT THIS WAIVER SHALL NOT APPLY TO LIABILITY FOR COMMISSION BY SELLER OF (I) AN INTENTIONAL TORT OR (II) GROSS NEGLIGENCE. Anything in this Article to the contrary notwithstanding, Purchaser must assert any claim of breach under this warranty, if at all, within one (1) year after the due date of the invoice in regard to the goods in question by written notice specifying the grounds for such claim. In any and all actions, proceedings and investigations in regard to any claim by any third person arising from an alleged breach of this warranty, seller shall pay any damages which must be paid as a result of any judgment or settlement and all costs of the defense thereof (including reasonable counsel fees) on the following conditions: (i) Purchaser shall promptly notify Seller of any such complaint, demand, claim or legal action; (ii) Purchaser shall have control of said defense, but Seller shall have the right and opportunity to participate therein; (iii) Purchaser shall select defense counsel subject to Seller's consent; and (iv) Purchaser shall have the right to accept any settlement in compromise subject to the consent of Seller, which shall not be unreasonably withheld, and Seller shall have the right to demand that Purchaser accept any settlement or compromise of the claim which does not otherwise adversely affect Seller and, if Purchaser refuses such acceptance, Seller may elect to pay Purchaser the amount of such proposed settlement in full satisfaction of Seller's further obligations hereunder with respect to such claim.

ARTICLE XII. Term and Termination

12.1 This Agreement shall commence on April 20, 1995 and

become effective after the Escrow Agreement dated as of even date herewith itself has become effective and shall terminate once the Minimum Volume to be purchased as set forth in Exhibit B has been made or thereafter with the consent of the parties.

ARTICLE XIII. Force Majeure

13.1 Any failure or delay in the performance by either party hereto of its obligations hereunder shall not constitute a breach of this Agreement only if such failure or delay arises out of or results primarily from fire, storm, flood, lightning, earthquakes, or other acts of God, or explosion, insurrections, strikes, unavailability of fuel, utilities or raw materials, epidemics or quarantine restrictions, partial or entire failure of production facilities, inability to obtain transportation, government restrictions or any other cause not within the control of the party affected which by the exercise of reasonable diligence such party is unable to prevent or overcome ("Force Majeure").

13.2 The occurrence of Force Majeure, as described in Section 13.1 hereof, shall not excuse either party from the performance of its obligations or duties hereunder, but shall merely suspend such performance during the continuance of Force Majeure. The party prevented from performing its obligations or duties because of Force Majeure shall immediately notify the other party to this Agreement of the occurrence and particulars of such Force Majeure and shall provide the other party, from time to time, with its best estimate of the duration of such Force Majeure and with notice of the termination thereof. If the Force Majeure, as described in Section 13.1 hereof, occurs and continues for more than one year, Purchaser shall have the right to seek alternative suppliers and enter into supply agreements with such parties as long as such agreements do not extend for more than one year. If, at any time thereafter, a Force Majeure ceases to exist, Purchaser and Seller shall then be obligated to continue performance under this Agreement, provided that Purchaser shall not be required to place orders until after termination of any supply agreement entered into during the Force Majeure as provided above.

ARTICLE XIV. Legal Relationship of the Parties

14.1 The relationship between the parties hereto is that of independent contractors and not of principal-agent or employer-employee. Neither party is in any way the legal representative of the other and has no right or authority to assume or undertake any obligation or make any representation on behalf of the other party.

ARTICLE XV. Third Party Beneficiary.

15.1 The Bank, acting as agent for the purchasers of the Drafts initially issued to Purchaser, shall be a third party beneficiary of Seller's rights under this Agreement and the parties agree that the Bank, as agent, shall have a direct right of action against Purchaser or Seller for its breach of any of the provisions of this Agreement.

ARTICLE XVI. General Conditions

16.1 This Agreement, and the rights and obligations of the parties herein set forth, shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto and may not be assigned, transferred or subcontracted except to parents, subsidiaries, or otherwise related corporations of either party, with prior written notice to the other party, provided the parties hereto remain liable under this Agreement. This Agreement is not subject to voluntary or involuntary alienation except as provided herein.

16.2 The parties' remedies herein set forth shall be cumulative, and in addition to any other or further remedies available to it at law or in equity. The exercise by a party of any of its remedies specifically enumerated herein shall not preclude that party from exercising such other or further remedies.

16.3 The failure or omission of either party hereto to insist, in any instance, upon strict performance by the other party of any term or provision of this Agreement or to exercise any of its rights hereunder shall not be deemed to be a modification of any term hereof or a waiver or relinquishment of the future performance of any such term or provision by such party, nor shall such failure or omission constitute a waiver of the right of such party to insist upon future performance by the other party of any such term or provision.

16.4 In the event that individual provisions of this Agreement are or are held to be invalid, the validity of the remainder of this

Agreement shall not be affected thereby and shall remain in full force and effect. The parties agree to negotiate in good faith in order to replace the invalid provisions with valid provisions that conform as closely as possible to the economic and commercial intent of the invalid provisions.

16.5 Unless otherwise provided, all notices and other communications which are required or permitted to be given under this Agreement shall be in writing and shall be deemed given if delivered by hand, by mail (three (3) business days after being sent by certified mail, return receipt requested) or when received if delivered by commercial express delivery service or by telex or telefax (if a confirmatory mailing is made) to a party at its address set forth below:

If to Seller:

ZVL-LSA, a.s.
Nadrazna
SK-909 01 Skalica
Slovak Republic
Attention: Dip. Ing. Zdenko Hosek

If to Purchaser:

L&S Automotive Products Co.
16 South Pennsylvania
Oklahoma City, OK 73101
Attention: Mr. David Goss

Either party may change its address for the receipt of such notices by giving written notice to the other party in the manner herein provided.

16.6 This Agreement shall be governed by, and shall be construed and interpreted in accordance with, the law of the Republic of Austria.

16.7 This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof, and all other prior or contemporaneous agreements of the parties with respect to such subject matter are hereby merged into this Agreement. This Agreement shall not be changed, modified or amended otherwise than by a further written agreement signed by the parties hereto. In the event of any conflict between the terms of this Agreement and of any purchase order, the terms of this Agreement shall be controlling.

16.8 Any controversy or claim arising out of or relating to this Agreement, or the negotiation or breach thereof, shall be settled by arbitration with the Vienna rules of the International Arbitral Tribunal of Bundeswirtschaftskammer Osterreich in Vienna and judgment upon an award rendered by the arbitrators may be entered in any court having jurisdiction thereof. According to Sec. 598 Sec. 2 ZPO (Zivilprozessordnung, Austrian Code of Civil Procedure) Section 595 Sec. 1 Line 7 ZPO shall not apply. The arbitration shall be held in the English language in Vienna and shall be conducted before three (3) arbitrators, with each party appointing an arbitrator, who will jointly agree upon a third arbitrator, Chairman of the Arbitration Panel. The arbitrators are empowered to award reimbursement of attorneys' fees, taxes and other costs of arbitration in accordance with Vienna rules of the International Arbitral Tribunal of the Bundeswirtschaftskammer Osterreich in Vienna. The provisions of this section shall not be deemed to preclude any party hereto from seeking preliminary injunctive relief to protect or enforce its rights thereunder within the competence of the competent court of the Slovak Republic or the Republic of Austria or State or Federal courts located in the State of Oklahoma, USA, or (not) to prohibit any (universal) such court from making preliminary findings of fact in connection with granting or denying such preliminary injunctive relief pending arbitration, or to preclude any party thereto from seeking permanent injunctive or other equitable relief after and in accordance with the decisions of the arbitrators, if those taking part require the court for such proceeding.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Agreement to be executed by their respective duly authorized officers as of the day and year first above written.

ZVL-LSA, a.s.

By: _____
Name: Zdenko Hosek
Title: General Manager

By: _____

Name: Maria Florkova
Title: Financial Director

L&S AUTOMOTIVE PRODUCTS CO.

By: _____

Name: David Goss
Title: Senior Vice President
- Operations

ACKNOWLEDGED AND AGREED
AS TO ARTICLE X.

BANK AUSTRIA AKTIENGESELLSCHAFT

By: _____

Name:
Title:

By: _____

Name:
Title:

sec\10q\tq395xt2.wpe

PRIMARY EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31,	
	----- 1995	----- 1994
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	13,060,566	13,673,971
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	180	360
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	6,833
Purchases of treasury stock; calculated on weighted average basis	(13,950)	(20,000)
	-----	-----
	13,046,796	13,661,164
Common Stock equivalents:		
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	823,140	934,807
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(317,680)	(247,510)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	66,560
	-----	-----
	505,460	753,857
	-----	-----
	13,552,256	14,415,021
Earnings for primary earnings per share:		
Net earnings	\$1,548,092	\$2,203,665
Dividends on cumulative preferred stocks	(75,880)	(76,145)
Dividends on convertible, exchangeable Class C preferred stock (6.5% annually)	(743,437)	(747,500)
	-----	-----
Earnings applicable to common stock	\$ 728,775	\$1,380,020
Earnings per share	\$.05 ====	\$.10 ====

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31,	
	----- 1995	----- 1994
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	13,046,796	13,661,164
Shares issuable upon exercise of options and warrants	823,140	934,807
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price		

for the quarter if greater than the average)	(300,737)	(247,510)
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	66,560
Common shares issuable upon conversion of convertible note payable	4,000	4,000
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:		
Series B	-	666,666
	-----	-----
	13,573,199	15,085,687
 Earnings for fully diluted earnings per share:		
Net earnings	\$1,548,092	\$2,203,665
Interest on convertible note	180	180
Dividends on cumulative convertible preferred stocks:		
Series B	(75,880)	-
Series 2 Class C	(743,437)	(747,500)
	-----	-----
Earnings applicable to common stock	\$ 728,955	\$1,456,345
	=====	=====
 Earnings per share	\$.05	\$.10
	=====	=====

ERNST & YOUNG LLP

100 North Broadway
Oklahoma City, OK 73102

Phone: 405 278 6800
Fax: 405 278 6823
Fax: 405 278 6834

May 11, 1995

The Board of Directors
LSB Industries, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 33-8302) and the Registration Statement (Form S-3 No. 33-69800) of LSB Industries, Inc. and in the related Prospectus of our report dated May 11, 1995 relating to the unaudited condensed consolidated interim financial statements of LSB Industries, Inc. which are included in its Form 10-Q for the quarter ended March 31, 1995.

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

Very truly yours,

/s/ Ernst & Young LLP

3-MOS		
	DEC-31-1995	
	MAR-31-1995	
		4,534
		0
	48,459	
	1,980	
	68,975	
	129,045	
		137,955
	61,341	
	242,433	
54,496		
		96,647
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	151	
	48,000	
	41,677	
242,433		
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	65,931	
		49,127
	49,127	
	12,869	
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	2,388	
	1,547	
		99
1,448		
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	1,448	
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