FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For Quarterly period ended March 31, 1997

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 1, 1997 was 12,882,656 shares excluding 2,031,820 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, 1997, the condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 1997 and 1996 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, 1997 are not necessarily indicative of the

results to be expected for the full year. The condensed consolidated balance sheet at December 31, 1996, was derived from audited financial statements as of that date.

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Information at March 31, 1997 is unaudited)
(Dollars in thousands)

ASSETS	March 31, 1997	December 31, 1996
Current assets:		
Cash and cash equivalents	$ 4,597	$ 1,620
Trade accounts receivable, net of allowance	55,819	50,791
Inventories:		
Finished goods	39,402	36,304
Work in process	8,709	12,084
Raw materials	19,193	19,594
Total inventory	67,304	67,982
Supplies and prepaid items	8,007	7,217
Total current assets	135,727	127,610
Property, plant and equipment, net	118,983	103,143
Investments and other assets:		
Loans receivable, secured by real estate	764	15,010
Other assets, net of allowance	15,511	15,521
	$ 270,985	$ 261,284

(Continued on following page)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Continued)
(Information at March 31, 1997 is unaudited)
(Dollars in thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 1997	December 31, 1996
Current liabilities:		
Drafts payable	$ 632	$ 536
Accounts payable	36,849	41,796
Accrued liabilities	12,947	12,780
Current portion of long-term debt	16,197	13,007
Total current liabilities	66,625	68,119
Long-term debt	136,959	119,277
Contingencies (Note 4)		
Redeemable, noncumulative convertible preferred stock, $100 par value; 1,539 shares issued and outstanding (1,539 in 1996)	146	146
Stockholders' equity (Note 3):		
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	46,000	46,000
Common stock, $.10 par value; 75,000,000		

shares authorized, 14,914,476 shares issued (14,888,476 in 1996)	1,491	1,489
Capital in excess of par value	37,922	37,843
Accumulated deficit	(8,947)	(2,706)
	78,466	84,626
Less treasury stock, at cost:		
Series 2 Preferred, 5,000 shares	200	200
Common stock, 1,982,620 shares (1,913,120 in 1996)	11,011	10,684
Total stockholders' equity	67,255	73,742
	$ 270,985	$ 261,284

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
Three Months Ended March 31, 1997 and 1996
(Dollars in thousands, except per share amounts)

	1997	1996
Revenues:		
Net sales	$ 73,234	$ 69,495
Other income	1,630	1,411
	74,864	70,906
Costs and expenses:		
Cost of sales	62,312	54,688
Selling, general and administrative	14,872	13,718
Interest	3,056	2,969
	80,240	71,375
Loss before provision for income taxes	(5,376)	(469)
Provision for income taxes	62	62
Net loss	$ (5,438)	$ (531)
Net loss applicable to common stock (Note 2)	$ (6,241)	$ (1,350)
Average common shares outstanding (Note 2):		
Primary	12,974,824	12,911,387
Fully diluted	12,974,824	12,911,387
Loss per common share (Note 2):		
Primary	$ (.48)	$ (.10)
Fully diluted	$ (.48)	$ (.10)

(See accompanying notes)

LSB INDUSTRIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
Three Months Ended March 31, 1997 and 1996
(Dollars in thousands)

	1997	1996
Cash flows from operations:		
Net loss	$ (5,438)	$ (531)
Adjustments to reconcile net loss to cash flows used by operations:		
Depreciation, depletion and amortization:		
Property, plant and equipment	2,439	2,307
Other	283	307
Provision for possible losses on receivables and other assets	152	539
Gain on sale of assets	(65)	(659)
Recapture of prior period provisions for loss on loans receivable secured by real estate	(1,383)	-
Cash provided (used) by changes in assets		

and liabilities:		
Trade accounts receivable	(4,841)	(7,958)
Inventories	678	(616)
Supplies and prepaid items	(791)	(1,444)
Accounts payable	(4,947)	5,625
Accrued liabilities	169	853
Net cash used by operations	(13,744)	(1,577)
Cash flows from investing activities:		
Capital expenditures	(2,819)	(2,173)
Principal payments on notes receivable	183	44
Proceeds from sales of equipment and real estate properties	160	15
Proceeds from sale of investment securities	-	1,444
Increase in other assets	(721)	(96)
Net cash used in investing activities	(3,197)	(766)
Cash flows from financing activities:		
Payments on long-term and other debt	(21,172)	(2,290)
Long-term and other borrowings	54,451	-
Net change in revolving debt	(12,408)	4,787
Net change in drafts payable	96	(208)
Dividends paid on preferred stocks (Note 3)	(803)	(820)
Purchases of treasury stock (Note 3)	(327)	(7)
Net proceeds from issuance of common stock	81	-
Net cash provided by financing activities	19,918	1,462
Net increase (decrease) in cash	2,977	(881)
Cash and cash equivalents at beginning of period	1,620	1,420
Cash and cash equivalents at end of period	$ 4,597	$ 539

(See accompanying notes)

Note 1: At December 31, 1996, the Company had regular-tax net operating loss (NOL) carryforwards for tax purposes of approximately $45 million (approximately $10 million alternative minimum tax NOLs). Such amounts of regular-tax NOL expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately $356,000, which begin expiring in 1997.

The Company s provision for income taxes for the three months ended March 31, 1997 of $62,000 is for current state income taxes and federal alternative minimum tax.

Note 2: Primary earnings per common share are based upon the weighted average number of common shares and dilutive common equivalent shares outstanding during each period, after giving appropriate effect to preferred stock dividends.

Fully diluted earnings per share are based on the weighted average number of common shares and dilutive common equivalent shares outstanding and the assumed conversion of dilutive convertible securities outstanding, if any, after appropriate adjustment for interest and related income tax effects on convertible notes payable.

Net income applicable to common stock is computed by adjusting net income by the amount of preferred stock dividends, including past due undeclared or unpaid dividends, if cumulative.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. At that time, the Company will he required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. Due to losses incurred during the fiscal quarters ended March 31, 1997 and March 31, 1996, the impact of Statement No. 128 on the calculation of both primary and fully diluted earnings per share for these quarters is not expected to be material.

Note 3: The table below provides detail of activity in the Stockholders' equity accounts for the three months ended March 31, 1997:

	Common Stock Shares	Common Stock Par Value	Non-redeemable Preferred Stock	Capital in excess of par Value	Retained Earnings (Accumulated deficit)	Treasury Stock-Common	Treasury Stock Preferred	Total
			(In thousands)					
Balance at December 31, 1996	14,888	$ 1,489	$ 48,000	$ 37,843	$(2,706)	$(10,684)	$ (200)	73,742
Net loss					(5,438)			(5,438)
Exercise of stock options	26	2		79				81
Dividends declared:								
Series B 12% preferred stock ($3.00 per share)					(60)			(60)
Series 2 preferred stock ($.81 per share)					(743)			(743)
Purchase of treasury stock						(327)		(327)
Balance at March 31, 1997 (1)	14,914	$ 1,491	$ 48,000	$ 37,922	$(8,947)	$(11,011)	$ (200)	$67,255

(1) Includes 1,982,620 shares of the Company's Common Stock held in treasury. Excluding the 1,982,620 shares held in treasury, the outstanding shares of the Company's Common Stock at March 31, 1997 were 12,931,856.

Note 4: Following is a summary of certain legal actions involving the Company:

A. In 1987, the U.S. Government notified one of the Company's subsidiaries along with numerous other companies, of potential responsibility for clean-up of a waste disposal site in Oklahoma. No legal action has yet been filed. The amount of the Company's cost associated with the clean-up of the site is unknown due to continuing changes in (i) the estimated total cost of clean-up of the site and (ii) the percentage of the total waste which was alleged to have been contributed to the site by the Company, accordingly, no provision for any liability which may result has been made in the accompanying financial statements. The subsidiary's insurance carriers have been notified of this matter; however, the amount of possible coverage, if any, is not yet determinable.

B. The State of Arkansas performed a preliminary assessment of the Chemical Business' primary manufacturing facility (the "Site") 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 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 remediaton plan, upgrade certain equipment to reduce wastewater effluent, and pay a civil penalty of $25,000.

Subsequent to the signing of the Agreement on May 2, 1995, the Company completed its remediation and closure activities and had the "Closure Certification Report" approved by the State of Arkansas. The Company also submitted a "Groundwater Monitoring Work Plan" to the State of Arkansas which has been approved and the initial phase of field work has been completed. A work plan for the second phase of the monitoring has also been submitted and approved by the state of Arkansas.

On February 12, 1996, the Company entered into another

Consent Administrative Agreement ("Additional Agreement") with the state of Arkansas to resolve certain compliance issues associated with nitric acid concentrations. The Company has installed additional pollution control equipment to reduce opacity and constituent emissions which impact opacity. The Company was assessed $50,000 in civil penalties associated with the Original Agreement. In the summer of 1996 and then on January 28, 1997, the Company executed amendments to the Additional Agreement ("Amended Agreements"). The Amended Agreements acknowledged compliance with the requirements of the prior Agreement and imposed a $150,000 civil penalty. As of March 31, 1997, the Company has paid $144,000 of the above penalties. The Company is planning to undertake one or more supplemental environmental projects in lieu of paying the remaining penalty due. Based on information presently available, the Company does not believe that compliance with these agreements should have a material adverse effect on the Company or the Company's financial condition or results of operation.

C. In 1996, a lawsuit was filed against the Company's Chemical Business by a group of residents of El Dorado, Arkansas, asserting a citizens' suit against the Chemical Business as a result of certain alleged violations of the Clean Air Act, the Clean Water Act, the Chemical Business' air and water permits and certain other environmental laws, rules and regulations. The citizens' suit requests the court to order the Chemical Business to cure such alleged violations, if any, plus penalties as provided under the applicable statutes. The Company's Chemical Business will assert all defenses available to it and will vigorously defend itself.

In July 1996, several of the same individuals who are plaintiffs in the citizens' suit referenced above filed a toxic tort lawsuit against the Company's Chemical Business alleging that they suffered certain injuries and damages as a result of alleged releases of toxic substances from the Chemical Business' El Dorado, Arkansas manufacturing facility. In October 1996, another toxic tort lawsuit was filed against the Company's Chemical Business. This subsequent action asserts similar damage theories as the previously discussed lawsuit, except this action attempts to have a class certified to represent substantially all allegedly affected persons. The plaintiffs are suing for an unspecified amount of actual and punitive damages.

The Company's insurance carriers have been notified of these matters. The Company and the Chemical Business maintain an Environmental Impairment Insurance Policy ("EIL Insurance") that provides coverage to the Company and the Chemical Business for certain discharges, dispersals, releases, or escapes of certain contaminants and pollutants into or upon land, the atmosphere or any water course or body of water from the Site, which has caused bodily injury, property damage or contamination to others or to other property not on the Site. The EIL Insurance provides limits of liability for each loss up to $10.0 million and a similar $10.0 million limit for all losses due to bodily injury or property damage, except $5.0 million for all remediation expenses, with the maximum limit of liability for all claims under the EIL Insurance not to exceed $10.0 million for each loss or remediation expense and $10.0 million for all losses and remediation expenses. The EIL Insurance also provides a retention of the first $500,000 per loss or remediation expense that is to be paid by the Company.

D. A civil cause of action has been filed against the Company's Chemical Business and five (5) other unrelated commercial explosives manufacturers alleging that the defendants allegedly violated certain federal and state antitrust laws in connection with alleged price fixing of certain explosive products. The plaintiffs are suing for an unspecified amount of damages, which, pursuant to statute, plaintiffs are requesting be trebled, together with costs. Based on the information presently available to the Company, the Company does not believe that the Chemical Business conspired with any party, including but not limited to, the five (5) other defendants, to fix prices in connection with the sale of commercial explosives. Discovery has only recently commenced in this matter. The Chemical Business intends to vigorously defend itself in this matter.

The Company's Chemical Business has been added as a defendant in a separate lawsuit pending in Missouri. This lawsuit alleges a national conspiracy, as well as a regional conspiracy, directed against explosive customers in Missouri and seeks unspecified damages. The Company's Chemical Business has been included in this lawsuit because it sold products to customers in Missouri during a time in which other defendants have admitted to participating in an antitrust conspiracy, and because it has been sued in the preceding described lawsuit. Based on the information presently available to the Company, the Company does not believe that the Chemical Business conspired with any party, to fix prices in connection with the sale of commercial explosives. The Chemical Business intends to vigorously defend itself in this matter.

For several years the explosive industry has been under an investigation by the U.S. Department of Justice. Certain explosive companies plead guilty to antitrust violations. In connection with that investigation, the Chemical Business received and has complied with certain document subpoenas, and certain of the Chemical Business' employees have been subpoenaed to testify in connection with such investigation. As of the date of this report, the Chemical Business has not been identified as a target of this investigation.

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 of the Company, but could have a material impact to the net income (loss) of a particular quarter or year, if resolved unfavorably.

Debt Guarantee

The Company has guaranteed approximately $2.6 million of indebtedness of a start-up aviation company, Kestrel Aircraft Company, in exchange for a 25.6% ownership interest, to which no value has been assigned as of March 31, 1997. The Company has advanced the aviation company $241,000 as of March 31, 1997 and is accruing losses of the aviation company based on its ownership percentage. As a result, the Company has recorded losses of $1,403,000 ($187,000 in the first quarter of 1997, and $626,000 and $590,000 in the years ended December 31, 1996 and 1995, respectively) related to the debt guarantee. The debt guarantee relates to a $2 million term note and up to $600,000 of a $2 million revolving credit facility. The $2 million term note requires interest only payments through September 1998; thereafter, it requires monthly principal payments of $11,111 plus interest beginning in October 1998 until it matures on August 8, 1999, at which time all outstanding principal and unpaid interest are due. In the event of default of this note, the Company is required to assume payments on the note with the term extended until August 2004. The $2 million revolving credit facility, on which a subsidiary of the Company has guaranteed up to $600,000 of indebtedness, had a balance of approximately $400,000 as of March 31, 1997.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with a review of the Company's March 31, 1997 Condensed Consolidated Financial Statements.

OVERVIEW

The Company is pursuing a strategy of focusing on its more profitable businesses and concentrating on businesses and product lines in niche markets where the Company has established or can establish a position as a market leader. In addition, the Company is seeking to improve its liquidity and profits through liquidation of selected assets that are on its balance sheet and on which it is not realizing an acceptable return nor does it

have the potential to do so.

In this connection, the Company has been concentrating on reshaping the Automotive Products Business by the liquidation of certain of their assets that don't have the potential to earn an acceptable return and focusing on product lines that management believes have strategic advantages within select niche markets. The Company has also recruited new key management people in the Automotive Products Business including marketing, materials control, manufacturing, and financial. The Company continues to explore its alternatives to accomplish these goals.

In addition, the Company has been liquidating certain slow moving inventory in the Industrial Products Business in the ordinary course of business. It is the present intention of the Company to limit this Business to lines of machine tools which should result in an acceptable return on capital employed.

Certain statements contained in this Overview are forward-looking statements, and the results thereof could differ materially from such statements if the Company is unable to liquidate such assets in a reasonable period or on reasonable terms, and if able to liquidate such assets, it may not be able to improve profits in the Automotive Products Business or have an acceptable return on capital employed in these Businesses if general economic conditions deteriorate drastically from the environment these Businesses currently operate in or these Businesses are unable to meet competitive pressures in the market place which restrict these Businesses from manufacturing or purchasing and selling their products at acceptable prices.

Information about the Company's continuing operations in different industry segments for the three months ended March 31, 1997 and 1996 is detailed below.

	Three Months Ended March 31,	
	1997	1996
	(In thousands) (Unaudited)	
Sales:		
Chemical	$ 40,599	$ 36,520
Environmental Control	21,623	18,995
Automotive Products	7,992	10,956
Industrial Products	3,020	3,024
	$ 73,234	$ 69,495
Gross profit:		
Chemical	$ 3,384	$ 6,800
Environmental Control	6,008	4,699
Automotive Products	1,109	2,450
Industrial Products	421	858
	$ 10,922	$ 14,807
Operating profit (loss):		
Chemical	$ (645)	$ 3,545
Environmental Control	1,551	721
Automotive Products	(1,226)	139
Industrial Products	(665)	(497)
	(985)	3,908
General corporate expenses	(1,335)	(1,408)
Interest expense	(3,056)	(2,969)
Loss before provision for income taxes	$ (5,376)	$ (469)

Gross profit by industry segment represents net sales less cost of sales. Operating profit by industry segment represents revenues less operating expenses before deducting general corporate expenses, interest expense and income taxes. As indicated in the above table, the operating profit (as defined) declined from $3.9 million in the first quarter of 1996 to an operating loss of $985,000 in the first quarter of 1997, while sales increased approximately $3.7 million or 5.4% in the first

quarter of 1997 over the first quarter of 1996. The decline in operating profit, coupled with an increase in interest expense, resulted in a loss before provision for income taxes for 1997 of $5.4 million.

Chemical Business

The operating profit in the Chemical Business is down from $3.5 million profit in the first quarter of 1996 to an operating loss of $.6 million in the first quarter of 1997. During the first quarter of 1997, the Chemical Business continued to incur significant amounts of downtime at its El Dorado, Arkansas Plant site due to mechanical problems being incurred at the plant. The downtime resulted in increases in manufacturing overhead and lower absorption of such costs. The unabsorbed overhead combined with the continued high cost of the primary raw material, ammonia, led to higher cost of sales as a percent of sales and lower gross profit margins.

The Chemical Business purchases approximately 250,000 tons per year of anhydrous ammonia. The cost of ammonia consumed by the Chemical Business in 1996 averaged $167 per ton, while in November and December 1996, ammonia prices took an unexpected increase to an average of approximately $200 per ton. During the first quarter of 1997, ammonia prices continued to increase through February (a high of $217 per ton) and then began to decline during March so that the price for March, 1997 approximated the average price incurred during the months of November and December 1996. The continued increase in ammonia prices had a disruptive effect on the first quarter results of the Chemical Business' operations. The decline in prices in March, 1997 did not significantly reduce the Chemical Business' cost of sales in the first quarter of 1997. The price of ammonia averaged $45 more per ton in the first quarter of 1997 than in the first quarter of 1996.

The Chemical Business has substantially finalized negotiations with Bayer for the Chemical Business to build and operate on a long-term basis a nitric acid plant located on property owned by Bayer in Baytown, Texas. If the transaction is completed, the Chemical Business would provide nitric acid from such plant to Bayer's Baytown, Texas plant. Execution of the agreement between the Chemical Business and Bayer is subject to the Company finalizing the financing to construct the nitric acid plant and the final terms upon which the Chemical Business would lease such nitric acid plant. The Company has an agreement in principle with a lender to provide financing. Such nitric acid plant would be owned by a party that is not an affiliate of the Company and would be leased to the Chemical Business for a period expected to equal ten years under an operating lease. It is expected that the cost to construct the nitric acid plant would be approximately $60.0 million. Under the terms of the proposed agreement, such nitric acid plant is to be constructed and become operational within 18 months from execution of the definitive agreement.

Environmental Control Business

As indicated in the above table, the Environmental Control Business reported improved sales (an increase of 13.8%) and improved operating profit for the first quarter of 1997, over that of the first quarter of 1996, primarily as a result of improved market conditions for the heat pump product lines.

Automotive and Industrial Products Businesses

As indicated in the above table, during the first quarter of 1997 these Businesses recorded combined sales of $11.0 million and reported an operating loss (as defined above) of $1.9 million, as compared to combined sales of $14.0 million and an operating loss of $.4 million for the first quarter of 1996, as a result of lower sales and decreased absorption of manufacturing costs due to lower production volume. The net investment in assets of these Businesses decreased from $56.8 million at year end 1996 to $56.3 million at March 31, 1997. As a result of the stringent inventory reduction program put into place in 1995, inventories of these Businesses decreased approximately $.9 million during the three months ended March 31, 1997.

RESULTS OF OPERATIONS

Three months ended March 31, 1997 vs. Three months ended March 31, 1996.

Revenues

Total revenues for the three months ended March 31, 1997 and 1996 were $74.9 million and $70.9 million, respectively (an increase of $4.0 million). Sales increased $3.7 million. Other income increased $.2 million.

Net Sales

Consolidated net sales included in total revenues for the three months ended March 31, 1997 were $73.2 million, compared to $69.5 million for the first three months of 1996, an increase of $3.7 million. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $4.1 million, primarily due to higher sales in the U.S. of agricultural products and increased business volume of the Company's subsidiary located in Australia , Total Energy Systems ("TES"), (ii) increased sales in the Environmental Control Business of $2.6 million primarily due to firming of market conditions for this Business' Heat Pump product lines,offset by (iii) decreased sales in the Automotive Products Business of $3.0 due primarily to a reduced customer base.

Gross Profit

Gross profit was 14.9% for the first three months of 1997, compared to 21.3% for the first three months of 1996. The decrease in the gross profit percentage was due primarily to (i) decreased absorption of costs due to lower production volumes in the Automotive Products Business, and (ii) higher production costs in the Chemical Business due to the effect of higher prices of ammonia and unabsorbed overhead costs caused by excessive downtime related to modifications made to resolve problems associated with mechanical failures at the Chemical Business' primary manufacturing plant.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 20.3% in the three month period ended March 31, 1997 compared to 19.7% for the first three months of 1996. This increase is primarily the result of increased professional fees related to environmental matters in the Chemical Business and decreased sales volume in the Automotive Products Business without a corresponding decrease in SG&A.

Interest Expense

Interest expense for the Company, excluding capitalized interest, was $3.1 million during the first quarter of 1997, compared to $3.0 million during the first quarter of 1996. During the first quarter of 1997, $.7 million of interest expense was capitalized in connection with construction of the DSN Plant. The increase of $.8 million before the effect of capitalization primarily resulted from increased borrowings and higher interest rates.

Loss Before Taxes

The Company had a loss before income taxes of $5.4 million in the first quarter of 1997 compared a loss before income taxes of $.5 million in the three months ended March 31, 1996. The decreased profitability of $4.9 million was primarily due to the decline in gross profit and the increase in SG&A as previously discussed.

Provision for Income Taxes

As a result of the Company's current operating loss and net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 1 of Notes to Condensed Consolidated Financial Statements, the Company's provisions for income taxes for the three months ended March 31, 1997 and the three months ended March 31, 1996 are for current state income taxes and federal alternative minimum taxes.

Liquidity and Capital Resources

Cash Flow From Operations

Net cash used by operations for the quarter ended March 31, 1997 was $13.7 million, after adjustments for noncash depreciation and amortization of $2.7 million and recapture of previous years provisions for possible losses of $1.4 million. This net cash usage includes the following changes in assets and liabilities: (i) accounts receivable increases of $4.8 million, (ii) inventory decreases of $0.7 million, (iii) increases in supplies and prepaid items of $0.8 million, and (iv) decreases in accounts payable and accrued liabilities of $4.8 million. The increase in accounts receivable is due mainly to seasonal sales increases in the Chemical Business. The decrease in inventories is primarily due to the inventory reduction plan being executed in the Automotive Products Business, partially offset by increased inventories at the Chemical Business' Australian subsidiary due to anticipated sales increases. The increase in supplies and prepaid items is due primarily to increases in prepaid insurance costs. The decrease in accounts payable and accrued liabilities is due primarily to a decrease in capital construction projects.

Cash Flow From Investing And Financing Activities

Cash used by investing activities included $2.8 million in capital expenditures (primarily in the Chemical Business) and increased other assets of $0.7 million due primarily to advances made to a potential acquisition candidate. Net cash provided by financing activities included (i) term borrowings of $54.5 million, including proceeds from the new $50 million financing discussed under "Sources of Funds", (ii) payments on term debt of $21.2 million, including $19.1 million in unscheduled payoff of debt with proceeds from the new $50 million financing, (iii) decreases in revolving debt of $12.4 million, (iv) dividends of $0.8 million, and (v) treasury stock purchases of $0.3 million.

During the first quarter of 1997, the Company paid the following aggregate dividends: (1) $3.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (2) $.81 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; and (3) $.03 per share on each outstanding share of its Common Stock. During the second quarter of 1997, the Company has paid a dividend of $10.00 per share on each outstanding share of its Redeemable Preferred Stock and has declared but not paid dividends of $.81 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, $3.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock and $.03 per share on each share of its outstanding Common Stock.

Source of Funds

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.

On February 13, 1997 the Company's wholly-owned subsidiaries, El Dorado Chemical Company, Slurry Explosive Corporation, and Northwest Financial Corporation. (collectively "Borrowers") completed a $50.0 million long-term financing agreement ("Financing") with an institutional lender. Approximately $19.3 million in proceeds from the Financing were used to repay other outstanding term debt and accrued interest, and the remaining $30.7 million in proceeds were used to pay down the Company's revolving credit facilities and thereby create additional borrowing availability for future working capital and other corporate needs. The Financing is secured by a first mortgage lien on the Chemical Business' property, plant, and equipment located in El Dorado, Arkansas and owned by the Borrowers, except rolling stock and excluding the DSN Plant which is security under a separate loan agreement. The $50.0 million Financing consists of $25.0 million of fixed rate notes bearing interest at 10.57% per annum and $25.0 million of floating rate notes bearing interest at LIBOR plus 4.2% (initially 9.76%). Repayment of the notes is due in quarterly installments of $833,332 plus interest commencing on July 1,1997 through April 2004 at which time the balance is due. The Financing requires the Borrowers to maintain certain financial ratios and contains other financial covenants, including the ratio of funded debt to total capitalization, current ratio, and fixed charge coverage ratio, in addition to net worth and working capital requirements. As of the date of this report, the Borrowers are in compliance

with all financial covenants required by the loan agreement related to the financing. The Financing also contains certain restrictions on transactions with affiliates. The Financing limits the amount of dividends or distributions by the Borrowers to an amount equal to payments for federal income taxes determined as if the Borrowers filed returns on a separate company basis and dividends up to 50% of the Borrowers' prior year net income. The annual interest on the $50 million in outstanding debt under the Financing at March 31, 1997, at the rate then in effect, would approximate $5.1 million.

The Company and certain of its subsidiaries are parties to a working capital line of credit 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 and the stock of certain of the subsidiaries that are borrowers under the Agreements. The Agreements, as amended, provide for revolving credit facilities ("Revolver") for total direct borrowings up to $63.0 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. The Agreements, as amended, provide for interest at the reference rate as defined (which approximates the national prime rate) plus 1.5%, or the Eurodollar rate plus 3.875%. At March 31, 1997 the effective interest rate was 10%. The initial term of the Agreements is through December 12, 1997, and is renewable thereafter for successive thirteen month terms. The Lender has agreed to amend the initial term maturity date to April 1, 1998. At March 31, 1997, additional amounts that the Company could have borrowed under the Agreements, based on eligible collateral, were approximately $18.2 million. Borrowings under the Revolver outstanding at March 31, 1997, were $43.9 million. The Agreements, as amended, require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. As of the date of this report, the Company is in compliance with all financial covenants, or if not in compliance, has obtained appropriate waivers from the Lender. The annual interest on the outstanding debt under the Revolver at March 31, 1997 at the rates then in effect would approximate $4.5 million.

In addition to the Agreements discussed above, the Company had the following term loans in place as of March 31, 1997:

(1) The Company s wholly-owned subsidiary, DSN Corporation ("DSN"), is a party to several loan agreements with a financing company (the Financing Company) for three (3) projects. These loan agreements are for a $16.5 million term loan (the DSN Permanent Loan"), which was used to construct, equip, re-erect, and refurbish the DSN Plant being placed into service by the Chemical Business at its 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, 1997, DSN had outstanding borrowings of $13.4 million under the DSN Permanent Loan, $.9 million under the Mixed Acid Loan, and $1.0 million under the Railcar Loan. The loans have repayment schedules of eighty-four (84) consecutive monthly installments of principle and interest. The interest rate on each of the loans is fixed and range from 8.24% to 8.86%. Annual interest, for the three notes as a whole, at March 31, 1997 at the agreed to interest rates would approximate $1.3 million. The loans are secured by the various DSN and Mixed Acid Plants property and equipment, and all railcars purchased under the Railcar Loan. The loan agreements require the Company to maintain certain financial ratios, including tangible net worth requirements. As of the date of this report, the Company is in compliance with all financial covenants or if not in compliance, has obtained appropriate waivers from the Financing Company.

(2) As of March 31, 1997, a subsidiary of the Company ("Prime") was a party to an agreement ("Agreement") with Boatmen's Bank, N.A. ("Bank"). The Agreement, as modified, requires interest per annum at a rate equal to three quarters of one percent (.75%) 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 June 30, 1996. Payment of the note is secured by a first and priority lien and security interest in and to Prime's right, title, and interest in the loan receivable relating to the real property and office building located in Oklahoma City, Oklahoma (the "Tower"), the Management Agreement relating to the Tower. In February 1997, the Company exercised its option to purchase the Tower by paying approximately $140,000 for the exercise price under the purchase option and related costs.

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 cash flow generated by the Company and the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Industrial Products Business and in the inventories of the Automotive Products Business, which increased its inventories in 1995 beyond required levels. In 1997, the Company has planned capital expenditures of approximately $6.0 million, primarily in the Chemical and Environmental Control Businesses.

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 above sentence and certain statements contained in the preceding paragraph are forward-looking statements that involve a number of risks and uncertainties that could cause actual results to differ materially, such as, a material reduction in revenues, continuing to incur losses, inability to collect a material amount of receivables, required capital expenditures in excess of those presently anticipated, or other future events, not presently predictable, which individually or in the aggregate could impair the Company's ability to obtain funds to meet its requirements. The Company currently has no material commitment for capital expenditures, except as discussed under "Overview", "Chemical Business" of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the negotiations to build a new nitric acid plant.

Foreign Subsidiary Financing

The Company has guaranteed a revolving credit working capital facility (the "Facility") between TES and Bank of New Zealand. The Facility allows for borrowings based on specific percentages of qualified eligible assets. The Facility was amended on December 19, 1996 to allow for borrowings up to an aggregate of A$8.5 million Australian. This amendment also required a reduction of A$.5 million to the amount of A$8.0 million on or before February 28, 1997, then a further reduction of A$1.0 million to the amount of A$7.0 million (approximately US $5.6 million) on or before March 31, 1997. Based on the effective exchange rate at March 31, 1997,approximately US $4.6 million was borrowed at March 31, 1997. Such debt is secured by substantially all the assets of TES, plus an unlimited guarantee and indemnity from the Company. The interest rate on this debt is the Bank of New Zealand Corporate Lending Rate plus 0.5% (approximately 10.0% at March 31, 1997). The next annual review is due on September 30, 1997. TES is in technical non-compliance with a certain financial covenant contained in the loan agreement involving the Facility. However, this covenant was not met at the time of closing and the Bank of New Zealand agreed and continues to agree as of the date of this report that the covenant is something to work towards in the future and has continued to allow TES to borrow under the Facility. The outstanding borrowing under the facility at March 31, 1997 has been classified as due within one year in the accompanying Consolidated Financial Statements.

Joint Ventures and Options to Purchase

Prior to 1997, the Company, through a subsidiary, loaned $2.9 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Environmental Control Business in the USA. Under the loan

agreement, the Company has the option to exchange its rights under the loan for 100% of the borrower's outstanding common stock. The Company obtained a security interest in the stock of the French manufacturer to secure its loan. During the first quarter of 1997 the Company advanced an additional $1 million to the French manufacturer bringing the total of the loan at March 31, 1997 to $3.9 million. As of the date of this report, the decision has not been made to exercise such option and the $3.9 million loan, net of a $1.5 million valuation reserve, is carried on the books as a note receivable in other assets.

During 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization ("Optioned Company") to enhance the marketing of the Company's air conditioning products. The stock option has a four (4) year term, and a total option granting price of $1.0 million payable in installments including an option fee of $500,000 paid upon signing of the option agreement and annual $100,000 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 $4.0 million, less the amounts paid for the granting and any extensions of the stock option.

In 1995, a subsidiary of the Company invested approximately $2.8 million to purchase a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"). The Project had been awarded a contract to retrofit residential housing units at a US Army base. The completed contract was for installation of energy-efficient equipment (including air conditioning and heating equipment), which would 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 spent approximately $17.5 million to retrofit the residential housing units at the US Army base. The Project has received a loan from a lender to finance approximately $14.0 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project.

Debt Guarantee

As disclosed in Note 4 of the Notes to Condensed Consolidated Financial Statements a subsidiary of the Company and one of its subsidiaries have guaranteed approximately $2.6 million of indebtedness of a start up aviation company in exchange for an ownership interest. The debt guarantee relates to two note instruments. One note for which the subsidiary had guaranteed up to $600,000 had a balance of approximately $400,000 as of March 31, 1997. The other note in the amount of $2.0 million requires monthly principal payments of $11,111 plus interest beginning in October 1998 through August 8, 1999, at which time all outstanding principal and accrued interest are due. In the event of default of the $2.0 million note, the Company is required to assume payments on the note with the term extended until August 2004. Both notes are current as to principal and interest.

In 1996, the aviation company received a cash infusion of $4.0 million from an unrelated third party investor for a 41.6% ownership interest in the aviation company. The investor also retained an option to purchase additional stock of the aviation company in exchange for $4.0 million.

Availability of Company's Loss Carryovers

The Company anticipates that its cash flow in future years will benefit 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; however, such benefit will be limited by the Company's reduced NOL for alternative minimum tax purposes which is approximately $10.0 million at December 31, 1996. As of December 31, 1996, the Company had available NOL carryovers of approximately $45.0 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1995, and

on the Company's estimates for 1996. These NOL carryovers will expire beginning in the year 1999.

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

Contingencies

As discussed in Note 4 of Notes to Condensed Consolidated Financial Statements, the Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome. The preceding sentence is a forward looking statement that involves a number of risks and uncertainties that could cause actual results to differ materially, such as, among other factors, the following: the EIL Insurance does not provide coverage to the Company and the Chemical Business for any material claims made by the claimants, the claimants alleged damages are not covered by the EIL Policy which a court may find the Company and/or the Chemical Business liable for, such as punitive damages or penalties, a court finds the Company and/or the Chemical Business liable for damages to such claimants for a material amount in excess of the limits of coverage of the EIL Insurance or a court finds the Chemical Business liable for a material amount of damages in the antitrust lawsuits pending against the Chemical Business in a manner not presently anticipated by the Company.

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, 1997, and the related condensed consolidated statements of operations and cash flows for the three month periods ended March 31, 1997 and 1996. 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, 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 7, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Oklahoma City, Oklahoma
May 20, 1997 ERNST & YOUNG LLP

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, 1996, 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:

3.0(ii) The Bylaws of the Company, as amended.

4.1 Seventh Amendment dated April 11, 1997 to the Loan and Security Agreement dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc. Substantially identical First Amendments dated April 11, 1997 to the Loan and Security Agreements dated December 12, 1994, were entered into by each of L&S Bearing, International Environmental Corporation, Climate Master, Inc., Summit Machine Tool Manufacturing, Corp., and El Dorado Chemical Company and Slurry Explosive Corporation with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided upon the Commission's request.

10.1 Letter Amendment dated May 14, 1997 to Loan and Security Agreement between DSN Corporation and The CIT Group/Equipment Financing, Inc.

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, 1997.

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 20th day of May, 1997.

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)

LSB INDUSTRIES, INC. Exhibit 3(ii)

BY-LAWS

ARTICLE I

Offices

Section 1. The principal office of the Corporation shall be in Oklahoma City, County of Oklahoma, State of Oklahoma, and the Corporation may also have offices at such other places as the Board of Directors may from time to time appoint or at such other places as the business of the Corporation requires.

ARTICLE II
Seal

Section 1. The corporate seal shall be in such form as the Board of Directors may from time to time prescribe. Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

ARTICLE III
Shareholders

Section 1. Place. All meetings of the shareholders shall be held in Oklahoma City, Oklahoma, or at such other place as the directors may designate.

Section 2. Annual Meeting. Annual meetings of shareholders to elect directors and transact such other business as may properly be presented to the meeting shall be held on the last Tuesday in April of each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at 10:00 a.m., or if the annual meeting is not held on the above designated date, then the directors shall cause the annual meeting to be held as soon thereafter as is convenient.

Section 3. Quorum. The holders of record of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation or by these Bylaws, but in the absence of a quorum the holders of record, present in person or represented by proxy at such meeting shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 4. Voting; Proxies. Except as otherwise provided by the laws of the State of Delaware or the Certificate of Incorporation of the Corporation or these Bylaws:

(a) At every meeting of the shareholders every shareholder having the right to vote shall be entitled to one vote for each share of capital stock having voting rights held by him.

(b) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period.

(c) Each matter properly presented to any meeting shall be decided by a majority of the votes cast on the matter.

(d) Election of directors and the vote on any other matter presented to a meeting need not be by written ballots, but written ballots may be used if ordered by the chairman of the meeting or if so requested by any stockholder present or represented by proxy at the meeting entitled to vote in such election or on such matter, as the case may be.

Section 5. Notice of Meeting. For each meeting of stockholders written notice shall be given stating the place, date and hour, and, in the case of a special meeting, the purpose or purposes for which the meeting is called and, if the list of stockholders required by Section 6 is not to be at the place of said meeting at least 10 days prior to the meeting, the place where said list will be. Except as otherwise provided by Delaware law, the written notice of any meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation.

Section 6. List of Stockholders Entitled to Vote. At least 10 days before every meeting of stockholders a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared and shall be open to the examination of any stockholder for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 7. Special Meetings. A special meeting of stockholders may be called at any time by the Board of Directors, its Chairman, the Executive Committee or the President and shall be called by any of them or by the Secretary upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such a meeting, proposed to be presented at the meeting and signed by holders of record of a majority of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting.

Section 8. Chairman and Secretary at Meeting. At each meeting of stockholders, the Chairman of the Board of Directors or in his absence, the President, or in his absence the person designated in writing by the President, or if no person is so designated, then a person designated by the Board of Directors shall preside as Chairman of the meeting; if no person is so designated, then the meeting shall choose a Chairman by plurality vote. The Secretary or in his absence a person designated by the Chairman of the meeting shall act as Secretary of the meeting.

Section 9. Adjourned Meetings. A meeting of stockholders may be adjourned to another time or place as provided in Sections 3 or 4(d) of this Article III. Unless the Board of Directors fixes a new record date, stockholders of record for an adjourned meeting shall be as originally determined for the meeting from which the adjournment was taken. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote. At the adjourned meeting any business may be transacted that might have been transacted at the meeting as originally called.

Section 10. Consent of Stockholders in Lieu of Meeting. Any action that may be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Notice of the taking of such action shall be given promptly to each stockholder that would have been entitled to vote thereon at a meeting of stockholders and that did not consent thereto in writing.

Section 11. Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is expressed; and the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

ARTICLE IV
Directors

Section 1. Number, Term, Qualifications and Vacancies. The property,

business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time by resolution of the Board of Directors and may consist of not less than three nor more than fifteen members. The directors shall be divided into three (3) classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. The term of office of those directors of the first class shall expire at the annual meeting of the shareholders of the Corporation next ensuing; the term of office of the directors of the second class shall expire one year thereafter; and the term of office of the directors of the third class shall expire two years thereafter. At each annual election the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three (3) years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 2. Offices and Books. The directors may have one or more offices, and keep the books of the Corporation at the offices of the Corporation in Oklahoma City, Oklahoma, or at such other places as they may from time to time determine.

Section 3. Resignation. Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director, and each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

Section 4. Removal. Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors.

Section 5. Regular and Annual Meetings; Notice. Regular meetings of the Board of Directors shall be held at such time and at such place, within or without the State of Delaware, as the Board of Directors may from time to time prescribe. No notice need be given of any regular meeting and a notice, if given, need not specify the purposes thereof. A meeting of the Board of Directors may be held without notice immediately after an annual meeting of stockholders at the same place as that at which such annual meeting of shareholders was held.

Section 6. Special Meetings; Notice. A special meeting of the Board of Directors may be called at any time by the Board of Directors, its Chairman, the Executive Committee, the President or any person acting in the place of the President and shall be called by any one of them or by the Secretary upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such a meeting, proposed to be presented at the meeting and signed by at least two directors of the Corporation. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting.

Section 5. Presiding Officer and Secretary at Meetings. Each meeting of the Board of Directors shall be presided over by the Chairman of the Board of Directors or in his absence by the President or if neither is present by such member of the Board of Directors as shall be chosen by the meeting. The

Secretary, or in his absence an Assistant Secretary, shall act as secretary of the meeting, or if no such officer is present, a secretary of the meeting shall be designated by the person presiding over the meeting.

Section 6. Quorum. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business, but in the absence of a quorum, a majority of those present (or if only one be present, then that one) may adjourn the meeting, without notice other than announcement at the meeting, until such time as a quorum is present. Except as otherwise required by the Certificate of Incorporation or these By-Laws, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 7. Meeting by Telephone. Members of the Board of Directors or of any committee thereof may participate in meetings of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

Section 8. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 9. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, including the power to authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have such power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present.

Section 10. Compensation. Each director shall be entitled to reimbursement of his reasonable expenses incurred in attending meetings or otherwise in connection with his attention to the affairs of the Corporation. Each director who is not a salaried officer of the Corporation or of a subsidiary of the Corporation shall, as such director and as a member of any committee, be entitled to receive such amounts as may be fixed from time to time by the Board of Directors, in the form either of fees for attendance at meetings of the Board and of committees thereof, or of payment at the rate of a fixed sum per month, or both.

Section 11. Additional Powers. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation, as from time to time amended, or by these By-Laws, as from time to time amended, directed or required to be exercised or done by the shareholders.

ARTICLE V
OFFICERS

Section 1. Designation. The Corporation shall have such officers with such titles and duties as set forth in these By-Laws or in any one or more resolutions of the Board of Directors adopted on or after the effective date

of these By-Laws which are not inconsistent with these By-Laws and as may be necessary to enable the Corporation to sign instruments and stock certificates as required by law.

Section 2. Election; Qualification. The officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may elect a Chairman of the Board of Directors, a Controller, one or more Assistant Secretaries, one or more Assistant Treasurers, one or more Assistant Controllers, and such other officers as it may from time to time determine. The Chairman of the Board of Directors, if any, shall be elected from among the directors. Two or more offices may be held by the same person.

Section 3. Term of Office. Each officer shall hold office from the time of his election and qualification to the time at which his successor is elected and qualified, unless sooner he shall die or resign or shall be removed pursuant to Section 5.

Section 4. Resignation. Any officer of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Removal. Any officer may be removed at any time, with or without cause, by the vote of a majority of the whole Board of Directors.

Section 6. Vacancies. Any vacancy however caused in any office of the Corporation may be filled by the Board of Directors.

Section 7. Compensation. The compensation of each officer shall be such as the Board of Directors may from time to time determine.

Section 8. Chairman of the Board of Directors. The Chairman of the Board of Directors, if such office be occupied, shall advise and consult with the President concerning the business and affairs of the Corporation and shall have such powers and duties as the By-Laws or the Board of Directors may from time to time prescribe.

Section 9. President. The President shall be the chief executive officer of the Corporation and shall have general charge of the business and affairs of the Corporation and shall perform all such other duties as are incident to the chief executive officer, subject however to the right of the Board of Directors to confer specified powers on officers of the Corporation. The President shall be ex-officio a member of all committees of the Board of Directors.

Section 10. Vice President. Each Vice President shall have such powers and duties as generally pertain to the office of Vice President and as the Board of Directors or the President may from time to time prescribe. During the absence of the President or his inability to act, the Vice President, or if there shall be more than one Vice President, then that one designated by the Board of Directors, shall exercise the powers and shall perform the duties of the President, subject to the direction of the Board of Directors.

Section 11. Secretary. The Secretary shall keep the minutes of all meetings of stockholders and of the Board of Directors. He shall be custodian of the corporate seal and shall affix it or cause it to be affixed to such instruments as he deems necessary or appropriate and attest the same and shall exercise the powers and shall perform the duties incident to the office of Secretary, and those that may otherwise from time to time be assigned to him subject to the direction of the Board of Directors.

Section 12. Treasurer. The Treasurer shall be the chief accounting officer of the Corporation and shall have care of all funds and securities of the Corporation and shall exercise the powers and shall perform the duties incident to the office of Treasurer, subject to the direction of the Board of Directors.

Section 13. Other Officers. Each other officer of the Corporation shall exercise the powers and shall perform the duties incident to his office, subject to the direction of the Board of Directors.

ARTICLE VI
CAPITAL STOCK

Section 1. Stock Certificates. The interest of each holder of stock of the Corporation shall be evidenced by a certificate or certificates in such form at the Board of Directors may from time to time prescribe. Each certificate shall be signed by, or in the name of the Corporation by the

Chairman of the Board of Directors, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation. If such certificate is countersigned (a) by a transfer agent other than the Corporation or its employee, or (b) by a registrar other than the Corporation or its employee, any other signature on the certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 2. Transfer of Stock. Shares of stock shall be transferable on the books of the Corporation pursuant to applicable law and such rules and regulations as the Board of Directors shall from time to time prescribe on or after the effective date of these ByLaws.

Section 3. Holders of Record. Prior to due presentment for registration of transfer, the Corporation may treat the holder of record of a share of its stock as the complete owner thereof exclusively entitled to vote, to receive notifications and otherwise entitled to all the rights and powers of a complete owner thereof, notwithstanding notice to the contrary.

Section 4. Lost, Stolen, Destroyed, or Mutilated Certificates. The Corporation may issue a new certificate of stock to replace a certificate alleged to have been lost, stolen, destroyed or mutilated upon such terms and conditions as the Board of Directors may from time to time prescribe, and the Board of Directors may, in its discretion, require the owner of the lost or destroyed certificate or his legal representative, to give the Corporation a bond, in such sum as it may direct, not exceeding double the value of the stock, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss of any such certificate.

Section 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more Transfer Agents and Registrars for the Common Stock and Preferred Stock of the Corporation. The Transfer Agent shall be in charge of the issue, transfer, and cancellation of shares of stock and shall maintain stock transfer books, which shall include a record of the shareholders, giving the names and addresses of all shareholders, and the number and class of shares held by each; prepare voting lists for meetings of shareholders; produce and keep open these lists at the meetings; and perform such other duties as may be delegated by the Board of Directors. Shareholders may give notice of changes of their addresses to the Transfer Agent. The Registrar shall be in charge of preventing the over-issue of shares, shall register all stock certificates, and perform such other duties as may be delegated by the Board of Directors.

ARTICLE VII
CHECKS

Section 1. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE VIII
FISCAL YEAR

Section 1. The fiscal year shall begin the first day of January in each year.

ARTICLE IX
DIVIDENDS

Section 1. Declaration. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock of the Corporation.

Section 2. Reserve Fund. The Board of Directors may set aside out of any funds of the Corporation available for dividends a reserve or reserves for any proper purposes and in such sum or sums as the directors from time to time, in their absolute discretion, believe to be proper, and the Board of Directors may abolish any such reserve.

ARTICLE X
NOTICE

Section 6.1. Waiver of Notice. Whenever notice is required by the Certificate of Incorporation, the By-Laws, or as otherwise provided by law, a written waiver thereof, signed by the person entitled to notice, shall be deemed equivalent to notice, whether before or after the time required for such notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting except when the person attends a meeting for the

express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

Section 2. Mailing of Notice. Whenever under the provisions of these By-Laws notice is required to be given to any director, officer, or shareholder and such notice is not waived as provided in Section 1 of this Article X, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in a postpaid sealed wrapper, addressed to such shareholder, officer or director at such address as appears on the books of the Corporation, or, in default of other address, to such director, officer or shareholder at the General Post Office in Oklahoma City, Oklahoma, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

ARTICLE XI
AMENDMENT OF BY-LAWS

Section 1. Amendment. These By-Laws may be made, altered, or repealed at any meeting of stockholders or at any meeting of the Board of Directors by a majority vote of the whole Board.

APPROVAL OF DIRECTORS

The foregoing By-Laws, after being read section by section, were adopted by the Directors of this Corporation on ________________, 19___, at Oklahoma City, Oklahoma.

_________________________	_________________________
Jack E. Golsen	Donald C. Edelson
_________________________	_________________________
David R. Goss	Irwin H. Steinhorn
_________________________	_________________________
Tony M. Shelby	Al Braver
- -------------------------	-------------------------
Gerald G. Barton	Robert C. Brown, M.D.
- -------------------------	--------------------------
Bernard G. Ille	Jerome D. Shaffer, M.D.
- -------------------------	
C. L. Thurman	

FIRST AMENDMENT TO
LSB INDUSTRIES, INC.'S
BY-LAWS

The following amendments to LSB Industries, Inc.'s ("LSB") By-Laws were approved and adopted by the Board of Directors of LSB at their special meeting held on October 6, 1986:

1. Section 7. Special Meeting. of Article III of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 7. Special Meetings.

A special meeting of stockholders may be called at any time by the Chairman or by a majority of the directors then in office, and shall be called by the Chairman upon receipt of a written request to do so specifying the matter or matters, appropriate for action at such meeting, proposed to be presented at the meeting and signed by holders of record of two-thirds of the shares of stock that would be entitled to be voted on such matter or matters if the meeting was held on the day such request is received and the record date for such meeting was the close of business on the preceding day. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting and as shall be stated in the notice of such meeting."

2. Section 1. Number, Term, Qualifications and Vacancies. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 1. Number, Term, Qualifications and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time by resolution of the Board of Directors and may consist of not less than three nor more than fifteen members. The directors shall be divided into three (3) classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. The term of office of those directors of the first class shall expire at the annual meeting of the shareholders of the Corporation next ensuing; the term of office of the directors of the second class shall expire one year thereafter; and the term of office of the directors of the third class shall expire two years thereafter. At each annual election the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three (3) years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal."

3. Section 3. Resignations. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 3. Resignation.

Any director of the Corporation may resign at any time by giving written notice of such resignation to the Board of Directors, the Chairman of the Board of Directors, the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if no time be specified, upon receipt thereof by the Board of Directors, or one of the above-named officers; and, unless specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors shall resign from the Board of Directors, such vacancy shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal."

4. Section 4. Removal. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 4. Removal.

Any one or more directors may be removed only for cause by the vote or written consent of the holders of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors. For purposes of this Article IV, Section 4, cause for removal shall be deemed to exist only if the Director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged by a court of competent jurisdiction to be liable for intentional misconduct or knowing violation of law in the performance of such Director's duty to the Corporation and, in each case, such adjudication is no longer subject to direct appeal."

5. Section 6. Special Meetings; Notice. of Article IV of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 6. Special Meetings; Notice.

A special meeting of the Board of Directors may be called at any time by the Chairman or a majority of the directors then in office. Any such meeting shall be held at such time and at such place, within or without the State of Delaware, as shall be determined by the body or person calling such meeting. Notice of such meeting stating the time and place thereof shall be given (a) by deposit of the notice in the United States mail, first class, postage prepaid, at least three days before the day fixed for the meeting addressed to each director at his address as it appears on the Corporation's records or at such other address as the director may have furnished the Corporation for that purpose, or (b) by delivery of the notice similarly addressed for dispatch by telegraph, cable or radio or by delivery of the notice by telephone or in person, in each case at least two days before the time fixed for the meeting."

6. Section 1. Amendment. of Article XI of the By-Laws of LSB is hereby amended, in its entirety, to read as follows:

"Section 1. Amendment.

These By-laws may be made, amended, altered, added to, revised or repealed only by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of all directors."

The By-Laws of LSB Industries, Inc., as amended and modified by this First Amendment to LSB Industries, Inc.'s By-Laws, sets forth the entire By-Laws of LSB. The amendments to LSB's By-Laws as combined in this First Amendment to LSB Industries, Inc.'s By-Laws are effective as of the 6th day of October, 1986, the date that such amendments were approved by the Board of Directors of LSB.

Dated: October 6, 1986

LSB INDUSTRIES, INC.

Jack E. Golsen
Chairman of the Board
and President

(Seal)

Irwin H. Steinhorn
Secretary

SECOND AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 9. Executive and Other Committees. of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws has been duly and validly amended by the Board of Directors of the Company, by a written memorandum of action, dated November 7, 1986, executed by all members of the Board of Directors pursuant to Section 141(f) of the Delaware General Corporation Law, to read as follows:

> "Section 9. Executive and Other Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate an Executive Committee and one or more other committees, each such committee to consist of two or more directors as the Board of Directors may from time to time determine. Any such committee, to the extent provided in such resolution or resolutions, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors, fix the assignations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the By-Laws; and unless the resolution shall expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Each such committee other than the Executive Committee shall have such name as may be determined from time to time by the Board of Directors. Any committee of directors may be discharged or discontinued at any time, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present, likewise, any member of any committee of directors may be removed from committee membership, with or without cause, by a majority vote of the Board of Directors at any meeting at which there is a quorum present."

The By-Laws of LSB Industries, Inc., as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, and by this Second Amendment to the By-Laws of LSB Industries, Inc., sets forth the entire By-Laws of LSB. The amendment to the Company's By-Laws as set forth in this Second Amendment to the LSB Industries, Inc's By-Laws is effective as of the 7th day of November, 1986, the date of the Memorandum of Action in which the members of the Board of Directors adopted and approved such amendment.

Dated: November 7, 1986

LSB INDUSTRIES, INC.

Jack E. Golsen, Chairman of the Board and President

Irwin H. Steinhorn, Secretary

(SEAL)

THIRD AMENDMENT TO THE BY-LAWS OF LSB INDUSTRIES, INC.

Section 1. Number, Term Qualification and Vacancies of ARTICLE IV and Section 1. Amendment of ARTICLE IX of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by a written memorandum of action, dated June 1, 1989, executed by all members of the Board of Directors pursuant to Section 141(f) of the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three nor more than eight members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors to the class of directors whose terms have expired in that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

ARTICLE IX, Section 1. Amendment. These By-Laws may be made, amended, altered, added to, revised or repealed only by a vote of a majority of the directors then in office or by a vote of the holders of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors; provided, however, that Article IV, Section 1 of these By-Laws and this Article IX, Section 1, may be amended, altered, added to, revised or repealed only by a vote of two-thirds of the entire Board of Directors or by a vote of two-thirds of the issued and outstanding shares of stock of the Corporation entitled to vote for the election of directors.

The By-Laws of LSB Industries, Inc., as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, by the Second Amendment to the By-Laws dated June 1, 1989, and by this Third Amendment to the By-Laws of LSB Industries, Inc., sets forth the entire By-Laws of LSB. The amendment to the Company's By-Laws as set forth in this Third Amendment to the LSB Industries, Inc.'s By-Laws is effective as of the 1st day of June, 1989, the date of the Memorandum of Action in which the members of the Board of Directors adopted and

approved such amendment.

Dated: June 1, 1989

LSB INDUSTRIES, INC.

Jack E. Golsen, Chairman of
the Board and President

AMENDMENT TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

The following Amendments to the By-laws of LSB Industries, Inc. ("LSB"), were approved and adopted by the Board of Directors of LSB at their meeting held on April 26, 1990:

1. Section 10, Consent to Stockholders in Lieu of Meeting, of ARTICLE III of the By-laws is hereby deleted in its entirety and in lieu thereof a new Section 10 is substituted in place thereof, which reads as follows:

Section 10. Consent of Stockholders in Lieu of Meeting.

10.1 Action by Written Consent. Any action which is required to be or may be taken at any annual or special meeting of stockholders of the corporation may be taken without a meeting, without prior notice and without a vote, if consents in writing, setting forth the action so taken, shall have been signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or to take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided however, that prompt notice of the taking of the corporate action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

10.2 Determination of Record Date of Action by Written Consent. In order to inform the corporation's stockholders and the investing public in advance that a record date for action by consent will occur and to comply with the procedures contained in the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) policies and rules, the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting is fixed by the Board of Directors of the corporation pursuant to Section 213(a) of the Delaware General Corporation Law as follows: The Board of Directors shall set as the record date the 10th day after (i) any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent without a meeting shall, by written notice to the Secretary which may be given by telex or telecopy, advise the corporation of the corporate action proposed for which consents will be sought and request from the Board of Directors a record date unless a later date is specified by such stockholder, or (ii) the Board of Directors determines that the corporation should seek corporate action by written consent, unless a later record date is specified in the resolution of the Board of Directors containing such determination. In the event that the record date set as provided falls on a Saturday, Sunday or legal holiday, the record date shall be the first day next following such date that is not a Saturday, Sunday or legal holiday. Any record date determined pursuant to this Subsection 10.2 shall be announced by a pres release prior to the opening of trading on the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) on the next trading day after a request for a record date pursuant to clause (i) above is received by the Secretary or a Board of Directors' determination pursuant to clause (ii) above.

10.3 Duration and Revocation of Consents. In order that the corporation's stockholders shall have an opportunity to receive and consider the information germane to an informed judgment as to whether to give a written consent and in accordance with the procedures contained in the American Stock Exchange (or such other exchange on which the corporation's securities are listed for trading) policies and rules, the stockholders of the corporation shall be given at least twenty (20) days from the record date to give or revoke written consents. Consents to corporate action shall be valid for a maximum of sixty (60) days after the record date. Consents may be revoked by written notice (i) to the corporation, (ii) to the stockholder or stockholders soliciting consents or soliciting revocations in opposition to action by consent proposed by the corporation (the "Soliciting Stockholders"), or (iii) to a proxy solicitor or other agent designated by the corporation of the Soliciting Stockholder(s).

10.4 Retention and Duties of Inspectors of Election. Within two (2) business days after receipt of a request by a stockholder for the setting of a record

date or a determination by the Board of Directors that the corporation should seek corporate action by written consent, as the case may be, the Secretary of the corporation shall engage nationally recognized independent inspectors of elections for the purpose of performing a ministerial review of the validity of the consents and revocations. The inspectors shall review all consents and revocations, determine whether the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents, and forthwith certify such determination for entry in the records of the corporation kept for the purpose of recording the proceedings of meetings of stockholders. The cost of retaining inspectors of elections shall be borne by the party proposing the action by consent.

10.5 Procedures for Counting and Challenging Consents. Consents and revocations shall be delivered to the inspectors upon receipt by the corporation, the Soliciting Stockholders or their proxy solicitors or other designated agents. As soon as consents and revocations are received, the inspectors shall review the consents and revocations and shall maintain a count of the number of valid and unrevoked consents. The inspectors shall keep such count confidential and shall not reveal the count to the corporation, the Soliciting Stockholders or their representatives. As soon as practicable after the earlier of (i) sixty (60) days after the record date for the consents or (ii) a request therefore by the corporation or the Soliciting Stockholders (whichever is soliciting consents) made after expiration of the period for giving or revoking consents under Subsection 10.3 above, notice of which request shall be given to the party opposing the solicitation of consents, which request shall state that the corporation or Soliciting Stockholder(s) (as the case may be) in good faith believe that it or they have received the requisite number of valid and unrevoked consents to authorize or take the action specified in the consents, the inspectors shall issue a preliminary report to the corporation and the Soliciting Stockholders stating:

(i) The number of valid consents;

(ii) The number of valid revocations;

(iii) The number of valid and unrevoked consents;

(iv) The number of invalid consents;

(v) The number of invalid revocations;

(vi) Whether, based on their preliminary count, the requisite number of valid and unrevoked consents has been obtained to authorize or take the action specified in the consents.

Unless the corporation and the Soliciting Stockholder(s) shall agree to a shorter or longer period, the corporation and the Soliciting Stockholder(s) shall have forty-eight (48) hours to review the consents and revocations and to advise the inspectors and the opposing party in writing as to whether they intend to challenge the preliminary report of the inspectors. If no written notice of an intention to challenge the preliminary report is received within forty-eight (48) hours after the inspector's issuance of the preliminary report, the inspectors shall issue to the corporation and the Soliciting Stockholder(s) their final report containing the information from the inspectors' determination with respect to whether the requisite number of valid and unrevoked consents was obtained to authorize and take the action specified in the consents. If the corporation or the Soliciting Stockholder(s) issue written notice of an intention to challenge the inspectors' preliminary report within forty-eight (48) hours after the issuance of that report, a challenge session shall be scheduled by the inspectors as promptly as practicable. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, the inspectors shall as promptly as practicable issue their final report to the corporation and the Soliciting Stockholder(s) containing the information included in the preliminary report, plus all changes in the vote totals as a result of the challenges and a certification of whether the requisite number of valid and unrevoked consents was obtained to authorize or take the action specified in the consents.

10.6 Notice of Results. The corporation shall give prompt notice to the stockholders of the results of any consent solicitation or the taking of the corporate action without a meeting and by less than unanimous written consent.

2. Article III of the By-laws is hereby amended by adding at the end thereof new Sections 12 and 13, which shall read as follows:

Section 12. Business to be Conducted at the Annual or Special Meeting of the Stockholders. At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 12. For business to be properly brought before an annual meeting by a stockholder,

the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the corporation not less than fifty (50) days prior to the date of the annual meeting; provided, however, that in the event that less than sixty (60) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the tenth (lOth) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting, the following:

(i) A brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting;

(ii) The name and address, as they appear on the corporation's books, of the stockholder proposing such business;

(iii) The class and number of shares of the corporation's voting stock that are beneficially owned by such stockholder; and

(iv) Any material interest of such stockholder in such business.

Notwithstanding anything in these By-laws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 12. The Officer of the corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 12 and, if he should so determine, he shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 13. Election to the Board of Directors.

13.1 Only persons who are nominated in accordance with the procedures set forth in these By-laws shall be eligible for election as Directors of the corporation. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders at which Directors are to be elected only:

(i) By or at the direction of the Board of Directors; or

(ii) By any stockholder of the corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Subsection 13.2 below.

13.2 Nominations for election as a Director of the corporation, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the corporation not less than fifty (50) days prior to the date of the meeting; provided, however, that in the event that less than sixty (60) days' notice or prior disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth:

(i) As to each person whom such stockholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); and

(ii) As to the stockholder giving the notice (x) the name and address, as they appear on the corporation's books, of such stockholder, and (y) the class and number of shares of the corporation's voting capital stock that are beneficially owned by such stockholder.

At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the corporation that information required to be set forth in a

stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the corporation unless nominated in accordance with the provisions of this Section 13. The Officer of the corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

The By-laws of LSB Industries, Inc., as previously amended, and further amended and modified by this Amendment to the Bylaws of LSB Industries, Inc.'s By-laws, sets forth the entire By-laws of LSB. The amendments to LSB's By-laws as contained in this Fourth Amendment to LSB Industries, Inc.'s By-laws are effective as of the 26th day of April, 1990, the date that such amendments were approved by the Board of Directors of LSB.

Dated: , 1997 LSB INDUSTRIES, INC.

Jack E. Golsen
Chairman of the Board and President

(SEAL)

David M. Shear,
Secretary

FIFTH AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 1. Number, Term, Qualification and Vacancies of ARTICLE IV and Section 1. Amendment of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by action taken on November 11, 1993, by a majority of members of the Board of Directors pursuant the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three no more than nine members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

The By-Laws of LSB Industries, Inc., as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, by the Second Amendment to the By-Laws dated November 2, 1986, by the Third Amendment to the By-Laws dated June 1, 1989, by the Fourth Amendment to the By-Laws dated June 15, 1990 and this Fifth Amendment to the By-Laws of LSB Industries, Inc. dated November 11, 1993, sets forth the entire By-Laws of LSB. The amendment to the Company's By-Laws as set forth in this Fifth Amendment to the LSB Industries, Inc.'s By-Laws is effective as of the 11th day of November, 1993, the date of the meeting at which the members of the Board of Directors adopted and approved such amendment.

Dated: November 11, 1993.

LSB INDUSTRIES, INC.

Jack E. Golsen, Chairman of
Board and President

SIXTH AMENDMENT
TO THE BY-LAWS
OF
LSB INDUSTRIES, INC.

Section 1. Number, Term, Qualification and Vacancies of ARTICLE IV and Section 1. Amendment of ARTICLE IV of LSB Industries, Inc.'s (the "Company") By-Laws have been duly and validly amended by the Board of Directors of the Company, by action taken on May 8, 1997, by a majority of members of the Board of Directors pursuant the Delaware General Corporation Law, to read as follows:

ARTICLE IV, Section 1. Number, Term, Qualification and Vacancies.

The property, business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors.

The number of directors that shall constitute the whole Board of Directors may be fixed from time to time pursuant to a resolution adopted by a vote of two-thirds of the entire Board of Directors and may consist of no fewer than three no more than eleven members. The directors shall be divided into three classes. Each class shall consist, as nearly as possible, of one-third of the whole number of the Board of Directors. At each annual election of the successors that year shall be elected to hold office for a term of three years. Each director elected shall hold office until his successor is elected and qualified or until his earlier resignation or removal. Directors and officers need not be shareholders.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Each director chosen to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such directors shall have been chosen and until his successor is duly elected and qualified or until his earlier resignation or removal.

The By-Laws of LSB Industries, Inc., dated January 28, 1997, as amended and modified by the First Amendment to LSB Industries, Inc.'s By-Laws, dated October 6, 1986, by the Second Amendment to the By-Laws, dated November 7, 1986, by the Third Amendment to the By-Laws, dated June 1, 1989, by the Fourth Amendment to the By-Laws, dated June 15, 1990, by the Fifth Amendment to the By-Laws, dated November 11, 1993 and this Sixth Amendment to the By-Laws of LSB Industries, Inc., dated May 8, 1997, set forth the entire By-Laws of LSB Industries, Inc. The amendment to the Company's By-Laws as set forth in this Sixth Amendment to the By-Laws of LSB Industries, Inc. is effective as of the 8th day of May, 1997, the date of the meeting at which the members of the Board of Directors adopted and approved such amendment.

Dated: May 8, 1997.

LSB INDUSTRIES, INC.

Jack E. Golsen
Chairman of the Board and President

[S E A L]

David M. Shear,
Secretary

Exhibit 4.1

SEVENTH AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS SEVENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of April 11, 1997, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. (Lender) and LSB INDUSTRIES, INC. ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by (i) that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995, (ii) that certain Second Amendment to Loan and Security Agreement dated as of December 1, 1995, (iii) that certain Third Amendment to Loan and Security Agreement dated as of April 1, 1996, (iv) that certain Fourth Amendment to Loan and Security Agreement dated as of July 1, 1996, (v) that certain Fifth Amendment to Loan and Security Agreement dated as of November 18, 1996, and (vi) that certain Sixth Amendment to Loan and Security Agreement dated as of February 13, 1997 (as so amended, the "Agreement");

WHEREAS, Lender and Borrower desire to amend the Agreement as hereinafter set forth;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Agreement and this Amendment, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meanings as in the Agreement, as amended hereby.

Section 1.02. Amendment to Definition of Availability Reductions. The definition of "Availability Reductions" is hereby amended by adding a new subsection (vi) which reads as follows:

"(vi) reserves in Lender s sole discretion with respect to Swap Transactions, with the amount thereof to be at all times based on a weekly mark-to-market calculation given to Lender by Bank s Capital Markets Credit Group."

All other subsections of the definition remain unchanged.

Section 1.03 Amendment to Definition of Obligations. The second sentence of the definition of "Obligations" beginning in its original version as ""Obligations" includes" and ending "Letter of Credit Agreement." is amended in its entirety to read as follows:

""Obligations" includes, without limitation, (a) all debts, liabilities, and obligations now or hereafter owing from Borrower to Lender under or in connection with the Letters of Credit and (b) all debts, liabilities and obligations now or hereafter owing from the Borrower to the Lender arising from or related to Swap Transactions."

There is no change in the first sentence of the definition of "Obligations".

Section 1.04 New Definition. The following new definition is hereby added to the Agreement:

"Swap Transactions" means interest rate swaps entered into by the Bank s Capital Markets Credit Group for the account of or otherwise for the benefit of the Borrower.

ARTICLE II

Amendments

Section 2.01. Amendment to Article 2. Article 2 of the Agreement is hereby amended by adding a new Section 2.5 which reads as follows:

"2.5. Swap Transactions. The Borrower may request and the Lender may, in its sole and absolute discretion, arrange for the Borrower to obtain Swap Transactions from the Bank s Capital Markets Credit Group, provided, however, that Lender's exposure to the LSB Borrowing Group may in no event exceed a maximum amount of $1,850,000. The Borrower agrees to indemnify and hold the Lender harmless from all losses, liabilities, costs, expenses and claims incurred by the Lender arising from or related to such Swap Transactions. The Borrower acknowledges and agrees that the obtaining of Swap Transactions from the Bank s Capital Markets Credit Group (a) is in the sole and absolute

discretion of the Bank s Capital Markets Credit Group, (b) is subject to all rules and regulations of the Bank s Capital Markets Credit Group, and (c) is due to the Bank s Capital Markets Credit Group relying on the indemnity of the Lender to the Bank s Capital Markets Credit Group with respect to all risks of loss associated with the Swap Transactions."

Section 2.02. Amendment to Section 12. The first sentence of Section 12 which in its original version reads in its entirety as follows "The initial term of this Agreement shall be three (3) years from the Closing Date (the "Termination Date")" is hereby amended to read in its entirety as follows:

"The initial term of this Agreement shall be from the Closing Date until April 1, 1998 (the "Termination Date")."

All other provisions of Section 12 remain unchanged.

ARTICLE III

Ratifications, Representations and Warranties

Section 3.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement, including, without limitation, all financial covenants contained therein, are ratified and confirmed and shall continue in full force and effect. Lender and Borrower agree that the Agreement as amended hereby shall continue to be legal, valid, binding and enforceable in accordance with its terms.

Section 3.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that the execution, delivery and performance of this Amendment and all other loan, amendment or security documents to which Borrower is or is to be a party hereunder (hereinafter referred to collectively as the "Loan Documents") executed and/or delivered in connection herewith, have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower.

ARTICLE IV

Conditions Precedent

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent (unless specifically waived in writing by the Lender):

(a) Lender shall have received all of the following, each dated (unless otherwise indicated) as of the date of this Amendment, in form and substance satisfactory to Lender in its sole discretion:

(i) Company Certificate. A certificate executed by the Secretary or Assistant Secretary of Borrower certifying (A) that Borrower's Board of Directors has met and adopted, approved, consented to and ratified the resolutions attached thereto which authorize the execution, delivery and performance by Borrower of the Amendment and the Loan Documents, (B) the names of the officers of Borrower authorized to sign this Amendment and each of the Loan Documents to which Borrower is to be a party hereunder, (C) the specimen signatures of such officers, and (D) that neither the Articles of Incorporation nor Bylaws of Borrower have been amended since the date of the Agreement;

(ii) No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrower, or in the Collateral, and the Lender shall have received a certificate of Borrower's chief executive officer to such effect;

(iii) Other Documents. Borrower shall have executed and delivered such other documents and instruments as well as required record searches as Lender may require.

(b) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel, Jenkens & Gilchrist, a Professional Corporation.

ARTICLE V

Miscellaneous

Section 5.01. Survival of Representations and Warranties. All representations and warranties made in the Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely thereon.

Section 5.02. Reference to Agreement. The Agreement, each of the Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement as amended hereby, are hereby amended so that any reference therein to the Agreement shall mean a reference to the Agreement as amended hereby.

Section 5.03. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

Section 5.04. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN THE STATE OF OKLAHOMA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF OKLAHOMA.

Section 5.05. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns; provided, however, that Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender. Lender may assign any or all of its rights or obligations hereunder without the prior consent of Borrower.

Section 5.06. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.07. Effect of Waiver. No consent or waiver, express or implied, by Lender to or of any breach of or deviation from any covenant or condition of the Agreement or duty shall be deemed a consent or waiver to or of any other breach of or deviation from the same or any other covenant, condition or duty. No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Amendment, the Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Amendment, the Agreement or any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in the Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

Section 5.08. Headings. The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.09. Releases. As a material inducement to Lender to enter into this Amendment, Borrower hereby represents and warrants that there are no claims or offsets against, or defenses or counterclaims to, the terms and provisions of and the other obligations created or evidenced by the Agreement or the other Loan Documents. Borrower hereby releases, acquits, and forever discharges Lender, and its successors, assigns, and predecessors in interest, their parents, subsidiaries and affiliated organizations, and the officers, employees, attorneys, and agents of each of the foregoing (all of whom are herein jointly and severally referred to as the "Released Parties") from any and all liability, damages, losses, obligations, costs, expenses, suits, claims, demands, causes of action for damages or any other relief, whether or not now known or suspected, of any kind, nature, or character, at law or in equity, which Borrower now has or may have ever had against any of the Released Parties, including, but not limited to, those relating to (a) usury or penalties or damages therefor, (b) allegations that a partnership existed between Borrower and the Released Parties, (c) allegations of unconscionable acts, deceptive trade practices, lack of good faith or fair dealing, lack of commercial reasonableness or special relationships, such as fiduciary, trust or confidential relationships, (d) allegations of dominion, control, alter ego, instrumentality, fraud, misrepresentation, duress, coercion, undue influence, interference or negligence, (e) allegations of tortious interference with present or prospective business relationships or of antitrust, or (f) slander, libel or damage to reputation, (hereinafter being collectively referred to as the "Claims"), all of which Claims are hereby waived.

Section 5.10. Expenses of Lender. Borrower agrees to pay on demand

(i) all costs and expenses reasonably incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all subsequent amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel and (ii) all costs and expenses reasonably incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, this Amendment and/or other Loan Documents, including, without limitation, the costs and fees of Lender's legal counsel and the allocated cost of staff counsel.

Section 5.11. NO ORAL AGREEMENTS. THIS AMENDMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS AS WRITTEN, REPRESENT THE FINAL AGREEMENTS BETWEEN LENDER AND BORROWER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN LENDER AND BORROWER.

IN WITNESS WHEREOF, the parties have executed this Amendment on the date first above written.

"BORROWER"

LSB INDUSTRIES, INC.

By: ________________________
Name: Tony M. Shelby
Title: Vice President

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By: ________________________
Name: Michael J. Jasaitis
Title: Vice President

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Seventh Amendment to Loan and Security Agreement dated as of April 11, 1997, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Cross-Collateralization Agreement remains in full force and effect and the Cross-Collateralization Agreement is hereby ratified and confirmed.

Dated as of April 11, 1997.

CLIMATE MASTER, INC.
L&S BEARING CO.
SUMMIT MACHINE TOOL
MANUFACTURING CORP.
INTERNATIONAL ENVIRONMENTAL
CORPORATION

By: --------------------------------------
Tony M. Shelby, Vice President acting
on behalf of each of the above

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that certain Seventh Amendment to Loan and Security Agreement dated as of April 11, 1997, between LSB Industries, Inc., and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under (i) that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994, and (ii) that certain Cross-Collateralization and Cross-Guaranty Agreement (the Cross-Collateralization Agreement) dated as of December 12, 1994, each made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty and the Cross-Collateralization Agreement remain in full force and effect and the Guaranty and the Cross-Collateralization Agreement are hereby ratified and confirmed.

Dated as of April 11, 1997.

UNIVERSAL TECH CORPORATION
LSB CHEMICAL CORP.
L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a LSB Bearing Corp.)
INTERNATIONAL BEARINGS, INC.
LSB EXTRUSION CO.
ROTEX CORPORATION
TRIBONETICS CORPORATION
SUMMIT MACHINE TOOL SYSTEMS, INC.
HERCULES ENERGY MFG. CORPORATION
MOREY MACHINERY MANUFACTURING
CORPORATION
CHP CORPORATION
KOAX CORP.
APR CORPORATION

By: --------------------------------------
Tony M. Shelby, Vice President
acting on behalf of each of the
above

Exhibit 10.1

The CIT Group/
Equipment Financing
P.O. Box 490
650 CIT Drive
Livingston, NJ 07039-0490

May 14, 1997

Via Fax and Mail

Mr. Jim Jones V.P. and Treasurer
LSB Industries
16 South Pennsylvania Ave.
Oklahoma City, OK 73107

Dear Mr. Jones:

Reference is made to (a) that certain Loan and Security Agreement, dated October 31, 1994 (as Amended, the "Agreement") , between DSN Corporation, an Oklahoma corporation ("Debtor") and The CIT Group/Equipment Financing, Inc., a New York corporation ("CIT") and (b) the defined terms within. Debtor has advised CIT that LSB Industries, Inc. (LSB), a guarantor of Debtor's obligation to CIT, was not in compliance with:

> Section 6.10 of the Agreement, in that, as of March 31, 1997, LSB did not maintain a tangible net worth of $67,000,000.00 and $78,000,000.00 after adding treasury stock. Further, LSB did not maintain a Leverage requirement of 3.00x (actual as of March 31, 1997 was 3.37x)

Debtor has requested, that not withstanding anything to the contrary in the Agreement, the CIT waive the above instances of non-compliance and agree to reset LSB's covenant level requirements for the remainder of 1997.

The new Covenants are as follows:

Minimum Tangible Net Worth (after subtracting Treasury Stock)

	(000's omitted)
June, 1997	$61,750
September, 1997	62,522
December, 1997	60,647

Minimum Tangible Net Worth (before subtracting Treasrury Stock)

June 1997	$72,000
September, 1997	75,000
December, 1997	76,000

Maximum Leverage Allowed

June, 1997	3.11x
September, 1997	2.96x
December, 1997	3.02x

CIT hereby waives, as of this date, the above instances of non-compliance, provided that such waiver is subject to the following conditions:

(1) that this waiver is stricly limited to the specific covenants under section 6.10 of the Agreement, as amended, set forth above and is strictly limited only to such instances of non-compliance through and including March 31, 1997.

(2) that Debtor pay a fee in the amount of $10,000.00 within 5 business days of the above date to cover waiver and amendment.

The amended covenants shall remain in place throughout 1997, after which they shall revert to the original levels as set forth in the Agreement.

Sincerely,

The CIT Group/Equipment Financing, Inc.

By /s/ Anthony G. Joseph
Anthony G. Joseph
Vice President

Acknowledged and Agreed:

DSN Corporation

By:______________________

Title____________________

LSB Industries

By:______________________

Title:___________________

LSB INDUSTRIES, INC.

PRIMARY EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31, 1997	1996
Shares for primary earnings per share:		
Weighted average shares:		
Common shares outstanding from beginning of period	12,975,356	12,911,447
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	-	270
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	13,440	-
Purchases of treasury stock; calculated on weighted average basis	(13,972)	(330)
	12,974,824	12,911,387
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)	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	-
	-	-
	12,974,824	12,911,387
Earnings for primary earnings per share:		
Net earnings (loss)	$(5,437,954)	$ (531,218)
Dividends on cumulative preferred stocks	(60,000)	(75,520)
Dividends on convertible, exchangeable Class C preferred stock (6.5% annually)	(743,438)	(743,438)
Earnings (loss) applicable to common stock	$(6,241,392)	(1,350,176)
Earnings (loss) per share	$(.48)	$(.10)

LSB INDUSTRIES, INC.

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	Quarter ended March 31, 1997	1996
Shares for fully diluted earnings per share:		
Weighted average shares outstanding for primary earnings per share	12,974,824	12,911,387
Shares issuable upon exercise of options and warrants	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	-
Common shares issuable upon conversion of convertible note payable	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:		
Series B	-	-

	12,974,824	12,911,387
Earnings for fully diluted earnings per share:		
Net earnings (loss)	$(5,437,954)	$ (531,218)
Dividends on cumulative convertible preferred stocks:		
Series B	(60,000)	(75,520)
Series 2 Class C	(743,438)	(743,438)
Earnings (loss) applicable to common stock	$(6,241,392	$(1,350,176)
Earnings (loss) per share	$(.48)	$(.10)

Exhibit 15.1

LETTER OF ACKNOWLEDGEMENT
RE: UNAUDITED FINANCIAL INFORMATION

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 20, 1997 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, 1997.

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.

Oklahoma City, Oklahoma   Very truly yours,

May 20, 1997   Ernst & Young LLP

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LSB INDUSTRIES, INC.
1,000

3-MOS
DEC-31-1997
MAR-31-1997
4,597
0
55,819
3,091
67,304
135,727
198,257
79,274
270,985
66,625
136,959
146
48,000
1,491
17,764
270,985
73,234
74,864
62,312
62,312
0
0
3,056
(5,376)
62
(5,438)
0
0
0
(5,438)
(.48)
(.48)