FORM 10-K
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended: December 31, 1995

or

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

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 of Incorporation)	(I.R.S. Employer Identification No.)
16 South Pennsylvania Avenue Oklahoma City, Oklahoma	73107
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code:

(405) 235-4546

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, Par Value $.10	New York Stock Exchange
$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

(Facing Sheet Continued)

Securities Registered Pursuant to Section 12(g) of the Act:
$3.25 Convertible Exchangeable Class C Preferred Stock, Series 2.

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

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

As of February 29, 1996, the aggregate market value of the 8,769,203 shares of voting stock of the Registrant held by non-affiliates of the Company equaled approximately $33,980,662 based on the closing sales price for the Company's common stock as reported for that date. That amount does not include (1) the 1,566 shares of Convertible Non-Cumulative Preferred Stock (the "Non-Cumulative Preferred Stock") held by non-affiliates of the Company, (2) the 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock (the "Series B Preferred Stock"), and (3) the 915,000 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2, excluding 5,000 shares held in treasury (the "Series 2 Preferred Stock"). An active trading market does not exist for the shares of Non-Cumulative Preferred Stock or the Series B Preferred Stock. The shares of Series 2 Preferred Stock do not have voting rights except under limited circumstances.

As of February 29, 1996, the Registrant had 12,911,447 shares of common stock outstanding (excluding 1,845,969 shares of common stock held as treasury stock).

FORM 10-K OF LSB INDUSTRIES, INC.

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Incorporated by reference from the Company's proxy statement.

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PART I

Item 1. BUSINESS

General

LSB Industries, Inc. (the "Company") was formed in 1968 as an Oklahoma corporation, and in 1977 became a Delaware corporation. The Company is a diversified holding company which is engaged, through its subsidiaries, in (i) the manufacture and sale of chemical products for the explosives, agricultural and industrial acids markets (the "Chemical Business"), (ii) the manufacture and sale of a broad range of air handling and heat pump products for use in commercial and residential air conditioning systems (the "Environmental Control Business"), and (iii) the manufacture or purchase and sale of certain automotive and industrial products, including automotive bearings and other automotive replacement parts (the "Automotive Products Business") and the manufacture, purchase and sale of machine tools (the "Industrial Products Business").

Business Strategy

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 can establish a position as a market leader. In addition, the Company is seeking to further build value for its stockholders through realization of the value of selected assets reflected on its balance sheet. In this connection, the Company is considering alternatives with respect to the Automotive Business, including its possible disposition. Any disposition of the Automotive Business is, however, subject, among other things, to the Company obtaining an acceptable price. In addition, the Company intends to reduce the Industrial Products Business by liquidating its inventory in the ordinary course of business to a size where the Company's investment in this business is not significant, and thereafter, limiting this business to the purchase and sale of a limited number of lines of machine tools which the Company believes are profitable. For 1995, approximately 82% of the Company's consolidated sales were attributable to its businesses other than the Automotive Products Business and the Industrial Products Business. The Automotive Products and the Industrial Products Businesses incurred a combined operating loss of approximately $4.9 million compared to the Company's consolidated operating profit of approximately $13.1 million after deducting the $4.9 million operating loss.

Segment Information and Foreign and Domestic Operations and Export Sales

Schedules of the amounts of sales, operating profit and loss, and identifiable assets attributable to each of the Company's lines of business and of the amount of export sales of the Company in the aggregate and by major geographic area for each of the Company's last three fiscal years appear in Note 15 of the Notes to Consolidated Financial Statements included elsewhere in this report.

A discussion of any risks attendant as a result of a foreign operation or the importing of products from foreign countries appears below in the discussion of each of the Company's business segments.

Chemical Business

General:

The Chemical Business manufactures and sells the following types of chemical products to the mining, agricultural and other industries: sulfuric acid, concentrated nitric acid, prilled ammonium nitrate fertilizer and ammonium nitrate-based blasting products. In addition, the Chemical Business

markets emulsions that it purchases from others for resale to the mining industry.

The Chemical Business' principal manufacturing facility is located in El Dorado, Arkansas ("El Dorado Facility") and it's other manufacturing facilities are located in Hallowell, Kansas, and in Australia. The Chemical Business has placed into operation a blending facility in Wilmington, North Carolina to allow the Company to produce a mixed acid product for sale. This facility became operational during the fourth quarter of 1995.

For 1995, approximately 27% of the sales of the Chemical Business consisted of sales of fertilizer and related chemical products for agricultural purposes, which represented approximately 14% of the Company's 1995 consolidated sales, and 57% consisted of sales of ammonium nitrate and other chemical-based blasting products for the mining industry, which represented approximately 30% of the Company's 1995 consolidated sales. The Chemical Business accounted for approximately 51% and 54% of the Company's 1995 and 1994 consolidated sales, respectively.

Seasonality:

The Company believes that the only seasonal products of the Chemical Business are fertilizer and related chemical products sold to the agricultural industry. The selling seasons for those products generally occur during the spring and fall planting seasons, i.e., from February through May and from September through November, which causes the Company to increase its inventory prior to the beginning of each season. In addition, sales to the agricultural markets depend upon weather conditions and other circumstances beyond the control of the Company.

Raw Materials:

Ammonia represents an essential component in the production of most of the products of the Chemical Business, and the selling price of those products generally fluctuates with the price of ammonia. The Company has a contract with a supplier of ammonia pursuant to which the supplier has agreed to supply the ammonia requirements of the Chemical Business on terms the Company considers favorable.

Substantial world-wide per ton price increases for ammonia were incurred during 1994 and 1995 by most, if not all, users of ammonia that are not also manufacturers of ammonia. During 1994 and 1995, the Company's Chemical Business was not able to recover all of these cost increases by way of price increases on its products due to market conditions. As a result, such inability to increase prices for the Chemical Business' products had a negative impact on the Company's 1994 and 1995 earnings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of such negative impact. Beginning in the latter part of 1994 and throughout 1995, the Company's Chemical Business has been able to increase its sales prices to cover a substantial portion of the price increases relating to the cost of ammonia that were incurred. However, the Company is not able to predict, at this time, what the effect of continuing ammonia price increases during 1996, if any, will have on the Company and the Company's earnings.

The Company believes that it could obtain ammonia from other sources in the event of a termination of the above referenced contract, but such may not be obtainable on as favorable terms as presently available to the Chemical Business under its present agreement.

Marketing and Distribution:

The Chemical Business sells and markets its products to wholesalers and directly through its own sales force using 34 distribution centers. See "Properties". The Chemical Business sells low density prilled ammonium nitrate-based explosives primarily to the surface coal mining industry through eight (8) Company-owned distribution centers, most of which are located in close proximity to the customers' surface mines in the coal producing states of Kentucky, Indiana, and Missouri, and through four (4) company-owned distribution centers in Australia and one (1) location in New Zealand located in the proximity of the mines. In addition, sales of explosives are made on a wholesale basis to independent wholesalers and other explosives companies.

The Chemical Business sells high density prilled ammonium nitrate for use in agricultural markets in geographical areas within a freight-logical distance from its El Dorado, Arkansas, manufacturing plant, primarily Texas, Oklahoma, Arkansas and Louisiana. The products are sold through 21 distribution centers, with 15 centers located in Northern and Eastern Texas, one center located in Oklahoma, two centers located in Missouri and three centers located in Tennessee. The Chemical Business also sells its agricultural products directly to wholesale customers.

The Chemical Business sells its industrial acids, consisting primarily of high grade concentrated nitric acid and sulfuric acid, primarily to the food, paper, chemical and electronics industries. Concentrated nitric acid is a special grade of nitric acid used in the manufacture of pharmaceutical, explosives, and other chemical products.

Customers:

The Chemical Business does not depend on any single customer or a few customers. However, the Company does have a multi-year contract expiring in December, 1998, to supply a customer with nitric acid from ammonia provided by such customer. The loss of that contract could have a material adverse effect on the Chemical Business.

Patents:

The Company believes that the Chemical Business does not depend upon any patent or license; however, the Chemical Business does own certain patents that it considers important in connection with the manufacture of certain blasting agents and high explosives. These patents expire through 1997.

Regulatory Matters:

Each of the Chemical Business' domestic blasting product distribution centers are licensed by the Bureau of Alcohol, Tobacco and Firearms in order to manufacture and distribute blasting products and is subject to comparable requirements in its Australian operations. The Chemical Business also must comply with substantial governmental regulations dealing with environmental matters. See "Business - Environmental Compliance" for a discussion as to an environmental issue regarding the Company's El Dorado, Arkansas, manufacturing facility.

Competition:

The Chemical Business competes with other chemical companies, in its markets, many of whom have greater financial resources than the Company. The Company believes that the Chemical Business is competitive as to price, service, warranty and product performance. The Company believes that the Chemical Business' contract with its supplier of ammonia, which the Company believes allows the Chemical Business to purchase ammonia at a favorable price

compared to the world market price of ammonia, allows the Chemical Business the ability to favorably compete with its competitors as to price. The Company believes that the Chemical Business is a leader in the Texas ammonium nitrate market and one of the leading producers of concentrated nitric acid in the United States for third party sales.

Recent Development:

The Chemical Business has entered into detailed negotiations with Bayer Corporation ("Bayer") for the Chemical Business to build, own and operate a nitric acid plant located on property owned by Bayer to supply nitric acid on a long-term basis to a complex that Bayer is to construct in Baytown, Texas. The transaction with Bayer is subject to finalization of a definitive agreement. If the definitive agreement is finalized, the Company expects that the plant can be constructed and become operational within 24-30 months from the completion of such definitive agreement. See "Management's Discussion and Analysis of Financial Condition and Result of Operations".

Environmental Control Business

General:

The Company's Environmental Control Business manufactures and sells a broad range of fan coil, air handling, air conditioning, heating, water source heat pump, geothermal water source heat pump and dehumidification products targeted to both commercial and residential new building construction and renovation, as well as industrial applications. The fan coil products consist of in-room terminal air distribution equipment utilizing air forced over a fin tube heat exchanger which, when connected to centralized equipment manufactured by other companies, creates a centralized air conditioning and heating system that permits individual room temperature control. The heat pump products manufactured by the Environmental Control Business consist of heat-recovery, water-to-air heat pumps that include a self-contained refrigeration circuit and blower, which allow the unit to heat or cool the space it serves when supplied with recirculating water at mild temperatures. The Environmental Control Business accounted for approximately 31% and 29% of the Company's 1995 and 1994 consolidated sales, respectively.

Production and Backlog:

Most of the Environmental Control Business' production of the above-described products occurs on a specific order basis. The Company manufactures the units in many sizes, as required by the purchaser, to fit the space and capacity requirements of hotels, motels, schools, hospitals, apartment buildings, office buildings and other commercial or residential structures. As of December 31, 1995, the backlog of confirmed orders for the Environmental Control Business was approximately $12.1 million, as compared to approximately $24.2 million as of December 31, 1994. This decrease in backlog of confirmed orders took place because (a) at December 31, 1994, the back log contained one unusually large order for approximately $5.0 million which was shipped during the first half of 1995, and (b) because of efficiencies realized in the manufacturing processes of the Environmental Control Business resulting in lead times being reduced from ten (10) weeks in 1994 to seven (7) weeks in 1995. A customer generally has the right to cancel an order prior to the order being released to production. Past experience indicates that customers generally do not cancel orders after the Company receives them. As of December 31, 1995, the Company had released approximately $9.8 million of backlog orders in the Environmental Control Business to production, all of which are expected to be filled by December 31, 1996.

Distribution:

The Environmental Control Business sells its products to mechanical contractors, original equipment manufacturers and distributors. The Company's sales to mechanical contractors primarily occur through independent manufacturer's representatives, who also represent complimentary product lines not manufactured by the Company. The Environmental Control Business' sales to residential mechanical contractors are through distributors or sold directly by the Environmental Control Business to the contractors. Original equipment manufacturers generally consist of other air conditioning and heating equipment manufacturers who resell under their own brand name the products purchased from the Environmental Control Business as a separate item in competition with the Company or as part of a package with other air conditioning-heating equipment products to form a total air conditioning system which they then sell to mechanical contractors or end-users for commercial application. Sales to original equipment manufacturers accounted for approximately 31% of the sales of the Environmental Control Business in 1995 and approximately 10% of the Company's 1995 consolidated sales.

Market:

The Environmental Control Business depends primarily on the commercial construction industry, including new construction and the remodeling and renovation of older buildings. In recent years this Business has introduced products designed for residential markets.

Raw Materials:

Numerous domestic and foreign sources exist for the materials used by the Environmental Control Business, which materials include aluminum, copper, steel, electric motors and compressors. The Company does not expect to have any difficulties in obtaining any necessary materials for the Environmental Control Business.

Competition:

The Environmental Control Business competes with approximately eight companies, several of whom are also customers of the Company. Some of the competitors have greater financial resources than the Company. The Company believes that the Environmental Control Business manufactures a broader line of fan coil and water source heat pump products than any other manufacturer in the United States, and, that it is competitive as to price, service, warranty and product performance.

Joint Ventures and Options to Purchase:

In January, 1994, an entity (the "Entity"), through a limited partnership formed by the Entity, obtained a $17.9 million contract ("Contract") to replace air conditioning equipment and other energy savings devices in residential housing located at a federal governmental facility (the "Project"). The Environmental Control Business received a purchase order from the partnership to provide the air conditioning equipment for the Project under the energy savings contract. The amount of such purchase order was approximately $5 million. Substantially all of the products ordered pursuant to the purchase order were delivered by the Environmental Control Business to the partnership in 1995. After the partnership received the contract from the government and after the partnership issued the purchase order to the Environmental Control Business, the partnership borrowed approximately $14 million from an unaffiliated lender and a subsidiary of the Company invested approximately $2.8 million as equity in the limited partnership that obtained the contract for the Project. As a result, the Company's subsidiary is a limited partner in the limited partnership owning 50% of the limited

partnership. The partnership's revenue under this Contract is based on an average of 77% of all energy and maintenance savings during the twenty (20) year term of the Contract. The Company did not guarantee the repayment to the lender, however, the Company's subsidiary pledged its investment in the joint venture, on a non-recourse basis, to the lender to secure the loan. The Company also agreed to indemnify the bonding company that provided the $17.9 million performance bond which the partnership had to provide under the terms of the Contract.

The Company has obtained a stock option to acquire 80% of the issued and outstanding stock of the Entity (the "Option"). For the Option, the Company has paid $900,000 as of the date of this report and has agreed to pay an additional $100,000 on or before May 31, 1996. The term of the Option is originally for a period of one year, but the Company may extend such for three (3) additional years until 1999 upon payment of $100,000 for each year the Company desires to extend such option. If the Company decides to exercise the option, the Company has agreed to pay an exercise price of $4 million, less the amount already paid toward the Option ("Option Price") and less any other amounts paid by the Company for the Option ("Prepayments"), with a portion of the unpaid exercise price being payable in cash and the balance over a certain period of time. The grantors of the Option have entered into an employment agreement with the Entity. Under the terms of the employment agreements, each of the three guarantors will receive, among other things, 12 1/2% of the net profits of the Entity for a period of three to five years following the date of exercise. If the Company decides not to exercise the Option, the grantors of the Option have agreed to repay to the Company the amounts paid by the Company in connection with the Option (less $100,000), which obligation is secured by the stock of the Entity and other affiliates of the Entity. If the Company decides not to exercise the Option, there is no assurance that the grantors of the Option will have funds necessary to repay to the Company the amount paid for the Option. The grantors of the option may, under certain conditions, require the Company to accelerate its decision as to when it exercises the option. See "Management's Discussion and Analysis of Financial Condition and Results of Operations". For 1995 the unaudited revenues of the Entity were approximately $2.7 million with a net loss of approximately $.5 million.

During 1994, a subsidiary of the Company obtained an option to acquire all of the stock of a French manufacturer of air conditioning and heating equipment. The Company's subsidiary was granted the option as a result of the subsidiary loaning to the parent company of the French manufacturer approximately U.S. $2.1 million. Subsequent to the loan of U.S. $2.1 million, the Company's subsidiary has loaned to the parent of the French manufacturer an additional U.S $.8 million. The amount loaned is secured by the stock and assets of the French manufacturer. The Company's subsidiary may exercise its option to acquire the French manufacturer by converting approximately $150,000 of the amount loaned into equity. The option is currently exercisable and will expire June 15, 1999. As of the date of this report, the Company has not decided whether it will exercise the option.

For 1995 and 1994, the French manufacturer had revenues of U.S. $15.9 million and U.S. $10.9 million, respectively, with adjusted net losses of U.S. $.9 million and U.S. $1.4 million in 1995 and 1994, respectively. As a result of these losses by the French manufacturer in 1994 and 1995, the Company has taken certain write-offs against the amount of the loans aggregating approximately $1.5 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Automotive Products Business

General:

The Automotive Products Business is primarily engaged in the manufacture and sale of a line of anti-friction bearings, which includes straight-thrust and radial-thrust ball bearings, angular contact ball bearings, and certain other automotive replacement parts. These products are used in automobiles, trucks, trailers, tractors, farm and industrial machinery, and other equipment. The Automotive Products Business accounted for approximately 12% and 13% of the Company's 1995 and 1994 sales, respectively. In 1995, the Automotive Products Business manufactured approximately 37% of the products it sold and approximately 47% in 1994, and purchased the balance of its products from other sources, including foreign sources.

Distribution and Market:

The automotive, truck and agricultural equipment replacement markets serve as the principal markets for the Automotive Products Business. This business sells its products domestically and for export, principally through independent manufacturers' representatives who also sell other automotive products. Those manufacturers' representatives sell to retailers (including major chain stores), wholesalers, distributors and jobbers. The Automotive Products Business also sells its products directly to original equipment manufacturers and certain major chain stores.

Inventory:

The Company generally produces or purchases the products sold by the Automotive Products Business in quantities based on a general sales forecast, rather than on specific orders from customers. The Company fills most orders for the automotive replacement market from inventory. The Company generally produces or purchases bearings for original equipment manufacturers after receiving an order from the manufacturer.

In connection with a contract entered into in 1992 with a foreign customer ("Buyer") to supply the Buyer with equipment, technology and technical services to manufacture certain types of automotive bearing products, a subsidiary of the Company agreed to buy from the Buyer approximately $6 million of bearing products over each of the next five (5) years, at predetermined prices, not in excess of market prices, subject to the Buyer's ability to deliver products meeting quality standards. In January, 1996, the Company's subsidiary and the Buyer entered into letter agreements that provided that the Company's subsidiary would not be required by past or present agreements to purchase quantities of bearings each year in excess of bearings that it can sell in the ordinary course of business.

Raw Materials:

The principal materials that the Automotive Products Business needs to produce its products consist of high alloy steel tubing, steel bars, flat strip coil steel and bearing components produced to specifications. The Company acquires those materials from a variety of domestic and foreign suppliers at competitive prices. The Company does not anticipate having any difficulty in obtaining those materials in the near future.

Foreign Risk:

By purchasing a significant portion of the bearings and other automotive replacement parts that it sells from foreign manufacturers, the Automotive Products Business must bear certain import duties and international economic risks, such as currency fluctuations and exchange controls, and other risks

from political upheavals and changes in United States or other countries' trade policies. Most of the current contracts for the purchase of foreign-made bearings and other automotive replacement parts provide for payment in United States dollars. Circumstances beyond the control of the Company could eliminate or seriously curtail the supply of bearings or other automotive replacement parts from any one or all of the foreign countries involved.

Competition:

The Automotive Products Business engages in a highly competitive business. Competitors include other domestic and foreign bearing manufacturers, which sell in the original equipment and replacement markets. Many of those manufacturers have greater financial resources than the Company.

Industrial Products Business

General:

The Industrial Products Business manufactures, purchases and markets a proprietary line of machine tools. The current line of machine tools distributed by the Industrial Products Business includes milling, drilling, turning, fabricating and grinding machines. The Industrial Products Business purchases most of the machine tools marketed by it from foreign companies, which manufacture the machine tools to the Company's specifications. This Business manufactures CNC bed mills and electrical control panels for machine tools. The Industrial Products Business accounted for approximately 5% of the Company's consolidated sales in 1995.

Distribution and Market:

The Industrial Products Business distributes its machine tools in the United States, Mexico, Canada and certain other foreign markets and distributes its industrial supplies principally in Oklahoma. The Industrial Products Business sells and distributes its products through its own sales personnel, who call directly on end users. The Industrial Products Business also sells its machine tools through independent machine tool dealers throughout the United States and Canada, who purchase the machine tools for resale to end users. The principal markets for machine tools, other than independent machine tool dealers, consist of manufacturing and metal working companies, maintenance facilities, utilities and schools.

Foreign Risk:

By purchasing a majority of the machine tools from foreign manufacturers, the Industrial Products Business must bear certain import duties and international economic risks, such as currency fluctuations and exchange controls, and other risks from political upheavals and changes in United States or other countries' trade policies. Most of the current contracts for the purchase of foreign-made machine tools provide for payment in United States dollars. Circumstances beyond the control of the Company could eliminate or seriously curtail the supply of machine tools from any one or all of the foreign countries involved.

Competition:

The Industrial Products Business competes with manufacturers and other distributors of machine tools many of whom have greater financial resources than the Company. The Company's machine tool business generally is competitive as to price, warranty and service, and maintains personnel to install and service machine tools.

Employees

As of December 31, 1995, the Company employed 1,420 persons. As of that date, (a) the Chemical Business employed 442 persons, with 118 represented by unions under agreements expiring in August, 1998,(b) the Environmental Control Business employed 575 persons, none of whom are represented by a union, and (c) the Automotive Products Business employed 243 persons, with 16 represented by unions under an agreement that expired in August, 1990.

Research and Development

The Company incurred approximately $ 501,000 in 1995, $606,000 in 1994, and $788,000 in 1993 on research and development relating to the development of new products or the improvement of existing products. All expenditures for research and development related to the development of new products and improvements are sponsored by the Company.

Environmental Compliance

The Chemical Business and its operations are subject to extensive federal, state and local environmental laws, rules, regulations and ordinances relating to pollution, the protection of the environment or the release or disposal of materials ("Environmental Laws") and is also subject to other federal, state and local laws regarding health and safety matters ("Health Laws"). The operation of any chemical manufacturing plant and the distribution of chemical products entail risks under the Environmental Laws and Health Laws, many of which provide for substantial fines and criminal sanctions for violations, and there can be no assurance that material costs or liabilities will not be incurred. In addition, the Environmental Laws and Health Laws, and enforcement policies thereunder relating to the Chemical Business could bring into question the handling, manufacture, use, emission or disposal of substances of pollutants at the facilities of the Chemical Business or the manufacture, use, or disposal or certain of its chemical products. Potentially significant expenditures could be required in order to comply with the Environmental Laws and Health Laws. The Company may be required to make additional significant site or operational modifications, potentially involving substantial expenditures and reduction or suspension of certain operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources". A subsidiary of the Company in the Automotive Products Business has been notified that it is a potentially responsible party as a result of having been a generator of waste disposed of at a site in Oklahoma City, Oklahoma. See "Legal Proceedings".

In 1993, the Chemical Business was advised that its El Dorado, Arkansas facility (the "Site") had been placed in the Environmental Protection Agency's ("EPA") data-based tracking system (the "System"). The Company has been orally advised that the EPA has cancelled the scheduled inspection for the Site and the Site will be removed from the System; however, until the EPA formally advises the Company in writing that the Site has been removed from the System, there are no assurances that such will occur. The System maintains an inventory of sites in the United States where it is known or suspected that a release of hazardous waste has occurred. Notwithstanding inclusion in the System, the EPA's regulations recognize that such does not represent a determination of liability or a finding that any response action will be necessary. Over 12,000 sites in the United States are presently listed in the System. Being placed in the System will generally be the first step in the EPA's determination as to whether a site will be placed on the National Priorities List. After the EPA completes its site inspection and evaluates other information, the EPA will then assess the Site using the Hazard Ranking System to ascertain whether the Site poses a sufficient risk to human health or the environment to be proposed for the National Priorities

List. If a site is placed in the System, the EPA regulations require that the government or its agent perform a preliminary assessment of the site. If the preliminary assessment determines that there has been a release, or that there is suspected to have occurred a release at the site of certain types of contamination, the EPA will perform a site investigation. Pursuant to such regulations, the Arkansas Department of Pollution Control & Ecology ("ADPC&E), on behalf of the EPA, performed such preliminary assessment. The preliminary assessment report prepared by the ADPC&E stated, in part, that a release of certain types of contaminants is suspected to have occurred at the Site. The Company has been advised that there have occurred certain releases of contaminants at the Site. In addition, subsequent to the preliminary assessment by the State of Arkansas, the ADPC&E conducted additional inspections at the Site, which revealed certain instances of noncompliance with applicable hazardous waste management activities at the Site. In 1995, the Company and the ADPC&E entered into a consent agreement to address (i) closure of a solid waste landfill ("Landfill") at the Site, which had been used for disposal of certain wastes (including sulphur waste), and (ii) certain groundwater contamination and other issues at the Site. This agreement required the Chemical Business to undertake certain activities at the Site, including closure of the Landfill, certain groundwater monitoring and other action to reduce contaminants in the groundwater at the Site. The closure of the Landfill has been completed. The Chemical Business has submitted a Groundwater Monitoring Work Plan ("Plan") to the ADPC&E which the ADPC&E has approved, and the Chemical Business is proceeding under the Plan. Monitoring data obtained by the Chemical Business has indicated certain contaminants in the groundwater at the Site. The Chemical Business has installed additional monitoring wells at the Site to further test the groundwater. While the Company is, as of the date of this report, unable to determine the ultimate cost of compliance with the agreement and monitoring, testing and remediating any contaminants in the groundwater at the Site, in 1994 the Company included a provision for such environmental cost of $450,000 in its results of operations. As of the date of this report, the Chemical Business has incurred approximately $400,000 in closing the Landfill and monitoring, testing and remediating the groundwater at the Site and performing its obligations under the agreement with the ADPC&E. See Note 12 to Notes to Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations". As part of the agreement with the ADPC&E, the Chemical Business paid a $25,000 penalty, and it was agreed that an additional penalty of $125,000 will be forgiven through expenditures in excess of $125,000 that reduce the sulfates in the manufacturing processes at the Site through an upgrade to a certain system. The upgrade has been installed at a cost in excess of $125,000, but there are no assurances that the upgrade will achieve the sulfate reduction required to forgive the additional penalty.

In December, 1995, the Chemical Business and the ADPC&E entered into a consent agreement to resolve certain issues raised by the ADPC&E relating to start up of certain equipment at the Site and air emissions at the Site. Under this consent agreement, the Chemical Business agreed, among other things, to take certain actions to: (i) implement a corrective measures plan submitted to the ADPC&E in October, 1995; (ii) submit an application to the ADPC&E to modify its air permit within a certain period which includes all unpermitted sources of emissions, which application is subject to approval by the ADPC&E; (iii) address the air emissions from its older concentrated nitric acid concentrator at the Site; and, (iv) pending decision by the ADPC&E as to the permit modification, the Chemical Business may continue to operate its older concentrated nitric acid concentrator at the Site until July 1, 1996; provided that the Chemical Business shall maintain a running total of certain emissions from its concentrated nitric acid concentrators and shall discontinue use of such older concentrated nitric acid concentrator before the combined total of emissions reaches a certain level. In addition, under the terms of the agreement, the Chemical Business agreed to pay a $50,000 penalty,

except that the Chemical Business has received permission from the ADPC&E to erect an air emission monitoring station in lieu of paying the $50,000. In February, 1996, the Chemical Business voluntarily temporarily removed from operation at the Site one-half of the older concentrated nitric acid concentrator, which nitric acid concentrator is scheduled to be removed from operation on July 1, 1996, and has voluntarily taken certain other actions to reduce air emissions at the Site. The Chemical Business has instituted an opacity reduction program, and is investigating, as of the date of this report, additional opacity reduction activities and the feasibility of installing additional pollution control equipment to further reduce opacity at the Site. The Company believes that the cost will not exceed $3 million in acquiring and installing the additional pollution control equipment to reduce air emissions at the Site. Failure to satisfactorily resolve the alleged emission issues with the ADPC&E could have a material adverse effect on the Company, including, but not limited to, the ADPC&E ordering the Chemical Business to curtail certain production activities at the Site under certain conditions.

The Company has been advised that certain persons in the vicinity of the Site have retained counsel to bring a toxic tort action against the Chemical Business claiming that certain of their alleged health issues were caused by air emissions from the Site. To the knowledge of the Company, as of the date of this report, no lawsuit or legal proceedings have been filed or instituted in connection with this matter, and the Company is unaware of the exact nature of these claims or the amount of damages that the claimants are alleging as a result of such alleged injuries. 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, dispersal, 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 million and a similar $10 million limit for all losses due to bodily injury or property damage, except $5 million limits for each remediation expense and $5 million for all remediation expenses, with the maximum limit of liability for all claims under the EIL Insurance not to exceed $10 million for each loss or remediation expense and $10 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. The Company has given notice to its insurance carrier of the above claims. Although there are no assurances, the Company believes that the EIL Insurance will provide coverage for these claims up to the limits of the policy in excess of the $500,000 retention. As of the date of this report, the Company is unaware whether such claims will exceed the limits of the coverage of the EIL Insurance. Although there can be no assurances, the Company does not believe the outcome of this matter will have a material adverse effect on the Company's financial position or results of operation. The statement contained in the penultimate sentence of this paragraph 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 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 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.

Item 2. PROPERTIES

Chemical Business

The Chemical Business primarily conducts manufacturing operations (i) on 150 acres of a 1400 acre tract of land located in El Dorado, Arkansas (the "Site") and (ii) on 10 acres of land in a facility of approximately 60,000 square feet located in Hallowell, Kansas ("Kansas facility"). In addition, the Chemical Business has two manufacturing facilities in Australia that produce blasting related products.

As of December 31, 1995, the manufacturing facility at the Site was being utilized to the extent of approximately 90%, based on the continuous operation of those facilities. As of December 31, 1995, manufacturing operations at the Kansas facility were being utilized to the extent of approximately 80% based on two 8 hour shifts per day and a 5 day week.

In addition, the Chemical Business distributes its products through 34 agricultural and blasting distribution centers. The Chemical Business currently operates 21 agricultural distribution centers, with 15 of the centers located in Texas (12 of which the Company owns and 3 of which it leases); 1 center located in Oklahoma which the Company owns; 2 centers located in Missouri (1 of which the Company owns and 1 of which it leases); and 3 centers located in Tennessee (all of which the Company owns). The Chemical Business currently operates 8 domestic explosives distribution centers located in Bonne Terre, Missouri (owned); Central City, Owensboro, Combs, and Pilgrim, Kentucky (leased); Midland, Indiana (leased); Carlsbad, New Mexico (leased); and Pryor, Oklahoma (leased). The Chemical Business also has explosives distribution centers in Australia located at: Peak Downs; Kalgoorlie; Karratha; and, Hunter Valley (all leased) and one located in New Zealand.

The Chemical Business operates its Kansas facility from buildings located on an approximate four acre site on the perimeter of the JayHawk Industrial site in southeastern Kansas, and a research and testing facility comprising of a one square mile tract of land including buildings and equipment thereon also located in southeastern Kansas which it owns.

All facilities owned by the Chemical Business are subject to mortgages.

During 1994 and 1995 the Chemical Business spent approximately $22.3 million to install an additional concentrated nitric acid concentrator ("new concentrator") at its manufacturing plant facility at the Site. The new concentrator began limited operations in 1995 and is expected to become fully operational by March 31, 1996. As a result of such expansion and the present utilization of the Chemical Business' manufacturing facilities, the Company believes that it's present manufacturing facilities are suitable for it's current operations.

The Company has constructed a facility in Wilmington, North Carolina to allow the Company to blend a mixed acid product for sale. This facility became operational during the fourth quarter of 1995.

Environmental Control Business

The Environmental Control Business conducts its fan coil manufacturing operations in two adjacent facilities located in Oklahoma City, Oklahoma, consisting of approximately 265,000 square feet owned by the Company subject to mortgage. As of December 31, 1995, the Environmental Control Business was using the productive capacity of the above-referenced facilities to the extent of approximately 55%, based on two, eight-hour shifts per day and a five-day week.

The Environmental Control Business manufactures most of its heat pump products in a leased 270,000 square foot facility in Oklahoma City, Oklahoma. The lease term began March 1, 1988 and expires June 30, 1996, with options to renew for five additional five year periods, and currently provides for the payment of rent in the amount of $52,389 per month. The Company also has an option to acquire the facility at any time in return for the assumption of the then outstanding balance of the lessor's mortgage. As of December 31, 1995, the productive capacity of this manufacturing operation was being utilized to the extent of approximately 60%, based on one eight-hour shift per day and a five-day week.

All of the properties utilized by the Environmental Control Business are considered by Company management to be suitable and adequate to meet the current needs of that business.

Automotive Products Business

The Automotive Products Business conducts its operations in plant facilities principally located in Oklahoma City, Oklahoma which are considered by Company management to be suitable and adequate to meet its needs. One of the manufacturing facilities occupies a building owned by the Company, subject to mortgages, totaling approximately 178,000 square feet. The Automotive Products Business also uses additional manufacturing facilities located in Oklahoma City, Oklahoma, owned and leased by the Company totalling approximately 102,000 square feet. During 1995, the Automotive Products Business under-utilized the productive capacity of its facilities.

In May 1995, New Alloy Co. was acquired as a wholly owned subsidiary of the Automotive Products Business to manufacture and distribute U-joints and related products. The leased manufacturing facility for this operation is located in Michigan City, Indiana.

International Bearings, Inc. ("IBI"), a subsidiary of the Company operating as a separate entity within the Automotive Products Division, operates from a Company owned warehouse of approximately 45,000 square feet in an industrial park section of Memphis, Tennessee.

Industrial Products Business

The Company owns several buildings, some of which are subject to mortgages, totaling approximately 385,000 square feet located in Oklahoma City, Oklahoma, Tulsa, Oklahoma, and Middletown, New York, which the Industrial Products Business uses for showrooms, offices, warehouse and manufacturing facilities. The Company also owns real property located near or adjacent to the above-referenced buildings, which the Industrial Products Business uses for parking and storage.

The Industrial Products Business also leases a facility from an entity owned by the immediate family of the Company's President, which facility occupies approximately seven acres in Oklahoma City, Oklahoma, with buildings having approximately 44,000 square feet. The Industrial Products Business also leases an office in Europe to coordinate its European activities.

All of the properties utilized by the Industrial Products Business are considered by Company management to be suitable and adequate to meet the needs of the Industrial Products Business.

Item 3. LEGAL PROCEEDINGS

In December 1987, the United States Environmental Protection Agency ("EPA") notified L&S Bearing Company ("L&S") of potential responsibility for releases of hazardous substances at the Mosley Road Landfill in Oklahoma ("the

Mosley Site"). The recipients of such notification were: a) generators of industrial waste allegedly sent to the Mosley Site (including L&S), and b) the current owner/operator of the Mosley Site, Waste Management of Oklahoma ("WMO") (collectively, "PRPs"). Between February 20, and August 24, 1976, the Mosley Site was authorized to accept industrial hazardous waste. During this time, a number of industrial waste shipments allegedly were transported from L&S to the Mosley Site. In February 1990, EPA added the Mosley Site to the National Priorities List. WMO and the U.S. Air Force conducted the remedial investigation ("RI") and feasibility study ("FS"). It is too early to evaluate the probability of a favorable or unfavorable outcome of the matter for L&S. However, it is the PRP Group's position that WMO as the Mosley Site owner and operator should be responsible for at least half of total liability at the Mosley Site, and that 75% to 80% of the remaining liability, if allocated on a volumetric basis, should be assignable to the U.S. Air Force. The Company is unable at this time to estimate the amount of liability, if any, since the estimated costs of clean-up of the Mosley Site are continuing to change and the percentage of the total waste which were alleged to have been contributed to the Mosley Site by L&S has not yet been determined. If an action is brought against the Company in this matter, the Company intends to vigorously defend itself and assert the above position.

In addition to the Chemical Business' El Dorado, Arkansas facility (the "Site") being placed in the System (see "Business - Environmental Compliance"), investigations have identified certain groundwater and other contamination issues at this facility, including the Landfill. The Company has been orally advised that the EPA has cancelled the scheduled inspection for the Site and the Site will be removed from the System; however, until the EPA formally advises the Company in writing that the Site has been removed from the System, there are no assurances that such will occur. On June 9, 1995, the Chemical Business and the ADPC&E entered into a consent agreement addressing the Landfill and the groundwater and certain other contamination issues at the Site. See "Business - Environmental Compliance" for a discussion of the system and such consent agreement with the ADPC&E.

The Company's Chemical Business also signed a consent agreement ("Agreement") with the ADPC&E, effective February 12, 1996, to resolve certain compliance issues associated with the start-up of the a new concentrated nitric acid concentrator, the decommissioning of the older concentrated nitric acid units and certain other air emissions issues. See "Business - Environmental Compliance" for a discussion of the Agreement.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 4A. EXECUTIVE OFFICERS OF THE COMPANY

Identification of Executive Officers. The following table identifies the executive officers of the Company.

Name	Age	Position and Offices with the Company	Served as an Officer from
Jack E. Golsen	67	Board Chairman and President	December, 1968
Barry H. Golsen	45	Board Vice Chairman and President of the Environmental Control Business	August, 1981

David R. Goss	55	Senior Vice President of Operations and Director	March, 1969
Tony M. Shelby	54	Senior Vice President - Chief Financial Officer, and Director	March, 1969
Jim D. Jones	54	Vice President - Treasurer and Corporate Controller	April, 1977
David M. Shear	36	Vice President and General Counsel	March, 1990

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The Company's officers serve one-year terms, renewable on an annual basis by the Board of Directors. All of the individuals listed above have served in substantially the same capacity with the Company and/or its subsidiaries for the last five years.

Family Relationships. The only family relationship that exists among the executive officers of the Company is that Jack E. Golsen is the father of Barry H. Golsen.

PART II

Item 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

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The Company's Common Stock trades on the New York Stock Exchange, Inc. ("NYSE"). Prior to August, 1994, the Company's Common Stock traded on the American Stock Exchange, Inc. ("AMEX"). The following table shows, for the periods indicated, the high and low closing sales prices for the Company's Common Stock.

	Fiscal Year Ended December 31,			
	1995		1994	
Quarter	High	Low	High	Low
First	6 1/4	5 5/8	10	8 1/4
Second	6 7/8	5 1/4	9 1/4	7
Third	6 7/8	4 7/8	7 3/4	5 1/4
Fourth	5 1/4	3 5/8	7 3/4	5 3/8

Stockholders

- ----------

As of February 29, 1996, the Company had 1173 record holders of its Common Stock.

Dividends

- ---------

Holders of the Company's Common Stock are entitled to receive dividends only when, as and if declared by the Board of Directors. No dividends may be paid on the Company's Common Stock until all required dividends are paid on

the outstanding shares of the Company's preferred stock, or declared and amounts set apart for the current period, and, if cumulative, prior periods. The Company has issued and outstanding as of December 31, 1995, 915,000 shares of $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2 ("Series 2 Preferred"), 1,566 shares of a series of Convertible Non Cumulative Preferred Stock ("Non Cumulative Preferred Stock") and 20,000 shares of Series B 12% Convertible, Cumulative Preferred Stock ("Series B Preferred"). Each share of preferred stock is entitled to receive an annual dividend, if, as and when declared by the Board of Directors, payable as follows: (i) Series 2 Preferred at the rate of $3.25 a share payable quarterly in arrears on June 15, September 15, December 15, and March 15, which dividend is cumulative, (ii) Non Cumulative Preferred Stock at the rate of $10 a share payable April 1, and (iii) Series B Preferred at the rate of $12.00 a share payable January 1, which dividend is cumulative. The Company has a policy as to the payment of annual cash dividends on its outstanding Common Stock of $.06 per share, payable at $.03 per share semiannually, subject to change or termination by the Board of Directors at any time. The Company paid a cash dividend of $.03 a share on its outstanding Common Stock on July 1, 1995, and January 1, 1996; however, there are no assurances that this policy will not be terminated or changed by the Board of Directors. See Notes 9, 10 and 11 of Notes to Consolidated Financial Statements.

Under the terms of a loan agreement between the Company and its lender, the Company may, so long as no event of default has occurred and is continuing under the loan agreement, make currently scheduled dividends and pay dividends on its outstanding preferred stock and pay annual dividends on its Common Stock equal to $.06 per share.

Under the terms of a term loan agreement between El Dorado Chemical Company ("EDC"), EDC's wholly owned subsidiary, Slurry Explosive Corporation ("SEC"), both within the Company's Chemical Business, and certain lenders, and between DSN Corporation ("DSN"), another subsidiary of the Company within the Chemical Business, and a lender, (i) EDC cannot transfer funds to the Company in the form of cash dividends or other advances, except (i) for the amount of taxes that EDC would be required to pay if it was not consolidated with the Company and (ii) an amount equal to twenty-five percent (25%) of EDC's cumulative adjusted net income (as reduced by cumulative net losses), as defined, any time EDC has a Total Capitalization Ratio, as defined, greater than .65:1 and after EDC has a Total Capitalization Ratio of .65:1 or less, 50% of EDC's cumulative adjusted net income (as reduced by cumulative net losses), and (ii) DSN is prohibited from paying any dividends or making any distributions to the Company. See Note 7 of Notes to Consolidated Financial Statements and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations".

The Company is a holding company and, accordingly, its ability to pay dividends on its preferred stock and its common stock is dependent in large part on its ability to obtain funds from its subsidiaries. The ability of EDC, SEC, and DSN to pay dividends to the Company, to fund the payment of dividends by the Company or for other purposes, is restricted by certain agreements to which they are parties.

On February 17, 1989, the Company's Board of Directors declared a dividend to its stockholders of record on February 27, 1989, of one preferred stock purchase right on each of the Company's outstanding shares of common stock. The rights expire on February 27, 1999. The Company issued the rights, among other reasons, in order to assure that all of the Company's stockholders receive fair and equal treatment in the event of any proposed takeover of the Company and to guard against partial tender abusive tactics to gain control of the Company. The rights will become exercisable only if a person or group acquires beneficial ownership of 30% or more of the Company's common stock or announces a tender or exchange offer the consummation of which

would result in the ownership by a person or group of 30% or more of the common stock, except any acquisition by Jack E. Golsen, Chairman of the Board and President of the Company, and certain other related persons or entities.

Each right (other than the rights, owned by the acquiring person or members of a group that causes the rights to become exercisable, which became void) will entitle the stockholder to buy one one-hundredth of a share of a new series of participating preferred stock at an exercise price of $14.00 per share. Each one one-hundredth of a share of the new preferred stock purchasable upon the exercise of a right has economic terms designed to approximate the value of one share of the Company's common stock. If another person or group acquires the Company in a merger or other business combination transaction, each right will entitle its holder (other than rights owned by that person or group, which become void) to purchase at the right's then current exercise price, a number of the acquiring company's common shares which at the time of such transaction would have a market value two times the exercise price of the right. In addition, if a person or group (with certain exceptions) acquires 30% or more of the Company's outstanding common stock, each right will entitle its holder, (other than the rights owned by the acquiring person or members of the group that results in the rights becoming exercisable, which become void), to purchase at the right's then current exercise price, a number of shares of the Company's common stock having a market value of twice the right's exercise price in lieu of the new preferred stock.

Following the acquisition by a person or group of beneficial ownership of 30% or more of the Company's outstanding common stock (with certain exceptions) and prior to an acquisition of 50% or more of the Company's common stock by the person or group, the Board of Directors may exchange the rights (other than rights owned by the acquiring person or members of the group that results in the rights becoming exercisable, which become void), in whole or in part, for shares of the Company's common stock. That exchange would occur at an exchange ratio of one share of common stock, or one one-hundredth of a share of the new series of participating preferred stock, per right.

Prior to the acquisition by a person or group of beneficial ownership of 30% or more of the Company's common stock (with certain exceptions) the Company may redeem the rights for one cent per right at the option of the Company's Board of Directors. The Company's Board of Directors also has the authority to reduce the 30% thresholds to not less than 10%.

Item 6. SELECTED FINANCIAL DATA

	Years ended December 31,				
	1995	1994	1993	1992	1991
	(Dollars in Thousands, except per share data)				
Selected Statement of Operations Data:					
Net sales	$267,391	$245,025	$232,616	$198,373	$177,035
Total Revenues	$274,115	$249,969	$237,529	$200,217	$180,238
Interest expense	$ 10,131	$ 6,949	$ 7,507	$ 9,225	$ 10,776
Income (loss) from continuing operations	$ (3,732)	$ 983	$ 11,235	$ 6,985	$ (3,190)
Net income (loss)	$ (3,732)	$ 24,467	$ 12,399	$ 9,255	$ (1,147)
Net income (loss) applicable to common stock	$ (6,961)	$ 21,232	$ 10,357	$ 7,428	$ (3,090)
Primary earnings (loss) per common share:					
Income (loss) from continuing operations	$ (.53)	$ (.16)	$ .69	$ .66	$ (.81)
Net income (loss)	$ (.53)	$ 1.54	$ .77	$ .94	$ (.48)

Item 6. SELECTED FINANCIAL DATA (Continued)

	Years ended December 31,				
	1995	1994	1993	1992	1991
	(Dollars in Thousands, except per share data)				
Selected Balance Sheet Data:					
Total Assets	$238,176	$221,281	$196,038	$166,999	$158,383
Long-term debt, including current portion	$118,280	$ 91,681	$ 90,395	$ 51,332	$ 56,807
Redeemable preferred stock	$ 149	$ 152	$ 155	$ 163	$ 179
Stockholders' Equity	$ 81,576	$ 90,599	$ 74,871	$ 18,339	$ 10,352
Selected other Data:					
Cash dividends declared per common share	$ .06	$ .06	$ .06	$ -	$ -

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
- ------ RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the Company's December 31, 1995 Consolidated Financial Statements, Item 6 "SELECTED FINANCIAL DATA" and Item 1 "BUSINESS" included elsewhere in this report.

Overview
- --------
The Company is going through a transition from a highly diversified company to a more focused company with the intent to focus on its two primary business units, the Chemical Business and the Environmental Control Business.

In May 1994, the Company sold its Financial Services Business, Equity Bank for Savings F.A. and as a result exited the financial services business.

In September 1995 the Company announced that it would reduce its investment in, or take other actions regarding, the Automotive and Industrial Products Businesses. The intent is to decrease the investment in these Businesses and redeploy the cash into the Chemical and Environmental Control Business which are perceived by management to have strategic advantages and better historical returns on invested capital. The Company continues to explore its alternatives to accomplish these goals, but as of now, no formal plans have been adopted.

The following table contains certain of the information from note 15 of Notes to the Company's Consolidated Financial Statements about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1995.

	1995	1994	1993
	(In Thousands)		
Sales:			
Chemical	$ 136,903	$ 131,576	$ 114,952
Environmental Control	83,843	69,914	69,437
Industrial Products	13,375	11,222	19,714
Automotive Products	33,270	32,313	28,513
	$ 267,371	$ 245,025	$ 232,616
Gross Profit: (1)			
Chemical	$ 26,050	$ 25,700	$ 27,557
Environmental Control	21,694	17,651	15,651
Industrial Products	2,953	1,316	5,160
Automotive Products	6,366	8,442	9,744
	$ 57,063	$ 53,109	$ 58,112
Operating profit (loss): (2)			
Chemical	$ 13,393	$ 12,809	$ 17,632
Environmental Control	4,630	3,512	3,900
Industrial Products	(1,199)	(4,155)	2,120
Automotive Products	(3,704)	(1,462)	2,528
	13,120	10,704	26,180
General corporate expenses, net	(6,571)	(3,472)	(6,629)
Interest Expense	(10,131)	(6,949)	(7,507)
Income (loss) from continuing operations before provision for income taxes	$ (3,582)	$ 283	$ 12,044

	1995	1994	1993
	(In Thousands)		
Depreciation, depletion and amortization of property, plant and equipment:			
Chemical	$ 4,532	$ 4,044	$ 3,696
Environmental Control	$ 1,582	$ 1,427	$ 1,015
Industrial Products	$ 124	$ 117	$ 118
Automotive Products	$ 986	$ 785	$ 502
Additions to property, plant and equipment:			
Chemical	$ 17,979	$ 15,532	$ 9,036
Environmental Control	$ 447	$ 3,722	$ 1,584
Industrial Products	$ 265	$ 74	$ 560
Automotive Products	$ 1,341	$ 1,203	$ 1,875
Identifiable assets:			
Chemical	$ 111,890	$ 94,972	$ 77,943

Environmental Control	41,331	40,660	38,389
Industrial Products	17,328	18,423	22,688
Automotive Products	43,872	38,369	31,650
	214,421	192,424	170,670
Corporate assets	23,755	28,857	25,368
Total assets	$ 238,176	$ 221,281	$ 196,038

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 $26.1 million in 1993 to $10.7 million in 1994 and $13.1 million in 1995, while sales increased approximately 15% during the same period. The decline in operating profit, coupled with an increase in interest expense, resulted in a loss from continuing operations before income taxes for 1995 of $3.6 million. This decline in operating profit is primarily due to lower earnings in the Chemical Business as a result of much higher costs for anhydrous ammonia (NH3), which is the basic raw material for the Chemical Business' nitrate based products, and to the lower margins in the Automotive and Industrial Products Businesses.

Chemical Business
- -----------------
The Chemical Business manufacturers and sells prilled ammonium nitrate products and high grade specialty acids to the explosives, agricultural, and industrial acids markets, and markets and licenses a number of proprietary explosives products. The Company has grown this Business through the expansion of its principal manufacturing facility in El Dorado, Arkansas, the construction of a mixed acid plant in Wilmington, North Carolina, and the acquisition of new agricultural distribution centers in key geographical markets which are freight logical to its principal plant. During the years 1995, 1994, and 1993, capital expenditures in this Business were $18.0 million, $15.5 million, and $9.0 million, respectively. During the period from December 1993 through December 1995 the net investment in assets of the

Chemical Business was increased from $78 million to $112 million primarily due to the construction of additional capacity to benefit future periods.

The operating profit in the Chemical Business is down from $17.6 million in 1993 to $12.8 million and $13.4 million in 1994 and 1995, respectively. During 1994 and 1995 the cost of the Chemical Business' primary raw material Anhydrous Ammonia increased from a 1993 average of $107.12 per ton to $156.71 in 1994 and $161.84 per ton in 1995. The Chemical Business purchases approximately 220,000 tons per year of anhydrous ammonia. The increased cost was partially passed on to customers in the form of higher prices but the entire cost could not be offset by higher sales prices resulting in lower gross profit margins in 1994 and 1995.

The Chemical Business has entered into detailed negotiations with Bayer Corporation ("Bayer") to build, own, and operate a nitric acid plant as a part of a complex to be built by Bayer in Baytown Texas to provide Bayer's requirements for nitric acid on a long-term basis, subject to completion of a definitive agreement relating to this project. The Company intends to obtain project financing to fund the construction of the plant, which will be constructed by an independent construction firm to be selected by the Company. If the definitive agreement is finalized, the Company expects that the plant can be constructed and become operational within 24-30 months from the completion of such definitive agreement.

Environmental Control
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The Environmental Control Business manufacturers and sells a broad range of fan coil, air handling, air conditioning, heating, water source heat pumps, and dehumidification products targeted to both commercial and residential new building construction and renovation.

The Environmental Business focuses on product lines in the specific niche markets of fan coils and water source heat pumps and has established a significant market share in these specific markets.

As indicated in the above table, the Environmental Control Business reported improved sales (an increase of 20%) and improved operating profit for 1995 as compared to 1994. From December 1993 through December 1995 the net investment in assets of the Environmental Control Business was increased from $38 million to $41 million. During this two year period inventories were reduced $2.3 million, capital expenditures were $4.2 million and depreciation was approximately $3.0 million.

Automotive and Industrial Products Businesses
- ---
The Automotive Products Business sells its products into the automotive, truck and agricultural equipment replacement markets. Certain of the products are sold directly to original equipment manufacturers and certain major chain stores. The Industrial Products Business markets a proprietary line of machine tools most of which are purchased from foreign companies, which manufacture the machine tools to Company specifications. As indicated in the above table, during 1993, 1994 and 1995, respectively, these Business recorded combined sales of $48.2 million $43.5 million and $46.6 million, respectively, and reported an operating profit (as defined above) of $4.6 million in 1993 and operating losses (as defined above) of $5.6 million and $4.9 million in 1994 and 1995, respectively. The net investment in assets of these Businesses was $54.3 million, $56.8 million and $61.2 million at year end 1993, 1994 and 1995, respectively. The increase in the investment was primarily due to a build up in inventory in the Automotive Products Business, which resulted from purchases from foreign suppliers with long lead times, in quantities in excess of current demand. A stringent inventory reduction plan was put into place that should bring the inventories back into line over time.

Results of Operations

Year Ended December 31, 1995 compared to Year Ended December 31, 1994

Revenues

Total revenues for 1995 and 1994 were $274.1 million and $250.0 million, respectively (an increase of $24.1 million or 9.7%). Sales increased $22.4 million or 9.1%. Other income included in total revenues was $6.7 million, an increase of $1.8 million from 1994, which resulted primarily from proceeds received on the settlement of loans which were acquired in connection with the sale of Equity Bank. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

Net Sales

Consolidated net sales for 1995 were $267.4 million, compared to $245.0 million for 1994, an increase of $22.4 million or 9.1%. This sales increase resulted principally from: (i) increased sales in the Environmental Control Business of $13.9 million, primarily due to improved market conditions and increased production in the fan coil segment of this business and to increased sales in geothermal water source heat pumps related to certain governmental projects; (ii) increased sales in the Chemical Business of $5.3 million which were primarily attributable to higher ammonia costs being passed through to customers, and increased sales of $2.5 million at Total Energy Systems ("TES"), the Company's subsidiary located in Australia, which have resulted from an expanded customer base; (iii) increased sales of $2.2 million in the Industrial Products Business primarily due to finalization of a sale to a foreign customer and increases in sales of machine tools; and (iv) increased sales of $1.0 million in the Automotive Products Business due to the addition of new product lines.

Gross Profit

Gross profit increased $4.0 million and was 21.3% of net sales for 1995, compared to 21.7% of net sales for 1994. The gross profit percentage remained consistent, with only slight changes, in the Chemical and Environmental Control Businesses. The gross profit of the Chemical Business was adversely affected due to the continued high cost of anhyrdrous ammonia as discussed above. The Industrial Products Business gross profit percentage increased due to higher prices. The primary reason for the consolidated decline in gross profit percentage was due to customer mix in the Automotive Products Business, i.e. decreased sales to higher margin retail customers, and increased sales to Original Equipment Manufacturers (OEM) customers which are lower margin customers.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses, as a percent of net sales, were 21.4% in 1995 and 20.7% in 1994. SG&A remained consistent from 1994 to 1995 as a percentage of sales in the Chemical, Environmental Control and Automotive Products Businesses. The increase in SG&A, as a percent of sales on a consolidated basis, was primarily attributable to: (1) an increase in the Company's cost of providing employee healthcare benefits of $.7 million; and, (2) increased legal expenses of $.6 million primarily attributable to litigation in connection with an insurance claim for damages to machine tools during transport in a prior year.

Interest Expense

Interest expense for the Company was $10.1 million during 1995, compared to $6.9 million during 1994. The increase primarily resulted from increased borrowings. The increased borrowings were necessary to support capital expenditures, higher inventory levels, higher accounts receivable balances and to meet the operational requirements of the Company. See "Liquidity and Capital Resources" of this Management's Discussion and Analysis.

Net Income (Loss)

The Company had a net loss of $3.7 million in 1995 compared to net income of $24.5 million in 1994. The 1994 net income includes approximately $23.5 million relating to a gain on the sale of a certain business and income from discontinued operations. Excluding this non-recurring activity, the 1994 net income was $1.0 million. The decreased profitability in 1995 of $4.7 million was primarily attributable to increased SG&A, as discussed above, and increased interest expense of $3.2 million due to higher average balances of outstanding debt. These increased expenses were offset in part by increased income of $1.0 million from collection of loans receivables in excess of net carrying values. Such loans were purchased at a discount in connection with the Equity Bank transaction.

Year Ended December 31, 1994 compared to Year Ended December 31, 1993

Revenues

Total revenues for 1994 and 1993 were $250.0 million and $237.5 million, respectively (an increase of $12.5 million or 5.2%). Sales increased $12.4 million or 5.3%.

Net Sales

Consolidated net sales for 1994 were $245.0 million, compared to $232.6 million for 1993, an increase of $12.4 million or 5.3%. This increase in sales resulted principally from: (i) increased sales in the Chemical Business of $16.6 million, primarily due to favorable weather conditions for seasonal fertilizer sales, the higher price of ammonia being partially passed through to customers and inclusion of TES for a full year in 1994 compared to only five months in 1993; (ii) increased sales in the Automotive Products Business of $3.8 million due to an expanded customer base in 1994 and the acquisition of International Bearings, Inc., in December 1993; and (iii) decreased sales in the Industrial Products Business of $8.5 million, primarily due to decreased sales to a foreign customer (see Note 6 of Notes to Consolidated Financial Statements and discussion under the "Liquidity and Capital Resources" section of this report).

Gross Profit

Gross profit decreased $5.0 million and was 21.7% of net sales for 1994, compared to 25.0% of net sales for 1993. The decline in gross profit percentage was due primarily to higher cost of the primary raw material (ammonia) in the Chemical Business. During 1994 the average cost of ammonia was approximately 46.4% higher than the average cost of ammonia during 1993. The Chemical Business was not able to pass on to its customers a substantial amount of the higher ammonia cost in the form of price increases in 1994. Additionally, gross profit was reduced in 1994 by $1.3 million due to cost overruns associated with a sale to a foreign customer in the Industrial Products Business being accounted for on the percentage of completion method. Other factors which affected the gross profit percentage were improved gross profit after recovery from the effects of a strike in 1992 at the fan coil manufacturing plant of the Environmental Control Business that were still

being experienced in 1993; and, decreased sales to the foreign customer mentioned above which carried a high gross profit percentage in 1993.

Selling, General and Administrative Expense

Selling, general and administrative ("SG&A") expenses as a percent of net sales were 20.7% in 1994 and 18.7% in 1993. This increase in SG&A as a percent of sales was primarily due to: (i) decreased sales to a foreign customer in the Industrial Products Business with no corresponding reduction in SG&A costs; (ii) increased insurance costs in the Industrial Products Business resulting from settlement of certain claims; (iii) loss reserves placed on loans to potential acquisition candidates in the Automotive Products and Environmental Control Businesses; (iv) approximately $1.2 million in costs expended in pursuit of acquisition prospects which the Company chose to abandon; and (v) lower provision for bad debt expenses in 1993 in the Environmental Control Business compared to the provision in 1994. These factors were offset in part by a decrease in legal costs resulting from settlement of the customs matter in the second quarter of 1993 and settlement of a dispute with one of the Company's insurers in the first quarter of 1994, in addition to sales increases due to higher ammonia prices in the Chemical Business with no corresponding increase in SG&A costs.

Interest Expense

Interest expense for the Company was approximately $6.9 million during 1994, compared to approximately $7.5 million during 1993. The decrease primarily resulted from the capitalization of approximately $.5 million in 1994 related to the purchase and construction of the Nitric Acid Plant in El Dorado, Arkansas as discussed in Item 2 "PROPERTIES - Chemical Business".

Income From Continuing Operations Before Taxes

The Company had income from continuing operations before income taxes of $.3 million in 1994 compared to $12.0 million in 1993. The decreased profitability of $11.7 million was primarily due to lower gross profit of approximately $6.5 million realized on sales in the Chemical Business due to unrecovered ammonia price increases in 1994 that the Chemical Business was unable to pass on as price increases during 1994 and decreased profit of $6.2 million from the foreign sales contract as discussed in Note 6 of Notes to Consolidated Financial Statements. Also contributing to this decline is the $.5 million provision for the environmental matter discussed in Note 12 of Notes to Consolidated Financial Statements and $1.2 million in costs associated with abandoned acquisition prospects, as discussed above.

Provision For Income Taxes

As a result of the Company's net operating loss carryforward for income tax purposes as discussed elsewhere herein and in Note 8 of Notes to Consolidated Financial Statements, the Company's provisions for income taxes for 1994 and 1993 are for current state income taxes and federal alternative minimum taxes. In 1994, the Company recognized a provision for alternative minimum taxes associated with its discontinued Financial Services Business of $1.3 million with an offsetting benefit to continuing operations as a result of utilization of the Company's alternative minimum tax net operating loss carryforward not otherwise available to the Financial Services Business.

Income From Discontinued Operations

Income from discontinued operations reflects the results of operations of the Financial Services Business as discussed in Note 3 of Notes to Consolidated Financial Statements. Income from discontinued operations, net of expenses, was $.6 million in 1994 compared to $1.2 million in 1993.

Gain From Disposal of Discontinued Operations

As more fully discussed in Note 3 of Notes to Consolidated Financial Statements, the Company realized a gain of $24.2 million before income taxes from the sale on May 25, 1994 of its wholly-owned subsidiary Equity Bank, which gain is included in the Company's results of operations for 1994.

Liquidity and Capital Resources

Cash Flow From Operations

For the year ended December 31, 1995, the loss from continuing operations of $3.7 million included (i) noncash charges for depreciation and amortization of $9.1 million, and (ii) noncash provisions for possible losses on accounts and notes receivable of $3.6 million, resulting in positive cash flow of $9 million. This positive cash flow was absorbed primarily by increases in accounts receivable and inventories, resulting in an approximate break-even cash flow from operating activities.

The increase in accounts receivable was due primarily to increased sales in the Environmental Control Business. The increase in inventory was due, in large part, to an $8 million build up in the Automotive Products Business' inventory as a result of purchases from foreign supplies, with long lead times, of quantities in excess of current demand and the addition of new product lines within the Automotive Products Business. The Company has announced its intention to reduce its investment in the Automotive Products Business, and a stringent inventory reduction plan has been put into place in 1996 for this Business.

Cash Flow From Investing And Financing Activities

For the year ended December 31, 1995, the cash flow from investing and financing activities resulted in a negative cash flow of approximately $1 million after long-term borrowings of $18.5 million and increased borrowings against the Company's working capital revolver of $15.1 million.

Those investment and financing activities requiring cash included: capital expenditures, $17.8 million; payments on long-term debt, $9.5 million; payment of common and preferred stock dividends, $4.0 million; and, purchases of treasury stock, $1.5 million. Capital expenditures included expenditures of the Chemical Business for (a) the completion of the construction of a concentrated nitric acid plant in El Dorado, Arkansas which was began in 1994 and, (b) a mixed acid plant in Wilmington, North Carolina. The balance of capital expenditures were for normal additions in the Chemical, Environmental Control, and Automotive Products Business.

During 1995, the Company declared and paid the following aggregate dividends: (1) $12.00 per share on each of the outstanding shares of its Series B 12% Cumulative Convertible Preferred Stock; (2) $3.25 per share on each outstanding share of its $3.25 Convertible Exchangeable Class C Preferred Stock, Series 2; (3) $10.00 per share on each outstanding share of its Convertible Noncumulative Preferred Stock; and (4) $.06 per share on its outstanding shares of Common Stock. The Company expects to continue the payment of such dividends in the future in accordance with the policy adopted by the Board of Directors and the terms inherent to the Company's various preferred stocks.

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.

In December 1994, the Company and certain of its subsidiaries finalized a working capital line of credit. This working capital line of credit is evidenced by six separate loan agreements ("Agreements") with an unrelated lender ("Lender") collateralized by receivables, inventory and proprietary rights of the Company and the subsidiaries that are parties to the Agreements and the stock of certain of the subsidiaries that are borrowers under the Agreements. The Agreements provide for revolving credit facilities ("Revolver") for total direct borrowings up to $65 million, including the issuance of letters of credit. The Revolver provides for advances at varying percentages of eligible inventory and trade receivables. During 1996, an amendment to the Agreements was obtained whereby the Company's borrowing ability was temporarily increased (the "overadvance")$5 million in excess of the amount calculated based on the collateral, not to exceed $75 million. The temporary overadvance ability expires on June 30, 1996; the line limit reverts back to $65 million on September 30, 1996. The Agreements provide for interest at the reference rate as defined (which approximates the national prime rate) plus 1%, or the Eurodollar rate plus 3.375%. At December 31, 1995 the effective interest rate was 9.4%. The initial term of the Agreements is through December 31, 1997, and is renewable thereafter for successive thirteen month terms. The Lender or the Company may terminate the Agreements at the end of the initial term or at the end of any renewal term without penalty, except that the Company may terminate the Agreements after the second anniversary of the Agreements without penalty. At December 31, 1995, the available borrowings, based on eligible collateral, not including the overadvance discussed above approximated $60.1 million. Borrowings under the Revolver outstanding at December 31, 1995, were $59.2 million. The Agreements require the Company to maintain certain financial ratios and contain other financial covenants, including tangible net worth requirements and capital expenditure limitations. In November 1995 the Company renegotiated reductions in the tangible net worth covenants for the period December 31, 1995 through December 31, 1997 and simultaneous therewith agreed to an increase in the interest rate it pays the Lender by one-half percent (.5%). The tangible net worth covenants were reset to $78 million at December 31, 1995 escalating quarterly to $84 million at December 31, 1997. The annual interest on the outstanding debt under the Revolver at December 31, 1995 at the rate then in effect would be approximately $5.6 million.

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

(1) The Company's wholly-owned subsidiaries, El Dorado Chemical Company and Slurry Explosive Corporation (collectively "Chemical"), which substantially comprise the Company's Chemical Business, are parties to a loan agreement ("Loan Agreement") with two institutional lenders ("Lenders"). This Loan Agreement, as amended, provides for a seven year term loan of $28.5 million ("Term Loan"). The balance of the Term Loan at December 31, 1995 was $10.7 million. Annual principal payments on the Term Loan are $5.1 million in 1996 and a final payment of $5.6 million on March 31, 1997. The Loan Agreement also provides for a revolving credit facility which provides for a maximum available credit line of approximately $3.7 million at December 31, 1995. The availability under this facility reduces by $1.8 million in 1996 with the remainder due in March 1997. Annual interest at the agreed to interest rates, if calculated on the aggregate $14.4 million outstanding balance at December 31, 1995, would be approximately $1.7 million. The Term Loan is secured by the capital stock of Chemical and substantially all of the assets of Chemical not otherwise pledged under the credit facility previously discussed. The Loan Agreement requires Chemical to maintain certain financial ratios and contains other financial covenants, including tangible net worth requirements and capital expenditures limitations. As of the date of this report, Chemical is in compliance with all financial covenants. Under the terms of the Loan Agreement, Chemical cannot transfer funds to the Company in the form of

cash dividends or other advances, except for (i) the amount of taxes that Chemical would be required to pay if it was not consolidated with the Company; and (ii) an amount equal to fifty percent (50%) of Chemical's cumulative adjusted net income as long as Chemical's Total Capitalization Ratio, as defined, is .65:1 or below.

(2) The Company s wholly-owned subsidiary, DSN Corporation (DSN) is a party to several loan agreements with a financing company (the Financing Company) for three (3) projects which DSN substantially completed during 1995. These loan agreements are for a $16.5 million term loan (the DSN Permanent Loan"), which was converted on June 1, 1995 from the original construction loan, and was used to construct, equip, re-erect, and refurbish a concentrated nitric acid plant (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 December 31, 1995, DSN had outstanding borrowings of $15.7 million under the DSN Permanent Loan, $1.1 million under the Mixed Acid Loan, and $1.2 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 range from 8.24% to 8.86% and are fixed rates based on the United States Treasury Security rate at the time of executing the note plus a specified percentage. Annual interest, for the three notes as a whole, at the agreed to interest rates would approximate $1.5 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 agreement requires 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.

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

Future cash requirements include working capital requirements for anticipated sales increases in all Businesses, and funding for future capital expenditures, primarily in the Chemical Business and the Environmental Control Business. Funding for the higher accounts receivable resulting from anticipated sales increases will be provided by the revolving credit facilities discussed elsewhere in this report. Inventory requirements for the higher anticipated sales activity should be met by scheduled reductions in the inventories of the Automotive Products Business, which increased its inventories in 1995 beyond required levels. In 1996, 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. This is a forward-looking statement that involves 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, however, see discussion 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

On March 7, 1995 the Company guaranteed a revolving credit working capital facility (the "Facility") between its wholly-owned Australian subsidiary Total Energy Systems, Ltd. ("TES") and Bank of New Zealand. The Facility allows for borrowings up to an aggregate of approximately U.S. $3.7 million based on specific percentages of qualified eligible assets (U.S. $1.9 million borrowed at December 31, 1995). 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 Base Lending Rate plus 0.5% (approximately 11.5% at December 31, 1995). The Facility is subject to renewal at the discretion of Bank of New Zealand based upon annual review. The next annual review is due on March 31, 1996. TES is in technical non-compliance with a certain financial covenant contained in the loan agreement involving the Facility. However, Bank of New Zealand has not taken any action against TES or the Company as a result of such non-compliance and has continued to allow TES to borrow under the Facility. The outstanding borrowing under the facility at December 31, 1995 has been classified as due within one year in the accompanying condensed consolidated financial statements.

Joint Ventures and Options to Purchase

During 1994 the Company, through a subsidiary, loaned $2.1 million to a French manufacturer of HVAC equipment whose product line is compatible with that of the Company's Environmental Control Business in the U.S.A. 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 $2.1 million loan. During fiscal year 1995 and January, 1996 the Company advanced an additional $800,000 to the French manufacturer bringing the total of the loan to $2.9 million. At this time the decision has not been made to exercise such option and the $2.9 million loan net of a $1.5 million valuation reserve is carried on the books as a note receivable in other assets.

During the second quarter of 1995, the Company executed a stock option agreement to acquire eighty percent (80%) of the stock of a specialty sales organization to enhance the marketing of the Company's air conditioning products. The 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. The Company expects that it will eventually exercise the stock option, however, there are no assurances that such stock option will ultimately be exercised.

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 has been awarded a contract to retrofit residential housing units at a U.S. Army base. The contract calls for installation of energy-efficient equipment (including air conditioning and heating equipment), which will reduce utility consumption. For the installation and management, the Project will receive an average of seventy-seven percent (77%) of all energy and maintenance savings during the twenty (20) year contract term. The Project estimates that the cost to retrofit the residential housing units at the U.S. Army base will be approximately $18.8 million. The Project has received a loan from a lender to finance up to approximately $14 million of the cost of the Project. The Company is not guaranteeing any of the lending obligations of the Project. The Company has guaranteed the bonding company's exposure under the payment and performance bonds on the Project, which is approximately $17.9 million.

Debt guarantee

As disclosed in note 12 of the Notes to Consolidated Financial Statements a subsidiary of the Company has 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 in the amount of $600,000 requires monthly interest payments and matures September 28, 1996. The other note in the amount of $2 million requires monthly principal payments of $11,111 plus interest beginning in October 1996 through August 8, 1999, at which time all outstanding principal and accrued interest are due. In the event of default of the $2 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 November 1995, the aviation company completed and test flew its first operational model. The aviation company is working toward certification with the Federal Aviation Authority by mid 1997. In the meantime the aviation Company has limited cash and is seeking an equity investor to fund the completion of the certification process and provide additional working capital in exchange for an ownership interest of the company. If the aviation company is unable to obtain such additional equity, then the Company may be required to perform under its guaranty. Management of the aviation company believes that it is possible that an additional $7 million may be needed to complete the certification process at which time they believe they will be able to obtain additional capital to manufacture and market the airplane.

The Company has advanced approximately $150,000 to the aviation company while they seek additional capital. At this time the Company has not made a decision whether additional funds will be advanced. Any additional advances will depend on the evaluation of the prospects of the aviation company when it becomes evident that additional advances are required.

Availability of Company's Loss Carryovers

The Company anticipates that its cash flow in future years will benefit to some extent from its ability to use net operating loss ("NOL") carryovers from prior periods to reduce the federal income tax payments which it would otherwise be required to make with respect to income generated in such future years. As of December 31, 1995, the Company had available NOL carryovers of approximately $43 million, based on its federal income tax returns as filed with the Internal Revenue Service for taxable years through 1994, and on the

Company's estimates for 1995. These NOL carryovers will expire beginning in the year 1999.

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 Item 3 and in Note 12 of Notes to Consolidated Financial Statements, the Company has several contingencies that could impact its liquidity in the event that the Company is unsuccessful in defending against the claimants. Although management does not anticipate that these claims will result in substantial adverse impacts on its liquidity, it is not possible to determine the outcome.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Company has included the financial statements and supplementary financial information required by this item immediately following Part IV of this report and hereby incorporates by reference the relevant portions of those statements and information into this Item 8.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No disagreements between the Company and its accountants have occurred within the 24-month period prior to the date of the Company's most recent financial statements.

PART III

The Company hereby incorporates by reference the information required by Part III of this report except for the information of the Company's executive officers included under Part 4A of Part I of this report, from the definitive proxy statement which the Company intends to file with the Securities and Exchange Commission on or before April 30, 1996, in connection with the Company's 1996 annual meeting of stockholders.

PART IV

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

(a)(1) Financial Statements. The following consolidated financial statements of the Company appear immediately following this Part IV:

(a)(2) Financial Statement Schedule. The Company has included the following schedule in this report:

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

(a)(3) Exhibits. The Company has filed the following exhibits with this report:

2.1. Stock Option Agreement dated as of May 4, 1995, optionee, LSB Holdings, Inc., an Oklahoma Corporation, an option to purchase.

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

3.1. Restated Certificate of Incorporation, and the Certificate of Designation dated February 17, 1989, which the Company hereby incorporates by reference from Exhibit 3.01 to the Company's Form 10-K for fiscal year ended December 31, 1989.

3.2. Bylaws, as amended, which the Company hereby incorporates by reference from Exhibit 3.02 to the Company's form 10-K for fiscal year ended December 31, 1990.

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

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

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

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

4.5. Rights Agreement, dated as of February 17, 1989, between the Company and The Liberty National Bank and Trust Company of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 2.1 to the Company's Form 8-A Registration Statement dated February 22, 1989.

4.6. Amended and Restated Secured Credit Agreement, dated as of January 21, 1992, between El Dorado Chemical Company , Slurry Explosive Corporation , Household Commercial Financial Services, Inc. , Connecticut Mutual Life Insurance Company and C.M. Life Insurance Company which the Company hereby incorporates by reference from Exhibit 4.15 to the Company's Form 10K for the year ended December 31,1991. The agreement contains a list of schedules and exhibits omitted from the filed copy and the Company agrees to furnish supplementally a copy of any of the omitted schedules or exhibits to the Commission upon request.

4.7. First Amendment to the Amended and Restated Secured Credit Agreement, dated December 9, 1992, between El Dorado Chemical Company, Slurry Explosive Corporation, Household Commercial Financial Services Inc., Connecticut Mutual Insurance Company and C.M. Life Insurance Company, which the Company hereby incorporates by reference from Exhibit 4.22 to the Company's Registration Statement No. 33-55608.

4.8. Consent Agreement, dated December 9, 1992, between El Dorado Chemical Company and Household Commercial Financial Services, Inc., which the Company hereby incorporates by reference from Exhibit 4.23 to the Company's Registration Statement No. 33-55608.

4.9. Amendment Agreement, dated as of March 30, 1994, among El Dorado Chemical Company, Slurry Explosive Corporation, Household Commercial Financial Services, Inc., and Prime Financial Corporation, which the Company hereby incorporates by reference from Exhibit 4.23 to the Company's Form 10-K for the fiscal year ended December 31, 1993.

4.10. Amendment dated September 29, 1994 to the Amended and Restated Secured Credit Agreement and the Second Amended and Restated Working Capital Agreement, both dated as of January 21, 1992 among El Dorado Chemical Company, Slurry Explosive Corporation, Connecticut Mutual Life Insurance Company, C.M. Life Insurance Company Mutual and Household Commercial Financial Services, Inc., which the Company hereby incorporates by reference from Exhibit 4.05 to the Company's Form 10-Q for the fiscal quarter ended September 30, 1994.

4.11. Second Amendment Agreement dated as of October 31, 1994 among El Dorado Chemical Company, Slurry Explosive Corporation, Household Commercial Financial Services, Inc., Connecticut Mutual Life Insurance Company Mutual and C.M. Life Insurance Company Mutual, which the Company hereby incorporates by reference from Exhibit 4.06 to the Company's Form 10-Q for the fiscal quarter ended September 30, 1994.

4.12. Loan and Security Agreement, dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc., which the Company hereby incorporates by reference from Exhibit 4.12 to the Company's Form 10-K for the fiscal year ended December 31, 1994. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Company agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request.

4.13. Loan and Security Agreement dated December 12, 1994, between El Dorado Chemical Company and Slurry Explosive Corporation, as borrowers, and BankAmerica Business Credit, Inc., as lender, which the

Company hereby incorporates by reference from Exhibit 4.13 to the Company's Form 10-K for the fiscal year ended December 31, 1994. The Loan and Security Agreement contains a list of schedules and exhibits omitted from the filed exhibit and the Company agrees to furnish supplementally a copy of any of the omitted schedules and exhibits to the Commission upon request. Substantially identical Loan and Security Agreements, dated December 12, 1994, have been entered into by each of L&S Bearing Co., International Environmental Corporation, Climate Master, Inc., and Summit Machine Tool Manufacturing, Corp. with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided to the Commission upon the Commission's request.

4.14. Loan Agreement dated as of May 4, 1995, by and among Prime Financial Corporation, as borrower, LSB Industries, Inc., Summit Machine Tool Manufacturing Corp., L&S Bearing Co., International Environmental Corporation, El Dorado Chemical Company, Climate Master, Inc., as the guarantors, and Bank IV Oklahoma, N.A., which the Company hereby incorporates by reference from Exhibit 4.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.

4.15. First Amendment to Preferred Share Purchase Rights Plan, dated as of May 24, 1994, between the Company and Liberty National Bank and Trust Company of Oklahoma City, which the Company hereby incorporates by reference from Exhibit 4.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995.

4.16. First Amendment dated August 17, 1995, to the Loan and Security Agreement dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc. Substantially identical First Amendments dated August 17, 1995, 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 Explosives Corporation with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided upon the Commission s request.

4.17. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between the Company and BankAmerica Business Credit, Inc. Substantially identical Second Amendments dated December 1, 1995, to the Loan and Security Agreements dated December 12, 1994, were entered into by each of L&S Bearing, Climate Master, Inc., and Summit Machine Tool Manufacturing, Corp. with BankAmerica Business Credit, Inc. and are hereby omitted and such will be provided upon the Commission s request.

4.18. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between El Dorado Chemical Company and Slurry Explosives Corporation, and BankAmerica Business Credit, Inc.

4.19. Second Amendment dated December 1, 1995, to the Loan and Security Agreement dated December 12, 1994, between International Environmental Corporation, and BankAmerica Business Credit, Inc.

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

10.2. The Company's 1981 Incentive Stock Option Plan, as amended, and 1986 Incentive Stock Option Plan, which the Company hereby

incorporates by reference from Exhibits 10.1 and 10.2 to the Company's Registration Statement No. 33-8302.

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

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

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

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

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

10.8. Union Contracts, dated August 5, 1995, between EDC and the Oil, Chemical and Atomic Workers, the International Association of Machinists and Aerospace Workers and the United Steel Workers of America, dated November 1, 1995.

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

10.10. Agreement for Purchase and Sale of Anhydrous Ammonia, dated as of January 1, 1994, between El Dorado Chemical Company and Farmland Industries, Inc., which the Company hereby incorporates by reference from Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 1994.

10.11. Limited Partnership Agreement dated as of May 4, 1995, between the general partner, and LSB Holdings, Inc., an Oklahoma Corporation, as limited partner.

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

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

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

10.15. Employment Agreement and Amendment to Severance Agreement dated January 17, 1989 between the Company and Jack E. Golsen, dated March 21, 1996.

10.16. Option to Purchase Real Estate, dated January 4, 1989, between Northwest Financial Corporation and Northwest Tower Limited Partnership, which the Company hereby incorporates by reference from Exhibit 10.50 to the Company's Form 10-K for fiscal year ended December 31, 1988.

10.17. Technical License, Technology Assistance, Engineering and Manufacturing Plant sales Agreement between L&S Automotive Products Company, Inc. and ZVL-ZKL A.S., dated July 6, 1992, as amended by Addendums, which the Company hereby incorporates by reference from Exhibit 28.1 to the Company's Form 10-Q for the quarter ended September 30, 1992.

10.18. Letter, dated November 9, 1992, amending the agreement between L&S Automotive Products Co. and ZVL-ZKL A.S., which the Company hereby incorporates by reference from Exhibit 28.2 to the Company's Registration Statement No. 33-55608.

10.19. Supply Agreement, dated November 4, 1992, between Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.3 to the Company's Registration Statement No. 33-55608.

10.20. Right of First Refusal, dated November 4, 1992, between the Company, Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.4 to the Company's Registration Statement No. 33-55608.

10.21. Fixed Assets Purchase Parts Purchase and Asset Consignment Agreement, dated November 4, 1992, between Climate Master, Inc. and Carrier Corporation, which the Company hereby incorporates by reference from Exhibit 28.5 to the Company's Registration Statement No. 33-55608.

10.22. Processing Agreement, dated January 1, 1994, between Monsanto Company and El Dorado Chemical Company, which the Company hereby incorporates by reference from Exhibit 10.22 to the Company's Form 10-K for the fiscal year ended December 31, 1994.

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

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

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

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

10.27. Pre-payment Agreement, dated April 20, 1995, and Supply Agreement, dated May 8, 1995 each by and between L&S Automotive Products Company, Inc. and ZVL-LSA A.S., which the company hereby incorporates by reference from Exhibit 10.2 to the Company's Form 10-Q for the fiscal quarter ended March 31, 1995. Each of these Agreements is pertaining to the Technical License, Technology Assistance, Engineering and Manufacturing Plant Sales Agreement, dated July 6, 1992, between L&S Automotive Products Company, Inc. and ZVL-ZKL A.S., which the Company hereby incorporates by reference from Exhibit 28.1 to the Company's Form 10-Q for the quarter ended September 30, 1992.

10.28. Letters, dated January 12, 1996 amending the agreement between L&S Automotive Products Co. and ZVL-LSA A.S.

11.1. Statement re: Computation of Per Share Earnings

22.1. Subsidiaries of the Company

23.1. Consent of Independent Auditors

27.1. Financial Data Schedule

(b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the fourth quarter of 1995.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Company has caused the undersigned, duly-authorized, to sign this report on its behalf of this 9th day of April, 1996.

LSB INDUSTRIES, INC.

By:
/s/ Jack E. Golsen

Jack E. Golsen
Chairman of the Board and
President
(Principal Executive Officer)

By:
/s/ Tony M. Shelby

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

By:
/s/ Jim D. Jones

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

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

Dated: April 9, 1996 By:
/s/ Jack E. Golsen

Jack E. Golsen, Director

Dated: April 9, 1996 By:
/s/ Tony M. Shelby

Tony M. Shelby, Director

Dated: April 9, 1996 By:
/s/ David R. Goss

David R. Goss, Director

Dated: April 9, 1996 By:
/s/ Barry H. Golsen

Barry H. Golsen, Director

Dated: April 9, 1996 By:
/s/ Robert C. Brown

Robert C. Brown, Director

Dated: April 9, 1996 By:
/s/ Bernard G. Ille

Bernard G. Ille, Director

Dated: April 9, 1996 By:
/s/ Jerome D. Shaffer

Jerome D. Shaffer, Director

Dated: April 9, 1996 By:
/s/ Raymond B. Ackerman

Raymond B. Ackerman, Director

Dated: April 9, 1996 By:
/s/ Horace Rhodes

Horace Rhodes, Director

Report of Independent Auditors

The Board of Directors and Stockholders
LSB Industries, Inc.

We have audited the accompanying consolidated balance sheets of LSB Industries, Inc. as of December 31, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LSB Industries, Inc. at December 31, 1995 and 1994, and the consolidated results of

its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
February 26, 1996

LSB Industries, Inc.

Consolidated Balance Sheets

	DECEMBER 31, 1995	1994
	(In Thousands)	
ASSETS		
Current assets (Note 7):		
Cash and cash equivalents	$ 1,420	$ 2,610
Trade accounts receivable, less allowance for doubtful accounts of $2,584,000 ($2,000,000 in 1994)	43,975	42,720
Inventories (Note 4)	66,265	59,333
Supplies and prepaid items	5,684	6,386
Total current assets	117,344	111,049
Property, plant and equipment, at cost (Notes 5 and 7)	152,730	133,359
Accumulated depreciation	(66,460)	(59,675)
Property, plant and equipment, net	86,270	73,684
Loans receivable, secured by real estate	15,657	17,243
Other assets, net of valuation allowances and allowance for doubtful accounts of $3,090,000 in 1995 ($1,150,000 in 1994) and accumulated amortization of $4,795,000 in 1995 ($4,031,000 in 1994)	18,905	19,305
	$238,176	$221,281

(Continued on following page)

LSB Industries, Inc.

Consolidated Balance Sheets (continued)

	DECEMBER 31, 1995	1994
	(In Thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Drafts payable	$ 424	$ 1,291
Accounts payable	28,508	29,496
Accrued liabilities	9,239	8,062
Current portion of long-term debt (Note 7)	14,925	9,716
Total current liabilities	53,096	48,565
Long-term debt (Note 7)	103,355	81,965
Commitments and contingencies (Notes 3, 6 and 12)		
Redeemable, noncumulative, convertible preferred stock, $100 par value; 1,566 shares issued and outstanding (1,597 in 1994) (Note 10)	149	152
Stockholders' equity (Notes 7, 9 and 11):		
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, 14,757,416 shares issued (14,620,156 in 1994)	1,476	1,462
Capital in excess of par value	37,567	37,369
Retained earnings	5,148	12,883
	92,191	99,714
Less treasury stock, at cost:		
Series 2 preferred, 5,000 shares	200	200
Common stock, 1,845,969 shares (1,559,590 in 1994)	10,415	8,915
Total stockholders' equity	81,576	90,599
	$238,176	$221,281

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Operations

	YEAR ENDED DECEMBER 31, 1995	1994	1993
	(In Thousands, Except Per Share Amounts)		
Revenues:			
Net sales	$267,391	$245,025	$232,616
Other income	6,724	4,944	4,913
	274,115	249,969	237,529
Costs and expenses:			
Cost of sales	210,328	191,916	174,504
Selling, general and administrative	57,238	50,821	43,474
Interest	10,131	6,949	7,507
	277,697	249,686	225,485
Income (loss) from continuing operations before provision (benefit) for income taxes	(3,582)	283	12,044
Provision (benefit) for income taxes	150	(700)	809
Income (loss) from continuing operations	(3,732)	983	11,235
Discontinued operations:			
Income from discontinued operations	-	584	1,228
Gain on disposal of discontinued operations	-	24,200	-
Provision for income taxes related to discontinued operations	-	(1,300)	(64)
	-	23,484	1,164
Net income (loss)	$ (3,732)	$ 24,467	$ 12,399
Net income (loss) applicable to common stock	$ (6,961)	$ 21,232	$ 10,357
Earnings (loss) per common share:			
Primary:			
Income (loss) from continuing operations	$ (.53)	$ (0.16)	$ 0.69
Net income (loss)	$ (.53)	$ 1.54	$ 0.77
Fully diluted:			
Income (loss) from continuing operations	$ (.53)	$ (0.16)	$ 0.63
Net income (loss)	$ (.53)	$ 1.46	$ 0.71

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity

	COMMON STOCK		NON-REDEEMABLE PREFERRED STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK--COMMON	TREASURY STOCK--PREFERRED	TOTAL
	SHARES	PAR VALUE						
				(In Thousands)				
Balance at December 31, 1992	8,098	$ 810	$ 17,357	$21,978	$(17,227)	$(4,579)	$ -	$18,339
Net income	-	-	-	-	12,399	-	-	12,399
Conversion of 85 shares of redeemable preferred stock to common stock	3	-	-	5	-	-	-	5
Conversion of 657,390 shares of Series 1 preferred to common stock	5,008	501	(13,148)	12,647	-	-	-	-
Redemption of Series 1 preferred	-	-	(115)	(8)	-	-	-	(123)
Retirement of Series 1 preferred held in treasury	-	-	(2,094)	214	-	1,880	-	-
Sale of common stock	263	26	-	1,914	-	-	-	1,940
Sale of Series 2 preferred	-	-	46,000	(2,129)	-	-	-	43,871
Exercise of stock options:								
Cash received	640	64	-	1,501	-	-	-	1,565
Stock tendered and added to treasury at market value	502	50	-	998	-	(1,048)	-	-
Dividends declared:								
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	(16)	-	-	(16)
Common stock ($.06 per share)	-	-	-	-	(797)	-	-	(797)
Series 2 preferred stock ($1.80 per share)	-	-	-	-	(1,660)	-	-	(1,660)
Purchase of treasury stock	-	-	-	-	-	(412)	-	(412)
Balance at December 31, 1993	14,514	1,451	48,000	37,120	(7,541)	(4,159)	-	74,871

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Stockholders' Equity (continued)

	COMMON STOCK		NON-REDEEMABLE PREFERRED STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK--COMMON	TREASURY STOCK--PREFERRED	TOTAL
	SHARES	PAR VALUE						
				(In Thousands)				
Net income	-	$ -	$ -	$ -	$24,467	$ -	$ -	$24,467
Conversion of 40 shares of redeemable preferred stock to common stock	1	-	-	1	-	-	-	1
Exercise of stock options for cash	105	11	-	248	-	-	-	259
Dividends declared:								
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	(16)	-	-	(16)
Common stock ($.06 per share)	-	-	-	-	(808)	-	-	(808)
Series 2 preferred stock ($3.25 per share)	-	-	-	-	(2,979)	-	-	(2,979)
Purchase of treasury stock	-	-	-	-	-	(4,756)	(200)	(4,956)
Balance at December 31, 1994	14,620	1,462	48,000	37,369	12,883	(8,915)	(200)	90,599
Net loss	-	-	-	-	(3,732)	-	-	(3,732)
Conversion of 31 shares of redeemable preferred stock to common stock	1	-	-	2	-	-	-	2
Exercise of stock options:								
Cash received	100	10	-	145	-	-	-	155
Stock tendered and added to treasury at market value	36	4	-	51	-	(55)	-	-
Dividends declared:								
Series B 12% preferred stock ($12.00 per share)	-	-	-	-	(240)	-	-	(240)
Redeemable preferred stock ($10.00 per share)	-	-	-	-	(16)	-	-	(16)
Common stock ($.06 per share)	-	-	-	-	(774)	-	-	(774)
Series 2 preferred stock ($3.25 per share)	-	-	-	-	(2,973)	-	-	(2,973)
Purchase of treasury stock	-	-	-	-	-	(1,445)	-	(1,445)
Balance at December 31, 1995	14,757	$1,476	$48,000	$37,567	$ 5,148	$(10,415)	$(200)	$81,576

See accompanying notes.

LSB Industries, Inc.

Consolidated Statements of Cash Flows

	YEAR ENDED DECEMBER 31,		
	1995	1994	1993
	(In Thousands)		
CASH FLOWS FROM CONTINUING OPERATIONS			
Income (loss) from continuing operations	$ (3,732)	$ 983	$ 11,235
Adjustments to reconcile income (loss) from continuing operations to net cash provided (used) by continuing operations:			
Depreciation, depletion and amortization:			
Property, plant and equipment	7,909	6,998	5,870
Other	1,150	1,077	959
Provision for possible losses:			
Trade accounts receivable	1,696	1,468	439
Notes receivable	1,350	650	-
Environmental matter	-	450	-
Loan guarantee	590	-	-
Gain of sales of assets	(203)	(1,303)	(1,587)
Cash provided (used) by changes in assets and liabilities:			
Trade accounts receivable	(4,092)	3,923	(13,523)
Inventories	(6,091)	(13,692)	2,737
Supplies and prepaid items	725	(927)	(1,282)
Accounts payable	(902)	6,209	(718)
Accrued liabilities	1,256	850	(867)
Billings in excess of costs and estimated earnings	-	-	(4,858)
Net cash provided (used) by continuing operations	(344)	6,686	(1,595)
CASH FLOWS FROM INVESTING ACTIVITIES OF CONTINUING OPERATIONS			
Capital expenditures	(17,810)	(15,647)	(9,397)
Purchase of loans receivable	-	(3,068)	-
Principal payments on loans receivable	1,586	388	-
Proceeds from sales of equipment and real estate properties	1,345	4,399	6,735
Other assets	(3,872)	(5,566)	(1,882)
Cash acquired in connection with acquisitions	-	-	1,228
Payments for acquisitions	-	-	(1,747)
Net cash used by investing activities	(18,751)	(19,494)	(5,063)

(Continued on following page)

LSB Industries, Inc.

Consolidated Statements of Cash Flows (continued)

	YEAR ENDED DECEMBER 31, 1995	1994	1993
	(In Thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES OF CONTINUING OPERATIONS			
Payments on long-term and other debt	$(9,476)	$ (7,635)	$(17,828)
Long-term and other borrowings	18,471	17,124	-
Net change in revolving debt facilities	15,070	47,004	(4,950)
Net change in receivables previously financed by discontinued operations	-	(33,570)	1,218
Net change in drafts payable	(867)	71	(3,329)
Dividends paid:			
Preferred stocks	(3,229)	(3,235)	(1,916)
Common stock	(774)	(808)	(797)
Purchase of treasury stock:			
Preferred stock	-	(200)	-
Common stock	(1,445)	(4,756)	(302)
Net proceeds from issuance of common and preferred stock	155	259	47,141
Net cash provided by financing activities of continuing operations	17,905	14,254	19,237
Net increase (decrease) in cash from continuing operations	(1,190)	1,446	12,579
Net change in cash from discontinued operations	-	(1,617)	(10,913)
Net increase (decrease) in cash and cash equivalents from all activities	(1,190)	(171)	1,666
Cash and cash equivalents at beginning of year	2,610	2,781	1,115
Cash and cash equivalents at end of year	$ 1,420	$ 2,610	$ 2,781

See accompanying notes.

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of LSB Industries, Inc. (the "Company") and its subsidiaries. On May 25, 1994, the financial services subsidiary, Equity Bank for Savings, F.A. ("Equity Bank"), was sold and, thus, the consolidated statements of operations for 1994 and 1993 present the operations of Equity Bank as discontinued operations.

2. ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATEMENTS OF CASH FLOWS

For purposes of reporting cash flows, cash and cash equivalents include cash, overnight funds and interest bearing deposits with original maturities when purchased by the Company of 90 days or less.

Supplemental cash flow information includes:

	1995	1994	1993
	(In Thousands)		
Cash payments for interest and income taxes:			
Interest on long-term debt and other	$10,613	$7,440	$7,159
Income taxes	670	832	861
Noncash financing and investing activities--			
Long-term debt issued for property, plant and equipment	2,534	4,884	1,500

2. ACCOUNTING POLICIES (CONTINUED)

LOANS RECEIVABLE

Loans receivable are stated at unpaid principal balances, less any allowance for loan losses (none in 1995, 1994 or 1993). Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of the underlying collateral, and current economic conditions.

INVENTORIES

Purchased machinery and equipment are carried at specific cost plus duty, freight and other charges, not in excess of net realizable value. All other inventory is priced at the lower of cost or market, with cost being determined using the first-in, first-out (FIFO) basis, except for certain heat pump products with a value of $5,981,000 at December 31, 1995 ($9,007,000 at December 31, 1994), which are priced at the lower of cost or market, with cost being determined using the last-in, first-out (LIFO) basis. The difference between the LIFO basis and current cost is not material at December 31, 1995 or 1994.

DEPRECIATION

For financial reporting purposes, depreciation, depletion and amortization is primarily computed using the straight-line method over the estimated useful lives of the assets.

CAPITALIZATION OF INTEREST

Interest costs of $1,357,000 and $491,000 related to the construction of a new nitric acid plant were capitalized in 1995 and 1994, respectively (none in 1993) and will be amortized over the related plant's estimated useful life.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED

The excess of purchase price over net assets acquired totals $4,361,000 and $4,776,000, net of accumulated amortization, of $2,980,000 and $2,565,000 at December 31, 1995 and 1994, respectively, is included in other assets and is being amortized by the straight-line method over periods of 10 to 22 years. The carrying value of the excess of purchase price over net assets acquired is reviewed (using estimated future net cash flows, including proceeds from disposal) if the facts and circumstances suggest that it may be impaired. No impairment provisions were required in 1995, 1994 or 1993.

2. ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. The Company will adopt Statement 121 in the first quarter of 1996. Based on presently available estimates, the new impairment rules are not expected to have a material impact on the Company.

RESEARCH AND DEVELOPMENT COSTS

Costs incurred in connection with product research and development are expensed as incurred. Such costs amounted to $501,000 in 1995, $606,000 in 1994 and $788,000 in 1993.

ADVERTISING COSTS

Costs incurred in connection with advertising and promotion of the Company's products are expensed as incurred. Such costs amounted to $1,658,000 in 1995, $1,321,000 in 1994 and $1,310,000 in 1993.

NET INCOME (LOSS) APPLICABLE TO COMMON STOCK

Net income (loss) applicable to common stock is computed by adjusting net income or loss by the amount of preferred stock dividends.

EARNINGS (LOSS) PER SHARE

Primary earnings (loss) per common share are based upon the weighted average number of common shares and dilutive common equivalent shares outstanding during each year after giving appropriate effect to preferred stock dividends.

Fully diluted earnings (loss) 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 after appropriate adjustment for interest and related income tax effects on convertible notes payable, as applicable.

2. ACCOUNTING POLICIES (CONTINUED)

Average common shares outstanding used in computing earnings per share are as follows:

	1995	1994	1993
Primary	13,223,445	13,831,128	13,401,194
Fully diluted	13,233,022	15,155,461	15,397,886

3. DISCONTINUED OPERATIONS--FINANCIAL SERVICES

On May 25, 1994, pursuant to a Stock Purchase Agreement, dated as of February 9, 1994 (the "Acquisition Agreement"), the Company sold for $91.1 million its wholly-owned subsidiary, Equity Bank, which constituted the Financial Services Business of the Company, to Fourth Financial Corporation (the "Purchaser"). The Purchaser acquired all of the outstanding shares of capital stock of Equity Bank. Equity Bank's revenues for the period from January 1, 1994 to May 25, 1994 and the year ended December 31, 1993 were $16.5 million and $41.8 million, respectively.

Under the Acquisition Agreement, the Company made certain representations and warranties. The Company also agreed under the Acquisition Agreement to indemnify the Purchaser and its wholly-owned subsidiary, Bank IV Oklahoma, National Association ("Bank IV"), against, among other things, (i) losses that may be sustained by them due to breach of any representations or warranties made by the Company in the Acquisition Agreement or failure by the Company to fulfill any agreement made by the Company in the Acquisition Agreement, provided losses by Fourth and Bank IV exceed $1 million in the aggregate, net of income tax effect, and such liability by the Company shall not exceed $25 million. The Company has further agreed to indemnify the Purchaser and Bank IV against certain liabilities which are not subject to the $1 million deductible and the $25 million maximum liability, including, but not limited to, environmental matters relating to the real estate contributed to Equity Bank at the time that the Company acquired Equity Bank. The representations and warranties made by the Company under the Agreement survive the closing of the sale of Equity Bank for a period of two (2) years, except certain tax-related representations and warranties which have a three (3) year survival period. In addition, there are no time limits (other than as provided by law) in connection with the indemnifications provided by the Company relating to certain environmental matters, a certain pending lawsuit, and a certain "frozen" 401(k) Plan.

4. INVENTORIES

Inventories at December 31, 1995 and 1994 consist of:

	FINISHED (OR PURCHASED) GOODS	WORK-IN-PROCESS	RAW MATERIALS	TOTAL
	(In Thousands)			
Air handling units	$ 2,477	$ 1,153	$ 5,835	$ 9,465
Machinery and industrial supplies	7,908	-	-	7,908
Automotive products	21,494	4,307	2,033	27,834
Chemical products	6,917	6,787	7,354	21,058
Total	$38,796	$12,247	$15,222	$66,265
1994 total	$33,926	$ 9,796	$15,611	$59,333

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, consist of:

	DECEMBER 31, 1995	1994
	(In Thousands)	
Land and improvements	$ 4,405	$ 4,405
Buildings and improvements	20,615	20,346
Machinery, equipment and automotive	118,567	99,507
Furniture, fixtures and store equipment	5,854	5,760
Producing oil and gas properties	3,289	3,341
	152,730	133,359
Less accumulated depreciation, depletion and amortization	66,460	59,675
	$ 86,270	$ 73,684

6. FOREIGN SALES CONTRACT

In connection with a 1992 equipment sales contract with a foreign customer, a subsidiary of the Company agreed to a contract amendment in May 1995 that enabled collection of outstanding billings on the contract and required the customer deliver bearing products to the subsidiary, at a future date, without charge to the subsidiary. The amendment also included a purchase commitment by the subsidiary to purchase $30 million of bearing products from the customer

6. FOREIGN SALES CONTRACT (CONTINUED)

over a five-year period. During 1995, the subsidiary purchased approximately $3.1 million of product in connection with such requirement.

In January 1996, the subsidiary negotiated another amendment to the agreement with the foreign customer, modifying the subsidiary's firm commitment to purchase $30 million of bearing products over the five-year period to a best efforts arrangement in exchange for waiver of the foreign customer's commitment to provide bearing products without charge to the subsidiary at a future date.

Accordingly, as a result of the elimination of the subsidiary's future bearing product commitment, the Company has recognized the remaining $1.8 million of contract revenue in the fourth quarter of 1995 which had been previously deferred pending completion of the subsidiary's firm purchase commitment.

7. LONG-TERM DEBT

Long-term debt is detailed as follows:

	DECEMBER 31, 1995	1994
	(In Thousands)	
Secured revolving credit facility with interest at a base rate of a certain bank plus a specified percentage (9.39% aggregate rate at December 31, 1995) (A)	$ 59,175	$44,379
Secured loans of a subsidiary with interest payable quarterly at rates indicated (B):		
10.415% to 12.72% term loans	10,688	15,833
Revolving credit facility at a base rate of a certain bank plus a specified percentage (10.75% at December 31, 1995)	3,750	5,556
Secured loan with interest payable monthly (C)	15,728	12,750
Note payable to bank, due in monthly installments of principal and interest through May 2000, interest at a rate equal to the Wall Street Journal prime rate plus 1% (aggregate rate of 9.5% at December 31, 1995) (D)	8,819	-
Other, with interest at rates of 7.5% to 12.25%	20,120	13,163
	118,280	91,681
Less current portion of long-term debt	14,925	9,716
Long-term debt due after one year	$103,355	$81,965

7. LONG-TERM DEBT (CONTINUED)

(A) In December 1994, the Company, certain subsidiaries of the Company and a bank entered into a series of six asset-based revolving credit facilities aggregating up to $65 million based upon defined eligible assets. The agreement provides for an initial term of three years; however, the agreement will automatically renew for successive 13-month terms, unless terminated by either party. The revolving loans are available based on varying percentages of eligible accounts receivable and inventory and also provide for the issuance of letters of credit of up to $11 million, subject to certain restrictions. The agreement provides for loans at the reference rate as defined (which approximates the national prime rate) plus 1%, or the Eurodollar rate plus 3.375%, with interest due monthly. The agreement is secured by substantially all of the Company's receivables, inventory, proprietary rights, and proceeds thereof and the stock of certain participating subsidiaries. The agreement contains financial covenants, including limitations on dividends, investments and capital expenditures, and requires maintenance of tangible net worth, as defined (escalating from $78 million in 1995 to $84 million in 1997), and debt ratios whereby the "borrowing groups" debt (excluding the borrowings under this agreement) shall not exceed 85% of the Company's adjusted tangible net worth.

(B) This agreement between a subsidiary of the Company and two institutional lenders provides for two series of term loans and a revolving credit facility which provides a maximum available credit line of approximately $3.75 million as of December 31, 1995. The availability under the revolving credit facility reduces by $1.8 million in 1996 with the remainder due in March 1997. Annual principal payments of the term loans are $5.1 million and $5.6 million in March 1996 and 1997, respectively.

The agreement is secured by substantially all of the subsidiaries' assets, not otherwise pledged and the stock of certain participating subsidiaries. It requires the Company to maintain certain financial ratios and contains other financial covenants, including working capital, fixed charge coverage and tangible net worth requirements and capital expenditure limitations. Payments to the parent company are limited to (i) the amount of income taxes that the subsidiary would pay if the subsidiary filed separate income tax returns, (ii) management and other fees required for reimbursement of reasonable costs and expenses,

7. LONG-TERM DEBT (CONTINUED)

consistent with past practices and (iii) other payments to the parent company up to 25% or 50% of the cumulative net income of the subsidiary, depending on the total capitalization ratio, as defined, of the Company. As a result of the various restrictions under the agreement, the subsidiary is permitted to transfer approximately $1.5 million of net assets to the parent company as of December 31, 1995.

(C) This agreement, as amended, between a subsidiary of the Company and an institutional lender provided for a construction loan in the aggregate amount of $16.5 million, the proceeds of which were used in the construction of a nitric acid plant. Interest during the construction period accrued at a rate equal to the LIBOR rate plus 3.10%. In November 1995, the loan converted to a term loan requiring 84 equal monthly payments of principal plus interest, with interest at a fixed rate equal to the five-year U.S. Treasury Security rate plus 2.7% (an aggregate rate of 8.86% at December 31, 1995). This agreement is secured by the plant, equipment and machinery, and proprietary rights associated with the plant which has an approximate carrying value of $24.2 million.

This agreement contains various financial and restrictive covenants, including a requirement to maintain tangible net worth, as defined, of $75 million, escalating to $82.5 million after December 31, 1996. Subsequent to December 31, 1995, the Company obtained a waiver from the lender reducing the minimum tangible net worth through March 31, 1996 and accepting a certain existing lien by a third party on the assets of the plant. The Company expects to be able to comply with this revised covenant subsequent to such date.

(D) In May 1995, a subsidiary of the Company entered into a term loan agreement in the amount of $9 million. During the term of the loan, which matures in May 2000, the outstanding principal balance is payable in 60 monthly payments of principal and interest, commencing on May 31, 1995. The amount of the monthly principal and interest payment is the amount necessary to fully amortize the principal balance over a 180-month period ("Amortization Period") at a rate of interest equal to 1% in excess of the prime rate of a certain bank. On June 30, 1995, and on the last day of each calendar quarter thereafter, the monthly principal and interest payment will be adjusted to an amount which would fully amortize the outstanding principal balance on the last day of each calendar quarter over the remaining part of the Amortization Period. When the loan matures in May 2000, all outstanding and unpaid principal and all accrued and unpaid interest on the loan shall become immediately due. The loan is secured by a loan receivable which has a book value of $13,967,500 as of December 31, 1995 as well as the commercial management agreement between the subsidiary and a certain property management company and the subsidiary's option to purchase the building which secures the loan receivable.

7. LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt for each of the five years after December 31, 1995 are: 1996--$14,925,000; 1997--$72,475,000; 1998--$5,342,000; 1999--$4,483,000; 2000--$12,214,000 and thereafter--$8,841,000.

8. INCOME TAXES

The provision (benefit) for income taxes from continuing operations consists of the following for the year indicated:

	1995	1994	1993
	(In Thousands)		
Current:			
Federal	$ -	$(1,150)	$ 142
State	150	450	667
	$ 150	$ (700)	$ 809

The approximate tax effects of each type of temporary difference and carryforward that are used in computing deferred tax assets and liabilities and the valuation allowance related to deferred tax assets at December 31, 1995 and 1994 are as follows:

	1995	1994
	(In Thousands)	
DEFERRED TAX ASSETS		
Allowances for doubtful accounts and other asset impairments not deductible for tax purposes	$ 3,508	$ 2,399
Capitalization of certain costs as inventory for tax purposes	2,425	2,102
Net operating loss carryforward	16,745	18,227
Investment tax and alternative minimum tax credit carryforwards	1,300	1,212
Other	1,032	864
Total deferred tax assets	25,010	24,804
Less valuation allowance	15,492	14,717
Net deferred tax assets	$ 9,518	$10,087
DEFERRED TAX LIABILITIES		
Accelerated depreciation used for tax purposes	$ 7,256	$ 7,751
Inventory basis difference resulting from a business combination	2,139	2,139
Other	123	197
Total deferred tax liabilities	$ 9,518	$10,087

8. INCOME TAXES (CONTINUED)

The Company is able to realize deferred tax assets up to an amount equal to the future reversals of existing taxable temporary differences. The majority of the taxable temporary differences will turn around in the loss carryforward period as the differences are depreciated or amortized. Other differences will turn around as the assets are disposed in the normal course of business or by tax planning strategies which management considers prudent and feasible.

The differences between the amount of the provision for income taxes and the amount which would result from the application of the federal statutory rate to "Income (loss) from continuing operations before provision (benefit) for income taxes" for each of the three years in the period ended December 31, 1995 are detailed below:

	1995	1994	1993
	(In Thousands)		
Provision (benefit) for income taxes at federal statutory rate	$(1,254)	$ 96	$ 4,215
Changes in the valuation allowance related to deferred tax assets	1,735	(291)	(4,770)
State income taxes, net of federal benefit	99	297	259
Amortization of excess of purchase price over net assets acquired	143	139	191
Foreign subsidiary loss (income)	615	(19)	-
Nondeductible life insurance premiums	142	98	77
Settlement of dispute with governmental agency	-	-	618
Utilization of regular and/or alternative minimum tax net operating loss carryforward	(1,326)	(1,300)	-
Alternative minimum tax	-	150	142
Other	(4)	130	77
Provision (benefit) for income taxes	$ 150	$ (700)	$ 809

At December 31, 1995, the Company has net operating loss ("NOL") carryforwards for tax purposes of approximately $43 million. Such amounts expire beginning in 1999. The Company also has investment tax credit carryforwards of approximately $568,000 which begin expiring in 1996.

9. STOCKHOLDERS' EQUITY

STOCK OPTIONS

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes financial accounting and reporting standards for stock-based employee compensation plans. Effective for fiscal years beginning after December 15, 1995, the statement provides the option to continue under the accounting provisions of APB Opinion 25, while requiring pro forma footnote disclosures of the effects on net income and earnings per share, calculated as if the new method had been implemented. The Company will adopt the financial reporting provisions of SFAS 123 for 1996, but expects to elect to continue under the accounting provisions of APB Opinion 25.

QUALIFIED STOCK OPTION PLANS

In November 1981, the Company adopted the 1981 Incentive Stock Option Plan, in March 1986, the Company adopted the 1986 Incentive Stock Option Plan and, in September 1993, the Company adopted the 1993 Stock Option and Incentive Plan. Under these plans, the Company is authorized to grant options to purchase up to 3,700,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. These options become exercisable 20% after one year from date of grant, 40% after two years, 70% after three years, 100% after four years and lapse at the end of ten years. The exercise price of options to be granted under this plan is equal to the fair market value of the Company's common stock at the date of grant. For participants who own 10% or more of the Company's common stock at the date of grant, the option price is 110% of the fair market value at the date of grant and the options lapse after five years from the date of grant.

Activity in the Company's stock option plans during each of the three years in the period ended December 31, 1995 is as follows:

	1995	1994	1993
Outstanding options at beginning of year	581,140	556,640	1,340,276
Granted	91,000	54,000	14,000
Exercised	(61,000)	(29,500)	(791,636)
Surrendered, forfeited or expired	-	-	(6,000)
Outstanding options at end of year	611,140	581,140	556,640

9. STOCKHOLDERS' EQUITY (CONTINUED)

	1995	1994	1993
At end of year:			
Prices of outstanding options	$ 1.13 TO $ 9.00	$ 1.13 to $ 9.00	$ 1.13 to $ 9.00
Average option price per share	$ 3.41	$ 2.84	$ 2.44
Options exercisable	390,540	356,940	280,640
Options available for future grants	781,300	872,300	926,300

NON-QUALIFIED STOCK OPTION PLANS

The Company's Board of Directors approved the grant of non-qualified stock options to the Company's outside directors, President and a key employee of one of the Company's subsidiaries, as detailed below. The option price was based on the market value of the Company's common stock at the date of grant and these options are exercisable at any time after the date of grant and expire five years from such date; however, the options granted to the key employee have a vesting schedule which has been completed and do not expire until ten years from the date of grant. During 1995, three of the Company's directors exercised options to purchase 75,000 shares of the Company's stock at $1.38 per share. During 1994, three of the Company's Directors exercised options to purchase 75,000 shares of the Company's stock at $2.63 per share. During 1993, one of the Company's directors exercised options to purchase 65,000 shares of the Company's stock at an average price of $2.26 per share.

DATE GRANTED OR EXTENDED	OPTION PRICE PER SHARE	NUMBER OF SHARES SUBJECT TO OPTIONS OUTSTANDING AT DECEMBER 31, 1995
September 1990	$1.375	25,000
June 1992	$3.125	45,000
April 1994	$ 9.00	25,000
June 1994 (A)	$2.625	165,000
April 1995	$5.375	25,000

(A) In June 1994, the Board of Directors extended the expiration date on the grant of options for 165,000 shares to the Company's President for an additional five years. The option price and terms of the option were unchanged except that, in consideration of the extension of time to exercise, the President agreed to a revised vesting schedule for exercise of 20% of the option shares in each of the years 1995, 1996 and 1997 and 40% of the option shares in 1998.

9. STOCKHOLDERS' EQUITY (CONTINUED)

In September 1993, the Company adopted the 1993 Nonemployee Director Stock Option Plan (the "Outside Director Plan"). The Outside Director Plan authorizes the grant of nonqualified stock options to each member of the Company's Board of Directors who is not an officer or employee of the Company or its subsidiaries. The maximum number of shares of common stock of the Company that may be issued under the Outside Director Plan is 150,000 shares (subject to adjustment as provided in the Outside Director Plan).

The Company shall automatically grant to each outside director an option to acquire 5,000 shares of the Company's common stock on April 30 following the end of each of the Company's fiscal years in which the Company realizes net income of $9.2 million or more for such fiscal year. The exercise price for an option granted under this plan shall be the fair market value of the shares of common stock at the time the option is granted. Each option granted under this plan to the extent not exercised shall terminate upon the earlier of the termination as a member of the Company's Board of Directors or the fifth anniversary of the date such option was granted. During each 1995 and 1994, there were 25,000 options granted at $5.375 and $9.00 per share, respectively, under the Outside Director Plan.

PREFERRED SHARE PURCHASE RIGHTS

In February 1989, the Company's Board of Directors declared a dividend distribution of one Preferred Share Purchase Right (the "Preferred Right") for each outstanding share of the Company's common stock. The Preferred Rights are designed to ensure that all of the Company's stockholders receive fair and equal treatment in the event of a proposed takeover or abusive tender offer.

The Preferred Rights are generally exercisable when a person or group, other than the Company's Chairman and his affiliates, acquire beneficial ownership of 30% or more of the Company's common stock (such a person or group will be referred to as the "Acquirer"). Each Preferred Right (excluding Preferred Rights owned by the Acquirer) entitles stockholders to buy one one-hundredth (1/100) of a share of a new series of participating preferred stock at an exercise price of $14. Following the acquisition by the Acquirer of beneficial ownership of 30% or more of the Company's common stock, and prior to the acquisition of 50% or more of the Company's common stock by the Acquirer, the Company's Board of Directors may exchange all or a portion of the Preferred Rights (other than Preferred Rights owned by the Acquirer) for the Company's common stock at the rate of one share of common stock per Preferred Right. Following acquisition by the Acquirer of 30% or more of the Company's common stock, each

9. STOCKHOLDERS' EQUITY (CONTINUED)

Preferred Right (other than the Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Company's common shares having a market value of two times the Preferred Right's exercise price.

If the Company is acquired, each Preferred Right (other than the Preferred Rights owned by the Acquirer) will entitle its holder to purchase a number of the Acquirer's common shares having a market value at the time of two times the Preferred Right's exercise price.

Prior to the acquisition by the Acquirer of beneficial ownership of 30% or more of the Company's stock, the Company's Board of Directors may redeem the Preferred Rights for $.01 per Preferred Right.

10. REDEEMABLE PREFERRED STOCK

Each share of the noncumulative redeemable preferred stock, $100 par value, is convertible into 40 shares of the Company's common stock at any time at the option of the holder; entitles the holder to one vote and is redeemable at par. The redeemable preferred stock provides for a noncumulative annual dividend of 10%, payable when and as declared. Dividend payments were current at December 31, 1995 and 1994.

11. NON-REDEEMABLE PREFERRED STOCK

The 20,000 shares of Series B cumulative, convertible preferred stock, $100 par value, are convertible, in whole or in part, into 666,666 shares of the Company's common stock (33.3333 shares of common stock for each share of preferred stock) at any time at the option of the holder and entitles the holder to one vote per share. The Series B preferred stock provides for annual cumulative dividends of 12% from date of issue, payable when and as declared. Dividend payments were current at December 31, 1995 and 1994.

On May 27, 1993, the Company completed a public offering of $46 million of a new series of Class C preferred stock, designated as a $3.25 convertible exchangeable Class C preferred stock, Series 2, no par value ("Series 2 Preferred"). The Series 2 Preferred has a liquidation preference of $50.00 per share plus accrued and unpaid dividends and is convertible at the option of the holder at any time, unless previously redeemed, into common stock of the Company at an initial conversion price of $11.55 per share (equivalent to a conversion rate of approximately 4.3 shares of common stock for each share of Series 2 Preferred), subject to adjustment under certain conditions. Upon the mailing of notice of certain corporate actions, holders will have special conversion rights for a 45-day period.

11. NON-REDEEMABLE PREFERRED STOCK (CONTINUED)

The Series 2 Preferred is not redeemable prior to June 15, 1996. The Series 2 Preferred will be redeemable at the option of the Company, in whole or in part, at $52.28 per share if redeemed on or after June 15, 1996, and thereafter at prices decreasing ratably annually to $50.00 per share on or after June 15, 2003, plus accrued and unpaid dividends to the redemption date. Dividends on the Series 2 Preferred are cumulative and are payable quarterly in arrears. Dividend payments were current at December 31, 1995 and 1994.

The Series 2 Preferred also is exchangeable in whole, but not in part, at the option of the Company on any dividend payment date beginning June 15, 1996, for the Company's 6.50% Convertible Subordinated Debentures due 2018 (the "Debentures") at the rate of $50.00 principal amount of Debentures for each share of Series 2 Preferred. Interest on the Debentures, if issued, will be payable semiannually in arrears. The Debentures will, if issued, contain conversion and optional redemption provisions similar to those of the Series 2 Preferred and will be subject to a mandatory annual sinking fund redemption of five percent of the amount of Debentures initially issued, commencing June 15, 2003 (or the June 15 following their issuance, if later).

At December 31, 1995, the Company is authorized to issue an additional 248,435 shares of $100 par value preferred stock and an additional 5,000,000 shares of no par value preferred stock. Upon issuance, the Board of Directors of the Company is to determine the specific terms and conditions of such preferred stock.

12. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases certain property, plant and equipment under noncancelable operating leases. Future minimum payments on operating leases with initial or remaining terms of one year or more at December 31, 1995 are as follows:

	(In Thousands)
1996	$ 2,192
1997	1,443
1998	1,191
1999	900
2000	872
After 2000	8,204
	$14,802

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Rent expense under all operating lease agreements, including month-to-month leases, was $3,400,000 in 1995, $3,149,000 in 1994 and $2,595,000 in 1993. Renewal options are available under certain of the lease agreements for various periods at approximately the existing annual rental amounts. Rent expense paid to related parties was $90,000 in each 1995 and 1994 and $120,000 in 1993.

DEBT GUARANTEE

The Company has guaranteed approximately $2.6 million of indebtedness of a start-up aviation company in exchange for a 24% ownership interest, to which no value has been assigned as of December 31, 1995. The Company is, however, accruing losses of the aviation company based on its ownership percentage and, as a result, the Company has recorded losses of $590,000 in 1995 (none in 1994 or 1993) related to the debt guarantee. The debt guarantee relates to two note instruments, both of which require interest only payments through September 1996. One note, on which a subsidiary of the Company has guaranteed up to $600,000 of indebtedness, matures September 28, 1996. The other note, on which the Company has guaranteed up to $2 million, requires monthly principal payments of $11,111 plus interest beginning in October 1996 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.

In November 1995, the start-up aviation company completed and test flew its first operational model. The aviation company expects to complete the Federal Aviation Authority certification process by mid-1997, at which time commercial production development may begin. It is expected that the aviation company will require additional external funding during such period, the source of which has not yet been determined (the Company has advanced $150,000 to the aviation company subsequent to December 31, 1995 and may provide additional amounts in future periods).

If the aviation company is not successful in completing the certification process, obtaining additional external funding or selling a significant interest in the business to third parties, the Company is likely to become responsible for repayment of the $2.6 million indebtedness guarantee and may not be able to recover amounts advanced.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEGAL MATTERS

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. As a result of a preliminary environmental assessment report prepared by the State of Arkansas, the primary manufacturing facility of the Company's chemical business has been placed in the Environmental Protection Agency's ("EPA") tracking system of sites which are known or suspected to be a site of a release of hazardous waste (the "System"). Inclusion in the System does not represent a determination of liability or a finding that any response action is necessary. As a result of being placed in the System, the State of Arkansas performed a preliminary assessment and advised the Company that the site has had certain releases of contaminants. On July 18, 1994, the Company received a report from the State of Arkansas which contained findings of violations of certain environmental laws and requested the Company to conduct further investigations to better determine the compliance status of the Company and releases of contaminants at the site. On May 2, 1995, the Company signed a Consent Administrative Agreement ("Agreement") with the State of Arkansas. The Agreement provides for the Company to remediate and close a certain landfill, monitor groundwater for certain contaminants and depending on the results of the monitoring program to submit a remediation plan, upgrade certain equipment to reduce wastewater effluent, and pay a civil penalty of $25,000.

   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. Post closure activities associated with the landfill closure are being implemented in accordance with the Agreement. 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.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

On February 12, 1996, the Company entered into another Consent Administrative Agreement ("Agreement") to resolve certain compliance issues associated with nitric acid concentrations. The Company is currently investigating the feasibility of several options for installing additional pollution control equipment to reduce opacity and constituent emissions which impact opacity. The Company has been assessed a $50,000 civil penalty associated with the Agreement; however, the Company is planning to undertake one or more supplemental environmental projects in lieu of the penalty.

The Company recorded a provision for environmental costs of $450,000 in 1994 and, as of December 31, 1995, the Company continues to have approximately $290,000 accrued for these environmental matters which the Company believes approximates the remaining costs to be incurred related thereto. 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.

C. Subsequent to December 31, 1995, the Company was advised that one or more persons in the vicinity of the primary manufacturing facility of the Company's chemical business had retained legal counsel to bring a tort action against the chemical business claiming that certain of their alleged health issues were caused by air emissions from the manufacturing facility. The Company is unaware of the exact nature of these claims or the amount of damages that the claimants will allege as a result of such alleged injuries. The Company's insurance carrier has been notified of this matter.

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 of a particular quarter or year, if resolved unfavorably.

OTHER

In 1989 and 1991, the Company entered into severance agreements with certain of its executive officers that become effective after the occurrence of a change in control, as defined, if the Company terminates the officer's employment or if the officer terminates employment with the Company for good reason, as defined. These agreements require the Company to pay the executive officers an amount equal to 2.9 times their average annual base compensation, as defined, upon such termination.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company has retained certain risks associated with its operations, choosing to self-insure up to various specified amounts under its automobile, workers' compensation, health and general liability programs. The Company reviews such programs on at least an annual basis to balance the cost/benefit between its coverage and retained exposure.

In 1995, in connection with the Company's purchase of a fifty percent (50%) equity interest in an energy conservation joint venture (the "Project"), the Company guaranteed the bonding company's exposure under the payment and performance bonds on the Project, which is approximately $17.9 million. As of December 31, 1995, the Project was approximately 30% complete and the Company expects it to be completed on schedule in 1996. Inasmuch as the Project is presently performing (and is expected to perform in future periods), no demand has been made on the Company's guarantee.

13. EMPLOYEE BENEFIT PLANS

The Company sponsors a retirement plan under Section 401(k) of the Internal Revenue Code under which participation is available to substantially all full-time employees. The Company does not contribute to this plan, although it does pay for all costs associated with administering the plan, none of which are significant.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following discussion of fair values is not indicative of the overall fair value of the Company's balance sheet since the provisions of the SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," do not apply to all assets, including intangibles.

The following methods and assumptions were used by the Company in estimating its fair value of financial instruments:

LOANS RECEIVABLE: For variable-rate loans with no significant change in credit risk since loan origination, fair values approximate carrying amounts. Fair values for fixed-rate loans are estimated using discounted cash flow analyses, using interest rates which would currently be offered for loans with similar terms to borrowers of similar credit quality and for the same remaining maturities. The fair values of loans which are collateral dependent for realization are estimated using the fair value of the underlying collateral.

As of December 31, 1995 and 1994, fair values of loans receivable were approximately $18.2 million and $18.6 million, respectively.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

INVESTMENT IN EQUITY SECURITIES: Fair values of investments in equity securities of closely-held companies have not been determined as estimation of such values is not practicable (carrying cost of $802,000 in 1995 and 1994).

BORROWED FUNDS: Fair values for fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates currently being offered on borrowings of similar amounts and terms to those currently outstanding. Carrying values for variable rate borrowings approximate their fair value. As of December 31, 1995 and 1994, carrying values of long-term debt also approximated their estimated fair value.

As of December 31, 1995, the carrying values of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximated their estimated fair value.

15. SEGMENT INFORMATION

The Company and its subsidiaries operate principally in four industries.

CHEMICAL

This segment manufactures and sells chemical products for mining, agricultural, electronic, paper and other industries. Production from the Company's primary manufacturing facility in El Dorado, Arkansas, comprises approximately 80% of the chemical segment's sales. Sales to customers of this segment, which primarily include coal mining companies throughout the United States and farmers in Texas, Missouri and Tennessee, are generally unsecured.

The chemical business is subject to various federal, state and local environmental regulations. Although the Company has designed policies and procedures to help reduce or minimize the likelihood of significant chemical accidents and/or environmental contamination, there can be no assurances that the Company will not sustain a significant future operating loss related thereto.

Further, the Company purchases substantial quantities of anhydrous ammonia for use in manufacturing its products. The pricing volatility of such raw material directly affects the operating profitability of the chemical segment.

15. SEGMENT INFORMATION (CONTINUED)

ENVIRONMENTAL CONTROL

This business segment manufactures and sells, primarily from its various facilities in Oklahoma City, a variety of air handling and water source heat pump products for use in commercial and residential air conditioning and heating systems. The Company's various facilities in Oklahoma City comprise substantially all of the environment control operations. Sales to customers of this segment, which primarily include original equipment manufacturers, contractors and independent sales representatives located throughout the world, are generally secured by a mechanic's lien, except for sales to original equipment manufacturers, which are generally unsecured.

INDUSTRIAL PRODUCTS

This segment manufactures and purchases machine tools and purchases industrial supplies for sale to machine tool dealers and end users throughout the world. Sales of industrial supplies are generally unsecured, whereas the Company generally retains a security interest in machine tools sold until payment is received.

The industrial products segment attempts to maintain a full line of certain product lines, which necessitates maintaining certain products in excess of management's successive year expected sales levels. Inasmuch as these products are not susceptible to rapid technological changes, management believes no loss will be incurred on disposition.

AUTOMOTIVE PRODUCTS

This segment manufactures and sells, generally on an unsecured basis, anti-friction bearings and other products for automotive applications to wholesalers, retailers and original equipment manufacturers located throughout the world. Net sales from the Company's primary facility in Oklahoma City comprises approximately 75% of the automotive products segment sales.

At December 31, 1995, the automotive segment has $27.8 million of inventory, a portion of which is in excess of current requirements based on recent sales levels. Management has developed a program to reduce this inventory to desired levels over the near term and believes no significant loss will be incurred on disposition.

Credit, which is generally unsecured, is extended to customers based on an evaluation of the customer's financial condition and other factors. Credit losses are provided for in the financial statements based on historical experience and periodic assessment of outstanding accounts

15. SEGMENT INFORMATION (CONTINUED)

receivable, particularly those accounts which are past due. The Company's periodic assessment of accounts and credit loss provisions are based on the Company's best estimate of amounts which are not recoverable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer bases, and their dispersion across many different industries and geographic areas.

Information about the Company's operations in different industry segments for each of the three years in the period ended December 31, 1995 is detailed below.

	1995	1994	1993
	(In Thousands)		
Sales:			
Chemical	$136,903	$131,576	$114,952
Environmental Control	83,843	69,914	69,437
Industrial Products	13,375	11,222	19,714
Automotive Products	33,270	32,313	28,513
	$267,391	$245,025	$232,616
Gross profit:			
Chemical	$ 26,050	$ 25,700	$ 27,557
Environmental Control	21,694	17,651	15,651
Industrial Products	2,953	1,316	5,160
Automotive Products	6,366	8,442	9,744
	$ 57,063	$ 53,109	$ 58,112
Operating profit (loss):			
Chemical	$ 13,393	$ 12,809	$ 17,632
Environmental Control	4,630	3,512	3,900
Industrial Products	(1,199)	(4,155)	2,120
Automotive Products	(3,704)	(1,462)	2,528
	13,120	10,704	26,180
General corporate expenses, net	(6,571)	(3,472)	(6,629)
Interest expense	(10,131)	(6,949)	(7,507)
Income (loss) before provision for income taxes	$ (3,582)	$ 283	$ 12,044

15. SEGMENT INFORMATION (CONTINUED)

	1995	1994	1993
	(In Thousands)		
Depreciation, depletion and amortization of property, plant and equipment:			
Chemical	$ 4,532	$ 4,044	$ 3,696
Environmental Control	$ 1,582	$ 1,427	$ 1,015
Industrial Products	$ 124	$ 117	$ 118
Automotive Products	$ 986	$ 785	$ 502
Additions to property, plant and equipment:			
Chemical	$ 17,979	$ 15,532	$ 9,036
Environmental Control	$ 447	$ 3,722	$ 1,584
Industrial Products	$ 265	$ 74	$ 560
Automotive Products	$ 1,341	$ 1,203	$ 1,875
Identifiable assets:			
Chemical	$111,890	$ 94,972	$ 77,943
Environmental Control	41,331	40,660	38,389
Industrial Products	17,328	18,423	22,688
Automotive Products	43,872	38,369	31,650
	214,421	192,424	170,670
Corporate assets	23,755	28,857	25,368
Total assets	$238,176	$221,281	$196,038

Revenues by industry segment include revenues from unaffiliated customers, as reported in the consolidated financial statements. Intersegment revenues, which are accounted for at transfer prices ranging from the cost of producing or acquiring the product or service to normal prices to unaffiliated customers, are not significant.

15. SEGMENT INFORMATION (CONTINUED)

Gross profit by industry segment represents net sales less cost of sales. Operating profit by industry segment represents revenues less operating expenses. In computing operating profit, none of the following items have been added or deducted: general corporate expenses, income taxes or interest expense.

Identifiable assets by industry segment are those assets used in the operations in each industry. Corporate assets are those principally owned by the parent company or by subsidiaries not involved in the four identified industries.

Revenues from unaffiliated customers include foreign export sales as follows:

GEOGRAPHIC AREA	1995	1994	1993
	(In Thousands)		
Mexico and Central and South America	$ 5,955	$ 6,976	$ 6,419
Canada	10,311	11,649	11,850
Slovakia	2,147	1,783	7,488
Other	16,300	16,195	11,100
	$34,713	$36,603	$36,857

LSB Industries, Inc.

Supplementary Financial Data

Quarterly Financial Data (Unaudited)

(In Thousands, Except Per Share Amounts)

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1995				
Total revenues	$65,931	$79,932	$65,525	$62,727
Gross profit on net sales	$16,142	$16,888	$12,976	$11,057
Income (loss) from continuing operations	$ 1,448	$ 1,503	$(1,801)	$(4,882)
Net income (loss)	$ 1,448	$ 1,503	$(1,801)	$(4,882)
Net income (loss) applicable to common stock	$ 629	$ 699	$(2,604)	$(5,685)
Primary earnings (loss) per common share:				
Continuing operations	$ .05	$ .05	$ (.20)	$ (.43)
Net income (loss)	$ .05	$ .05	$ (.20)	$ (.43)
1994				
Total revenues	$64,352	$69,744	$60,139	$55,734
Gross profit on net sales	$14,358	$15,230	$12,235	$11,286
Income (loss) from continuing operations	$ 1,858	$ 2,817	$ (913)	$(2,773)
Net income (loss)	$ 2,204	$27,255	$ (913)	$(4,079)
Net income (loss) applicable to common stock	$ 1,380	$26,447	$(1,718)	$(4,877)
Primary earnings (loss) per common share:				
Continuing operations	$ .07	$ .14	$ (.13)	$ (.27)
Net income	$ .10	$ 1.84	$ (.13)	$ (.37)

LSB Industries, Inc.

Schedule II - Valuation and Qualifying Accounts

Years ended December 31, 1995, 1994 and 1993

(Dollars in Thousands)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS WRITE-OFFS/ COSTS INCURRED	BALANCE AT END OF YEAR
Allowance for doubtful accounts (1):				
1995	$2,000	$1,696	$1,112	$2,584
1994	$2,083	$1,468	$1,551	$2,000
1993	$2,582	$ 439	$ 938	$2,083
Other assets:				
1995	$1,150	$1,940	$ -	$3,090
1994	$ 500	$ 650	$ -	$1,150
1993	$ 500	$ -	$ -	$ 500
Product warranty liability:				
1995	$ 689	$ 259	$ 249	$ 699
1994	$ 653	$ 667	$ 631	$ 689
1993	$ 613	$ 427	$ 387	$ 653

(1) Deducted in the balance sheet from the related assets to which the reserve applies.

Other valuation and qualifying accounts are detailed in the Company's notes to consolidated financial statements.

STOCK OPTION AGREEMENT Exhibit 2.1

This Stock Option Agreement ("Agreement") is made and entered into effective as of the _____ day of _____, 1995 ("Effective Date") by and between _____, an individual ("_____"), _____, an individual ("_____"), _____, an individual ("_____") (, , and are hereinafter collectively referred to as the "Shareholders"), _____, a _____ corporation ("____"), and LSB Holdings, Inc., an Oklahoma corporation ("LSB").

R E C I T A L S:

WHEREAS, the Shareholders own one hundred percent (100%) of the equity shares of ____;

WHEREAS, ____ is currently authorized to issue _____shares of common stock and such common stock is the only class of stock issued and is the only stock of ____ with voting rights;

WHEREAS, a total of _____ shares of ____ common stock are currently issued and outstanding;

WHEREAS, _____ owns _____ percent (__%), _____ owns _____ percent (__%), and _____ owns _____ percent (__%), of ____;

WHEREAS, LSB desires to obtain an option to purchase a total of eighty percent (80%) of the shares of ____, upon the terms and conditions set forth in this Agreement, so as to allow LSB to become the owner of eighty percent (80%) of all issued and outstanding common stock of ____;

WHEREAS, ____ and LSB Industries, Inc., an affiliate of LSB, have executed that certain Loan Agreement dated September 15, 1994 as amended (the "Loan Agreement"), under which Loan Agreement LSB Industries, Inc. may make advances at its sole discretion to ____ up to $___ Million (the "Loan").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Shareholders and LSB agree as follows:

1. Recitals. The recitals set forth above shall be deemed a part of this Agreement and are incorporated herein by reference.

2. Option.

2.1 Purchase. Subject to the terms and conditions contained herein, the Shareholders hereby grant to LSB the option (the "Option"), exercisable at any time during the Option Period (hereinafter defined) to purchase from the Shareholders _____ shares of ____'s common stock (constituting 80% of the shares of ____) (hereinafter collectively referred to as the "Subject Shares"), from the following individual Shareholders in accordance with the following schedule:

____ Shareholder	Number of ____ Shares Subject to Purchase
_____	_____
_____	_____
_____	_____
TOTAL (80% of all outstanding shares)	_____

For the purposes of this Agreement, the term "Participation Percentage" shall mean the following percentages for each of the Shareholders:

Shareholder	Participation Percentage
_____	40%
_____	40%
_____	20%
TOTAL	100%

2.2 Option Period. This Option may be exercised by LSB at any time after the Effective Date and before 7:00 p.m. (Oklahoma City, Oklahoma time) on the date one (1) year after the Effective Date; provided, however, that the period in which this Option may be exercised may be extended for up to three (3) one-year periods (i.e., through the date four (4) years after Effective Date) by LSB's payment of $_____ (the "Extension Payments") to the Shareholders in proportion to their Participating Percentages on or before the end of each one-year period (inclusively, the "Option Period"). Notwithstanding the preceding sentence, the Option Period may be shortened by the Shareholders in the event the "Preliminary Requirements" (hereinafter defined) have been met during the Option Period and LSB has received written notice from _____ and the Shareholders that all Preliminary Requirements have been met (the "Option Notice"). Only upon the occurrence of the Preliminary Requirements and receipt of the Option Notice by LSB, LSB shall, at its sole discretion, within ninety (90) days of receipt of the Option Notice, either a) exercise this Option, or b) relinquish this Option.

2.3 Method of Exercising Option. This Option may be exercised at any

time during the Option Period by LSB delivering written notice of such exercise to each Shareholder ("Exercise Notice"), which Exercise Notice shall include the date, time and place of the closing of the Purchase of the Subject Shares (the "Closing" or the "Closing Date"). The Closing Date shall be within sixty (60) days after the date of the Exercise Notice, but it need not be within the Option Period.

2.4 Closing. At the Closing of LSB's purchase of the Subject Shares, the Shareholders shall deliver to LSB the certificate(s) evidencing the Subject Shares, together with assignments separate from the certificate(s) endorsed in favor of LSB or its designee. The Subject Shares shall be duly authorized, non-assessable, validly issued and delivered to LSB free and clear of all liens, restrictions, claims and/or agreements of any kind. At the Closing, the Shareholders, ____ and LSB shall also fulfill all other obligations set forth herein as items to occur at or before Closing.

2.5 Option Price. On the Effective Date, LSB shall pay Shareholders, in proportion to their Participation Percentage, the total amount of $_____. LSB shall thereafter pay Shareholders, in proportion to their Participation Percentage, the total amount of $_____ on or before each of the last days of the third, sixth, ninth and twelfth months after the execution of this Agreement by all parties (the "Option Price"). In the event the Option on the Subject Shares is relinquished by LSB, is not renewed, terminates for any reason or expires, Shareholders shall repay to LSB so much of the Option Price and any Pre-Payments (hereinafter defined) as LSB had paid to Shareholders, except for the first $_____, but not to exceed $_____ (the "Repayment Obligation"). To secure such obligation, the Shareholders hereby grant to LSB a security interest in and to the Subject Shares and all remaining shares of ____ and a security interest in and to all the shares of ____ and, to the extent not restricted by other agreements, ____ grants to LSB a security interest in the stock of _____ and _____, Inc. subsidiaries of ____ and the interest of ____ and/or _____ in _____.

2.6 Exercise Price. Upon delivery to LSB at the Closing of the certificate(s) evidencing the Subject Shares, and conditioned upon ____ and the Shareholders fulfilling all obligations to take place at or before Closing, LSB agrees to pay the amount set forth below in Section 2.6.1 (the "Exercise Price"), payable as reflected in Section 2.6.2 below.

2.6.1 Exercise Price. The total Exercise Price to be paid to all Shareholders under this Agreement shall be the total amount of $____ Million (a) less the Option Price paid to Shareholders, (b) less any other payment made to Shareholders prior to Closing, and (c) less the $_____ advance payment made to Shareholders on or about November 15, 1994 ((b) and (c) collectively referred to as "Pre-Payments").

2.6.2 Payment of Exercise Price. LSB shall pay to the Shareholders, in proportion to their Participation Percentage, the total Exercise Price as follows:

(a) If the Option is exercised on or before one (1) year after the Effective Date, $___ Million (less the Option Price paid to Shareholders and less any Pre-Payments) shall be paid at Closing. LSB shall also deliver to Shareholders at Closing five (5) non-negotiable promissory notes bearing interest at the rate of seven percent (7%) per annum each in the principle amount of $_____. Such Notes shall require a single payment of principle and all accrued interest on their respective maturity dates. Such notes shall mature and become due and payable one each on the first, second, third, fourth and fifth anniversaries of the Closing Date.

(b) If the Option is exercised on or before two (2) years but later than one (1) year after the Effective Date, $___ Million (less the Option Price paid to Shareholders and less any Pre-Payments) shall be paid at Closing. LSB shall also deliver to Shareholders at Closing four (4) non-negotiable promissory notes bearing interest at the rate of seven percent (7%) per annum each in the principle amount of $_____. Such notes shall require a single payment of principle and all accrued interest on each of their respective maturity dates. Such notes shall mature and become due and payable one each on the first, second, third and fourth anniversaries of the Closing Date.

(c) If the Option is exercised on or before three (3) years but less than two (2) years after the Effective Date, $___ Million (less the Option Price paid to Shareholders and less any Pre-Payments) shall be paid at Closing. LSB shall also deliver to Shareholders at Closing three (3) non-negotiable promissory notes bearing interest at the rate of seven percent (7%) per annum in the principle amount of $_____. Such notes shall require a single payment of principle and all accrued interest on each of their respective maturity dates. Such notes shall mature and become due and payable one each on the first, second and third anniversaries of the Closing Date.

(d) If the Option is exercised on or before four (4) years but less than three (3) years after the Effective Date, $___ Million (less the Option Price paid to Shareholders and less any Pre-Payments) shall be paid at Closing. LSB shall also deliver to Shareholders at Closing two (2) non-negotiable promissory notes bearing interest at the rate of seven percent (7%) per annum in the principle amount of $_____. Such notes shall require a single payment of principle and accrued interest on each of their respective maturity dates. Such notes shall mature and become due and payable one each on the first and second anniversaries of the Closing Date.

The promissory notes as referenced in subsections 2.6.2 (a) through (d) above shall be dated and delivered to Shareholders at Closing and may be separately issued, at the option of the Shareholders, to _____, _____ and _____ in accordance with their respective Participation Percentages(said promissory notes shall be collectively referred to as the "Shareholders' Notes"). Notwithstanding anything that may appear to the contrary in this Agreement, the Exercise Price, the Pre-Payments and the Option Price shall under no circumstances exceed a total of $__ Million plus interest on any promissory notes delivered as part of the Exercise Price.

2.6.3 Replacement Notes. To the extent not paid or reduced by set off or otherwise, LSB shall replace all unpaid non-negotiable promissory notes to be delivered under 2.6.2(a), (b), (c) or (d) above with negotiable promissory notes upon the following events occurring at the same time:

(a) Tender of Notes. Shareholders tender all the unpaid original non-negotiable notes to LSB for replacement (the date of such tender is referred to herein as the "Tender Date").

(b) _____Project. The contracts associated with _____ Project or another project of equal or greater value, that generates equal or greater net revenues (the "Replacement Project"), including the financing therefore from a bona fide lender, shall have been fully closed as of the Tender Date, without any conditions remaining to be fulfilled.

(c) Net Revenues. The "Interim Net Present Value" (defined below) shall be $___ Million or greater, measured as of one (1) month prior to the Tender Date, but not earlier than one (1) year following completion of construction of the _____ Project or the Replacement Project (the "Interim Measurement Date"). For purposes of this Section 2.6.3.(c), "Interim Net Present Value" means the present value of eighty percent (80%) of ____'s interest in the net revenues attributable to _____ under the contracts on the _____ Project and the _____Project (or the Replacement Project) calculated as of the Effective Date using a ten percent (10%) discount rate and using the _____ attributable to the respective contracts during the one (1) full year period prior to the Interim Measurement Date as the basis for determining the amount of _____ for the respective contracts after the Interim Measurement Date.

(d) Net Worth. As of the Tender Date, ____'s net worth is a positive value.

(e) No Defaults. As of the Tender Date, no defaults exist or are expected to exist under any material agreement to which ____ or its affiliates are a party.

(f) Profit and Loss Statement. As of the Tender Date, ___ 's consolidated profit and loss statement for the previous twelve (12) months reflects a positive value.

3. Preliminary Requirements. For purposes of accelerating the Option Period under Section 2.2 above, the following requirements (the "Preliminary Requirements") must be met at the same time and evidenced by copies of written documentation provided to LSB with the Option Notice (the date LSB receives the Option Notice is referred to herein as the "Option Date"):

3.1 _____Project. The contracts associated with the _____ Project (or the Replacement Project), including the financing therefore from a bona fide lender, shall have been fully closed as of the Option Date, without any conditions remaining to be fulfilled.

3.2 Net Revenues. The "Option Net Present Value" (defined below) shall be $___ Million or greater, measured as of one (1) month prior to the Option Date, but not earlier than one (1) year following completion of construction of the _____ Project or the Replacement Project (the "Option Measurement Date"). For purposes of this Section 3.2, "Option Net Present Value" means the present value of eighty percent (80%) of ____'s interest in the net revenues attributable to the _____ under contracts on the _____ Project and the _____ Project (or the Replacement Project) calculated as of the Effective Date

using a ten percent (10%) discount rate and using the _____ attributable to the respective contracts during the one (1) full year period prior to the Option Measurement Date as the basis for determining the amount of _____ for the respective contracts after the Option Measurement Date.

3.3 Net Worth. As of the Option Date, ____'s net worth is a positive value.

3.4 No Defaults. As of the Option Date, no defaults exist or are expected to exist under any material agreement to which ____ or its affiliates are a party.

3.5 Profit and Loss Statement. As of the Option Date, ____'s consolidated profit and loss statement for the previous twelve (12) months reflects a positive value.

4. Representations & Warranties of Shareholders and . The Shareholders and jointly and severally represent and warrant to LSB as follows:

4.1 The Subject Shares. The Shareholders own and have full and valid title to the Subject Shares free and clear of all liens, security interests, claims and encumbrances, and have good right and authority to sell the same.

4.2 ____ Stock. _____ is currently authorized to issue _____ shares of common stock, and such shares of common stock are the only stock of ____ which have voting rights. There are _____ shares of ____ common stock currently issued and such are all outstanding in the names and amount stated in Section 2.1 above, and such shall be the only outstanding shares of ____ common stock as of the Closing Date.

4.3 No Subscriptions, etc. There are no outstanding subscriptions, options, rights, warrants, calls, commitments or agreements relating to the Subject Shares or any authorized but unissued shares of ____.

4.4 Shareholder's Authority for Agreement. Each Shareholder has full and requisite power and authority to deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by the requisite actions and this Agreement constitutes the valid and legally binding obligation of each Shareholder enforceable against each of the respective Shareholder in accordance with its terms. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in any violation of, or default under, any provision of the formation documents of ____ or with any other agreement or document to which any Shareholder is a party.

4.5 Corporate Status and Authority. ____ is a corporation duly organized and existing and in good standing under the laws of the State of _____. ____ has full power and authority to own and operate its properties and to carry on its business all as, and in the places where, such properties are now owned or operated or such businesses are conducted. ____ is duly qualified to do business and is in good standing in every jurisdiction in which the nature of the property owned or leased or the nature of the business conducted by ____ makes such qualification necessary.

4.6 Subsidiaries. ____ is not a partner in any partnership or joint venture and has only two subsidiaries: _____ ("_____") being a _____ corporation that is wholly owned by ____; and, _____, Inc. ("_____"), being a _____ corporation certified to do business in _____ that is wholly owned by ____. ____'s interest in both _____ and _____ are included in the Purchase Price, for no additional consideration. _____, Inc. has no subsidiaries and is a partner in only one partnership or joint venture: _____ a _____ limited partnership in which _____ is a __% general partner and a __% limited partner and, which interest is included in the Purchase Price, for no additional consideration. ____ is also in the process of forming a _____ corporation to be known as _____ ("_____"), which will be a wholly owned subsidiary of and which is included in the Purchase Price for no additional consideration. _____ is contemplating the negotiation of a __% joint venturer/partnership with a wholly owned subsidiary of _____ to be known as _____, when and if such joint venture/ partnership is formed, which interest is included in the Purchase Price, for no additional consideration; provided, however, Shareholders and ____ agree that the joint venture/partnership contemplated with _____ shall not be formed or agreed to prior to Closing without LSB's prior written approval of the terms of such joint venture/partnership. All representations or warranties under this Agreement also apply to those subsidiaries, partnerships or joint ventures reflected above.

4.7 Financial Statements. ____ has heretofore delivered to LSB its consolidated unaudited financial statements (the "Unaudited Financials") of ____ and subsidiaries as of December 31, 1994, including a Balance Sheet as of December 31, 1994 and statement of operations for the six months ended December 31, 1994, and ____ will continue to furnish such financial information to LSB as of the end of each month thereafter until the Closing. The Unaudited

Financials have been prepared by the management of _____ and fairly present the financial position of _____ and its subsidiaries at December 31, 1994 and the results of operations for the six months then ended and as of the end of each subsequent month for which such Unaudited Financials are provided.

4.8 Undisclosed Liabilities. On the Closing Date, _____ and its subsidiaries and affiliates, will not be subject to any debts, liabilities or obligations of any nature, whether accrued, absolute, contingent or other, and whether due or to become due, including, but not limited to, liabilities or obligations on account of taxes (except ad valorem taxes accruing after December 31, 1994) constituting a lien but not yet due and payable, other governmental charges, duties, penalties or fines, and there is no valid basis for the assertion against _____ or its subsidiaries or affiliates of any such debt, liability or obligation other than those (i) reflected in the Unaudited Financials, (ii) which arise under obligations disclosed herein or (iii) which are pursuant to obligations arising in the ordinary course of the business of _____ or its subsidiaries or affiliates consistent with those obligations reflected by the Additional Unaudited Financials provided to LSB pursuant to Section 6.5 below.

4.9 Changes in Condition. There has not been since December 31, 1994, (i) any change in the condition (financial or other) in or of the properties, assets, liabilities, or business of _____ or its subsidiaries or affiliates, except changes in the ordinary course of business which have not in any one case or in the aggregate been materially adverse, (ii) any damage, destruction or loss (whether or not covered by insurance) materially and adversely affecting the properties, assets, or business of _____ or its subsidiaries or affiliates, (iii) any change in the accounting methods or practices followed by _____ or its subsidiaries or affiliates or any change in depreciation or amortization policies or rates heretofore adopted, (iv) any sale, lease, abandonment or other disposition by _____ or its subsidiaries or affiliates of any interest in real property, or, other than in the ordinary course of business, of any machinery, equipment or other operating property or any sale, assignment, transfer, license or other disposition by _____ of any intangible asset, (v) any declaration setting aside or payment of any dividend or other distribution on or in respect of the Subject Shares, or any direct or indirect redemption, retirement, purchase or other acquisition by _____ of any of the Subject Shares, or (vi) any change in the Articles of Incorporation or By-laws of _____ or its subsidiaries or affiliates, or (vii) any other occurrence, event or condition which materially adversely affects or may materially adversely affect the properties, assets, or business of _____ or its subsidiaries or affiliates.

4.10 Taxes. _____ or its subsidiaries or affiliates have duly and timely filed all tax returns required to be filed, and have paid all taxes shown to be due and payable on all such returns, all assessments notice of which has been received by any of them, and all other taxes, governmental charges, duties, penalties, interest and fines due and payable by any of them on or before the Closing Date. There are no agreements, waivers or other arrangements providing for an extension of time with respect to the filing of any tax returns by _____ or its subsidiaries or affiliates, or the payment by, or assessment against, _____ or its subsidiaries or affiliates of any tax, governmental charge, duty or deficiency. There are no suits, actions, claims, investigations, inquiries or proceedings threatened or now pending against _____ or its subsidiaries or affiliates in respect to taxes, governmental charges, duties or assessments, or any matters under discussion with any governmental authority relating to taxes, governmental charges, duties or assessments, or any claims for additional taxes, governmental charges, duties or assessments asserted by any such authority. The reserves made for taxes, governmental charges and duties on the Financials and the Unaudited Financials are sufficient for the payment of all unpaid taxes, governmental charges and duties payable by _____ or its subsidiaries or affiliates attributable to all periods ended on or before the date of the Unaudited Financials. _____ and its subsidiaries and affiliates have withheld or collected on each payment made to each of its employees the amount of all taxes (including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and state and local income and wage taxes) required to be withheld or collected therefrom and has paid the same to the proper tax receiving officers.

4.11 Real Property. Neither _____ nor its subsidiaries or affiliates owns any real property or interest therein except _____ has a leasehold interest of its office space at _____.

4.12 Title to Personal Property. _____ and its subsidiaries and affiliates have good and marketable title to all tangible personal property which each owns, including, but not limited to, that reflected on the Unaudited Financials (except as disposed of since the date of the Unaudited Financials in the ordinary course of business and without involving any misrepresentation or breach of warranty or covenant under this Agreement).

4.13 Plant, Buildings, Machinery and Equipment. All buildings, offices, shops and other structures and all machinery, equipment, software, computer hardware and general intangibles, fixtures, vehicles and

other properties owned, leased or used by either _____ and its subsidiaries and affiliates (whether under their control or the control of others) are in good operating condition and repair and are adequate and sufficient for all operations. _____ and its subsidiaries and affiliates own all computer software and hardware, furniture, fixtures, machinery, equipment and other assets required in the business of _____ and its subsidiaries and affiliates as now being conducted.

4.14 Regulatory Compliance. None of the real or personal properties owned, leased, occupied or operated by _____ or its subsidiaries or affiliates, or the ownership, leasing, occupancy or operation thereof, is in violation of any law or any building, zoning, environmental or other ordinance, code, rule or regulation, and no notice from any governmental body or other person has been served upon _____ or its subsidiaries or affiliates or upon any property owned, leased, occupied or operated by _____ or its subsidiaries or affiliates claiming any violation of any such law, ordinance, code, rule or regulation or requiring, or calling attention to the need for, any work, repairs, construction, alterations or installation an or in connection with such property which has not been complied with. _____ and its subsidiaries and affiliates have the right to use their properties for all material operations conducted by it. _____ and its subsidiaries and affiliates are in compliance with all rules, regulations and laws that pertain to the conduct of their business and _____ and its subsidiaries and affiliates are not aware of or have received any notice charging or its subsidiaries or affiliates with such violations. Further, neither _____ nor its subsidiaries or affiliates, to the best knowledge of the Shareholders, are under extraordinary investigation by any governmental or industry regulatory body for any reason.

4.15 Accounts. All account receivables of _____ and its subsidiaries and affiliates which are reflected in the Unaudited Financials and those owned by _____ and its subsidiaries and affiliates on the Closing Date are and will be good and collectible except to the extent charged off each month in accordance with its normal accounting practices, consistently applied.

4.16 Inventory. All items, if any, contained in the inventory of _____ and its subsidiaries and affiliates, as reflected in the Unaudited Financials and as owned on the Closing Date are of a quality and quantity salable or usable in the ordinary course of _____'s and its subsidiaries' and affiliates' business at customary retail or wholesale prices; and the values of such inventory reflect write-downs to realizable market value in the case of items which had become obsolete or were unsalable except at prices less than cost through regular distribution channels in the ordinary course of _____'s and its subsidiaries' and affiliates' business.

4.17 Patents, Trademarks, Etc. Neither _____ nor its subsidiaries or affiliates infringe on any patents, trademarks, trade names, brand names or copyrights of any third party.

4.18 New Developments. There are no new developments in any business conducted by or its subsidiaries or affiliates, nor any new or improved methods, materials, products, processes or services useful in connection with the business of _____ or its subsidiaries or affiliates as presently conducted, which may adversely affect the properties, assets or business of _____ or its subsidiaries or affiliates.

4.19 Competition. Neither _____ nor its subsidiaries or affiliates nor any of their officers or employees have entered into any agreement relating to the business of _____ or its subsidiaries or affiliates containing any prohibition or restriction of competition or solicitation of customers with any person, corporation, partnership, firm, association or business organization, entity or enterprise which is now in effect.

4.20 Contractual Obligations. The Shareholders, _____ and their respective subsidiaries or affiliates have or will have prior to Closing furnished LSB for its examination (i) a list of all written or oral contracts, commitments, agreements and other contractual obligations (not otherwise described herein) to which _____ or its subsidiaries or affiliates are a party or by which their properties or assets are bound, affecting either _____ or its subsidiaries or affiliates, including, without limitation, all labor agreements, employment contracts, leases, notes and other evidence of indebtedness, pension and profit sharing and other employee benefit plans or agreements, insurance policies and contracts, and agreements obligating _____ to expend any substantial amount of money or acquire or dispose of any substantial amount of property, and (ii) a list of all governmental or court approvals and third party contractual consents required in order to consummate the transactions contemplated by this Agreement.

4.21 Compliance with Obligations. Neither _____ nor its subsidiaries or affiliates is, nor is either alleged to be, in default under, or in breach of any term or provision of, any contract, agreement, lease, license, commitment, loan, instrument or obligation. No other party to any contract, agreement, lease, license, commitment, loan, instrument or obligation to which _____ or its subsidiaries or affiliates is a party is in default thereunder or in breach of any term or provision thereof. There exists no

condition or event which, after notice or lapse of time or both, would constitute a default by any party to any such contract, agreement, lease, license, commitment, instrument or obligation.

4.22 Litigation. There is no suit, action or claim, no investigation or inquiry by any administrative agency or governmental body, and no legal, administrative or arbitration proceeding pending or threatened against ____ or its subsidiaries or affiliates or any of their properties, assets, or business or to which it is or might become a party , and there is no valid basis for any such suit, action, claim, investigation, inquiry or proceeding. There is no outstanding order, writ, injunction or decree of any court, any administrative agency or governmental body or arbitration tribunal against or affecting ____ or its subsidiaries or affiliates or any of the capital stock, properties, assets, or business of ____ or its subsidiaries or affiliates.

4.23 Licenses and Permits. ____ and its subsidiaries and affiliates have all governmental licenses and permits necessary to conduct their business and to operate their properties and assets, and such licenses and permits are in full force and effect. No violations exist or have been recorded in respect of any governmental license or permit of ____ or its subsidiaries or affiliates. No proceeding is pending or threatened looking toward the revocation or limitation of any such governmental license or permit and there is no valid basis for any such revocation or limitation. ____ and its subsidiaries and affiliates have complied with all laws, rules, regulations, ordinances, codes, orders, licenses, concessions and permits relating to any of their properties or applicable to their business including, but not limited to, the labor, environmental and antitrust laws.

4.24 Labor Disputes. Since June 30, 1994, there has not been any matter under discussion with any labor union or any strike, work stoppage or labor trouble relating to employees of ____ or its subsidiaries or affiliates. Since June 30, 1994, there has not been any change in the relationship or course of dealing between ____ or its subsidiaries or affiliates and any of their suppliers or customers which has had or could have a material adverse effect on their business.

4.25 Employee Compensation. An accurate list of (a) the name and the current annual salary and other compensation or the rate of compensation payable by ____ or its subsidiaries or affiliates to each of their officers and each employee whose current total annual compensation or estimated compensation (including, but not limited to, normal bonus, profit sharing and other extra compensation) is $_____ or more, and (b) each loan or advance (other than routine travel advances repaid or formally accounted for within 60 days and routine vacation advances and routine credit card advances) made by ____ or its subsidiaries or affiliates to any director, officer or employee of ____ or its subsidiaries or affiliates outstanding and unpaid as of the date of this Agreement and the current status thereof, will be provided LSB by the Shareholders prior to the Closing Date. Since June 30, 1994 through the effective date of the list to be provided above, there has not been any increase in the total compensation payable or to become payable by ____ or its subsidiaries or affiliates to each such person referenced in such list or any general increase, in the total compensation or rate of total compensation payable or to become payable by ____ or its subsidiaries or affiliates to salaried employees other than those specified in such list or to hourly employees ("general increase" for purposes of this Section means any increase generally applicable to a class or group of employees and not including increases granted to individual employees for merit, length of service, change in position or responsibility or other reasons applicable to specific employees and not generally to a class or group thereof) other than as set forth in ____'s or its subsidiaries' or affiliates' books and records.

4.26 Insurance. ____ and its subsidiaries and affiliates maintain adequate insurance on their properties, assets, business and personnel. Neither ____ nor its subsidiaries or affiliates are in default with respect to any provision contained in any insurance policy, and they have not failed to give any notice or present any claim under any insurance policy in due and timely fashion.

4.27 No Default. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereunder will not (a) result in the breach of any of the terms or conditions of, or constitute a default under, the Articles of Incorporation or the By-Laws of or the formation documents of ____ or its subsidiaries or affiliates or any contract, agreement, commitment, indenture, mortgage, pledge agreement, note, bond, license or other instrument or obligation to which ____ or its subsidiaries or affiliates or any shareholder is now a party or by which ____ or its subsidiaries or affiliates or any of the properties or assets of ____ or its subsidiaries or affiliates may be bound or affected, or (b) violate any law, or any rule or regulation of any administrative agency or governmental body, or any order, writ, injunction or decree of any court, administrative agency or governmental body.

4.28 Customers and Suppliers. No facts are known indicating that any customer or supplier of ____ or its subsidiaries or affiliates intends to cease doing business with ____ or its subsidiaries or

affiliates or to materially alter the amount of business that they are presently or have historically done with ____ or its subsidiaries or affiliates.

4.29 Conflicts of Interest. No director, officer or employee of _____ or its subsidiaries or affiliates, including the Shareholders, control or are an employee, officer, director, agent or owner of any corporation, firm, association, partnership or other businesses entity which is a competitor, supplier or customer of ____ or its subsidiaries or affiliates.

4.30 Full Disclosure. No representation or warranty of ____ or its subsidiaries or affiliates under this Agreement contains or will contain any untrue statement of a material fact or omits or will omit any material fact necessary to make the statements herein not misleading.

4.31 Value of_____and_____. Exhibit "A" accurately reflects the net revenue expected to be derived from the _____ and _____ projects as well as ____'s share of such net revenues from those projects.

4.32 _____Regulations. In the event any state or federal law, rule or regulation addressing the use of _____ is adopted, ____ and its subsidiaries and affiliates have not entered into any agreement or understanding, and will not enter into any such agreement or understanding prior to Closing, which would require any of them to replace or make any modifications to any _____-utilizing equipment which they may have sold or installed, intend to sell or install or may be maintaining.

4.33 No Obligations to Repay Debts Related to_____Project. _____ and its subsidiaries (other than _____) or affiliates has no responsibility, obligation or liability to pay any debts or obligations of _____ including, without limitation, any debt to any lender of _____ or to any partner of _____ related to the _____ project.

4.34 Obligations. No officer, director, or shareholder of LSB, LSB Industries, Inc. and their subsidiaries or affiliates shall have any personal liability or obligation to or its subsidiaries or affiliates, or any other person or entity under the terms of this Agreement or under any expressed or implied obligation, concept, principle or legal theory.

5. Representations and Warranties of Buyer. LSB represents and warrants to the Shareholders as follows:

5.1 Organization. LSB is an Oklahoma corporation duly organized, validly existing and in good standing under the laws of the State of Oklahoma and has the corporate power to enter into and to carry out the terms and provisions of this Agreement.

5.2 Agreement Authorized. The execution, delivery and performance of this Agreement by LSB has been authorized by all requisite corporate action on the part of LSB and will not conflict with or result in any breach in the terms, conditions or provisions of LSB's corporate charter, by-laws or any other instrument to which LSB is a party.

5.3 Securities Law Restrictions. LSB, will, within the meaning of the Securities Act of 1933, acquire the Subject Shares for investment and not with a view to the sale or distribution thereof.

6. Additional Agreements of Parties.

6.1 Changes in Directors of_____. On the Closing Date, the Shareholders will cooperate with LSB in arranging to have available immediately after the Closing the transfer books of ____ and its subsidiaries and affiliates and to cause such action to be taken by the officers and directors of ____ and its subsidiaries and affiliates as may be required in order that the Subject Shares delivered hereunder may forthwith be transferred of record to LSB or its designee and in order that LSB or its designee may cause such changes to be effected in the Board of Directors and officers of ____ and its subsidiaries and affiliates as LSB or its designee may desire. During the period after the date of this Agreement through the Closing Date, and upon the request of LSB, LSB shall be allowed to appoint at least one-third of the number of Directors of ____. During the period after the date of this Agreement through the Closing Date, ____ shall not have more than three (3) directors, unless authorized by LSB.

6.2 Conduct of Business. From June 30, 1994 to the Closing Date, the Shareholders and ____ agree that ____, _____, _____ and their respective subsidiaries and affiliates shall operate only in the ordinary course and, in particular, shall not engage in any of the following activities without LSB's prior written consent:

6.2.1 Cancel or permit any insurance to lapse or terminate, unless renewed or replaced by like coverage;

6.2.2 Change its Certificate of Incorporation or Bylaws;

6.2.3 Default under any material contract, agreement, commitment or undertaking of any kind;

6.2.4 Violate or fail to comply with all laws applicable to it or its properties or business, to the extent that the violation or failure to comply would have a materially adverse effect on _____ or its subsidiaries or affiliates;

6.2.5 Commit any act or permit the occurrence of any event or the existence of any condition prohibited by the terms of this Agreement;

6.2.6 Enter into any material contract, agreement or other commitment;

6.2.7 Fail to maintain and repair its assets in accordance with good standards of maintenance and as required in any leases or other agreements pertaining to its assets; or

6.2.8 Merge, consolidate or agree to merge or consolidate with or into any other corporation.

6.2.9 Issue any stock to anyone other than LSB.

6.2.10 Create or assume any indebtedness.

6.2.11 Sell, encumber or otherwise dispose of, or grant any security interest in or encumbrance on, any of their assets.

6.2.12 Enter into or implement any employee benefit plan.

6.2.13 Enter into any employment, consulting or similar contract for or on their behalf.

6.2.14 Increase the compensation, deferred compensation or benefits payable to any employee, officer or commissioned agent more than five percent (5%).

6.2.15 Take any action or, by inaction, permit any action to be taken or event to occur, which would cause any representation or warranty made in or pursuant to this Agreement to be untrue as of the Closing.

6.2.16 Remove any assets other than those recorded in their books and records as a sale in the ordinary course of business at fair market value price.

6.2.17 Take any action that could impair the collectibility of any of their accounts.

6.2.18 Shall not encumber, sell, convey, assign or otherwise transfer to any person or entity whomsoever, other than LSB, any of the shares of, or interest in, _____, or any subsidiary or affiliate of _____ or any part or interest therein.

6.2.19 Enter into any agreement with respect to any of the foregoing.

6.3 Access to Information. From and after the date of this agreement, the Shareholders, _____, _____, _____ and _____ shall give LSB, its legal counsel, accountants and other representatives, upon receipt of reasonable notice in writing, full and free access to all of the employees, properties, books, contracts, commitments and records of _____, _____, _____ and _____ in order to give LSB the full opportunity to make an investigation of the affairs of _____, _____, _____ and _____, as long as the investigation occurs only during the regular business hours of _____, _____, _____ and _____ and does not interfere unreasonably with the operation of _____, _____, _____ and _____. Any investigation (whether heretofore conducted or to be conducted) and the information acquired therefrom shall not affect the representations and warranties of Shareholders and _____ contained in this Agreement.

6.4 Preservation of Business Organization. The Shareholders and _____ shall (i) use their best efforts to preserve for _____ and its subsidiaries and affiliates the business organization, corporate existence and qualification, and good standing in all states necessary to conduct their business and own their property, (ii) keep available to LSB the services of the respective officers and employees of _____ and its subsidiaries and affiliates, and (iii) preserve for LSB the existing relationship of _____ and its subsidiaries and affiliates with all suppliers, customers and others having business relations with _____ and its subsidiaries and affiliates.

6.5 Additional Financial Statements. _____, not less than fifteen (15) days of the date of this Agreement will deliver to LSB unaudited financial statements of _____, including a Balance Sheet as of February 28, 1995, and Statement of Operations for the eight (8) months ended February 28, 1995 and shall continue to timely provide the same as of the last day of each month thereafter until Closing and shall provide such monthly financials on or before the fifteenth (15th) day of the following month (collectively the "Additional Unaudited Financials"). The Additional Unaudited Financials will have been prepared in accordance with generally accepted accounting principles, consistently applied, will have been prepared by the management of _____ and will fairly present

the financial position and results of operations of ____ as of February 28, 1995, and as of the end of each month thereafter.

6.6 Materiality. The parties hereto agree that for purposes of this agreement, an occurrence, event or condition shall be deemed "materially adverse" if it results in a reduction of stockholder's equity of ____ or its subsidiaries or affiliates in excess of $_____.

6.7 Confidential Information. Each Shareholder acknowledges and agrees that ____ has developed and uses various proprietary and confidential practices and methods of conducting business, information and data, and computer software and data bases. In particular, each Shareholder acknowledges that ____ has developed specialized business methods, techniques, plans, know-how and manners of operations; budgets, financing and accounting techniques and projections; cost information on products and services; advertising, proposals, applications, marketing materials and concepts; customer files, customer lists and other non-public information regarding customers; methods for developing and maintaining business relationships with customers and prospective customers; customer and prospect lists; copies of previous insurance policies and renewal dates; procedure manuals; and employee training and review programs and techniques. The foregoing information, software, documents, practices, and methods of conducting business shall hereinafter be referred to as the "Confidential Information." Each Shareholder agrees that the Confidential Information is a trade secret of ____, which shall remain the sole property of ____, notwithstanding that each Shareholder may have participated in the development of the Confidential Information. During the term of this Agreement and at all times thereafter for perpetuity, each Shareholder shall not communicate, divulge, disclose, use to the detriment of ____ or use for Shareholders own benefit or for the benefit of any other person or entity, or misuse in any way, any Confidential Information or any other trade secrets of ____ for any reason or purpose whatsoever, nor shall any Shareholder make use of any Confidential Information or any other trade secrets of ____ for their own benefit or for the benefit of any other person or entity.

6.7.1 Right to Injunctive and Equitable Relief. Shareholder's obligations not to disclose or use Confidential Information or any other trade secret of ____, are of a special and unique character which gives them a peculiar value. LSB and ____ cannot be reasonably or adequately compensated in damages in an action at law in the event Shareholders breach such obligations. Therefore, Shareholders expressly agree that LSB and _____ shall be entitled to injunctive and other equitable relief without bond or other security and without proof of actual damages in the event of such breach, in addition to any other rights or remedies which they may possess. Furthermore, the obligations of Shareholders and the rights and remedies of LSB and/or ____ under this Section 6.7 are cumulative and in addition to, and not in lieu of, any obligations, rights or remedies created by applicable law or this Agreement.

6.8 Prohibition on Interference with Contracts or Corporate Opportunities and Covenant Not to Compete. For a period commencing on the date of this Agreement and ending on the date which is the later of (a) five (5) years after the Closing Date, or (b) three (3) years after each Shareholder shall be no longer employed by ____ or its subsidiaries or affiliates, each Shareholder promises and agrees as follows with respect to the United States of America or any territories or possessions of the United States of America:

6.8.1 Contracts and Business Relationships. No Shareholder shall directly or indirectly (either for themselves or for any other person or entity) solicit any person or entity to terminate or in any manner affect, interfere with, disrupt or attempt to disrupt or interfere with any such person's or entity's contractual and/or business relationship with ____ or its subsidiaries or affiliates, including, without limitation, any contractual and/or business relationships between ____ and any customer or prospective customer, supplier, lessee or employee of ____, so long as ____ continues to engage in substantially the same or similar business anywhere in any of the above named geographical locations.

6.8.2 Covenant Not to Compete. ____ and each Shareholder acknowledge that each have considerable specialized knowledge and contacts in the business of ____ and its subsidiaries and affiliates and that it is important to ____ and ____'s subsidiaries and affiliates that each Shareholder agree not to compete with ____ and its subsidiaries and affiliates in the business in which ____ and its subsidiaries and affiliates engage in presently or in any business that has any connection with _____. Each Shareholder therefore covenants that each shall not, directly or indirectly (either as an employee, employer, consultant, agent, principal, partner, stockholder, corporate officer or director or in any other individual or representative capacity) own, manage, operate, control, engage, participate or be connected in any manner with the

ownership, management, operation or control of any person or entity that engages in any business that is in competition with ____ or its subsidiaries or affiliates so long as ____ continues to engage in substantially the same or similar business anywhere in any of the above named geographical locations, including, without limitations, any business that uses, distributes, handles or has any connection with _____, provided, however, that each Shareholder may invest in publicly traded securities of companies in competition with _____ or its subsidiaries or affiliates or mutual funds whose assets include securities of such companies.

6.8.3 Corporate Opportunities. Each Shareholder shall be under an obligation to present in writing, any business opportunity relating to _____'s or its subsidiaries' or affiliates' business of which he becomes aware as long as ____ continues to engage in substantially the same or similar business anywhere in any of the above named geographical locations. Unless _____ or its subsidiaries or affiliates notifies such Shareholder to the contrary in writing, _____ and/or its subsidiaries or affiliates shall have the right to act in its own interest and pursue any such business opportunity and such Shareholder shall assist ____ or its subsidiaries or affiliates as requested. Each Shareholder hereby waives any rights to act on his own behalf with respect to such opportunities unless ____ or its subsidiaries or affiliates notifies him in writing that ____ will not be pursuing a specific opportunity.

6.8.4 Severable Promises. The parties hereto intend that the promises and agreements contained in this Section 6.8 shall be construed as a series of separate promises for each state, territory and possession in the United States of America. Except for such geographic coverage, each such separate promise shall be deemed identical in terms. It is the desire and intent of the parties hereto that the provisions of this Section 6.8 shall be enforced to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. If any particular provision or portion of this Section 6.8 shall be adjudicated to be invalid or unenforceable, this Section 6.8 shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable, such amendment to apply only with respect to the operation of this Section 6.8 in the particular jurisdiction in which such adjudication is made.

6.8.5 Injunctive Relief. Each Shareholder hereby acknowledges and agrees that any default under this Section 6.8 will cause damage to LSB and ____ in an amount difficult to ascertain. Accordingly, in addition to any other relief to which LSB and/or _____ may be entitled, LSB and/or ____ shall be entitled to such injunctive relief as may be ordered by any court of competent jurisdiction including, but not limited to, an injunction restraining any violation of Sections 6.8.1, 6.8.2 or 6.8.3 hereof without bond or other security and without the proof of actual damages. Each and all of the several rights and remedies provided in this subsection, or by law or in equity, shall be cumulative, and no one of them shall be exclusive of any other right or remedy, and the exercise of any one of such rights or remedies shall not be deemed a waiver of, or an election to exercise or not exercise, any other such right or remedy. No waiver of any term or condition of this Section 6.8 shall be construed as a waiver of any other term or condition; nor shall any waiver of any default under this Section 6.8 be construed as a waiver of any other default under this Section 6.8.

6.8.6 Consideration. Shareholders and LSB agree that $_____ of the Pre-Payments which were proportionately paid to all Shareholders in their Participation Percentages, and $_____ of each of the Extension Payments that may be paid to all Shareholders in their Participation Percentages under Section 2.2 above, and the first $_____ of the Purchase Price that may be paid to each Shareholder at Closing under Section 2.6 above shall constitute consideration paid to each Shareholder for the covenants and agreements contained in this Section 6.8.

6.8.7 Governing Law. Nothing contained in this Section 6.8 shall be construed to require the commission of any act contrary to law. Should there be any conflict between any provision of this Section 6.8 and any present or future statute, law, ordinance, regulation or other pronouncement having the force of law, the latter shall prevail, but the provision of this Section 6.8 affected thereby shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law, and the remaining provisions of this Section 6.8 shall remain in full force and effect. Notwithstanding that the remainder of this Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma, this Section 6.8 is made under and shall be construed in accordance with the laws of the State of _____ except when enforcement of the provisions of this Section 6.8 is sought in another state, territory or possession of the United States and the laws of such state,

territory or possession are more favorable to full enforcement of all the provisions of this Section 6.8, in which event this Section 6.8 shall be deemed made under and shall be governed and construed in accordance with the laws of such state, territory or possession.

6.9 Shareholder's Duties. Prior to Closing, Shareholders shall devote their full time, attention, diligence, loyalty and efforts to the success of ____, _____ and their subsidiaries.

6.10 Taxes and Other Obligations. Prior to Closing, ____ and Shareholders, no later than ten (10) days after such payments become due, shall: (a) file when due (including extensions) all tax returns and other reports which it is required to file, pay when due all taxes, fees, assessments and other governmental charges against it or upon its Property, income, and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and shall provide to LSB, upon request, satisfactory evidence of its timely compliance with the foregoing; and (b) pay all debt owed by it within normal business terms and consistent with past practices; provided, however, that ____ and Shareholders need not pay any tax, fee, assessment, governmental charge, or debt, or perform or discharge any other obligation, that it is contesting in good faith by appropriate proceedings diligently pursued.

6.11 Maintenance of Property and Insurance. Prior to Closing, ____ and Shareholders shall: (a) maintain all of_____'s and its subsidiaries' and affiliates' property necessary and material in its business in good operating condition and repair, ordinary wear and tear excepted, and (b) maintain with financially sound and reputable insurers such insurance with respect to such property and business against casualties and contingencies of the types (including, without limitation, business interruption, public liability, product liability, general liability, automobile, workers compensation and larceny, embezzlement or other criminal misappropriation), and in the amounts as is customary for persons of established reputation engaged in the same or a similar business and similarly situated, naming LSB, at its request, as an additional insured under each such policy.

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

6.13 Mergers, Consolidations, Acquisitions, or Sales. Prior to Closing, neither Shareholders, ____, or ____'s subsidiaries or affiliates shall enter into any transaction of merger, reorganization, or consolidation or transfer, sell, assign, lease, or otherwise dispose of all or substantially all of its property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except sales in the ordinary course of its business.

6.14 Guaranties. Prior to Closing, ____ and its subsidiaries and affiliates shall not make, issue, or become liable on any guaranty, except guaranties in favor of LSB, and endorsements of instruments for deposit, without LSB's written consent.

6.15 Debt. Prior to Closing, ____ and its subsidiaries and affiliates shall not incur or maintain any debt exceeding $_____ other than as may be permitted by LSB in writing, and other than in the ordinary course of business.

6.16 Transactions with Affiliates. Prior to Closing, _____ shall not sell, transfer, distribute, or pay any money or property to any affiliate, or lend or advance money or property to any affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any property, of any affiliate, or become liable on any guaranty of the indebtedness, dividends, or other obligations of any affiliate, except nothing contained herein shall limit or restrict ____, from (a) performing any agreements entered into with an affiliate prior to the date hereof, or (b) engaging in other transactions with affiliates in the normal course of business, in amounts and upon terms disclosed to LSB, and which are no less favorable than would be obtainable in a comparable arm's length transaction with a third party who is not an affiliate.

6.17 Distributions and Restricted Investments. Prior to Closing, _____ shall not (a) directly or indirectly declare or make, or incur any liability to make, any distribution or dividends, or (b) make any investments or loans that are not approved by LSB in writing.

6.18 Further Assurances. Both prior to and after Closing, _____ and Shareholders shall execute and deliver, or cause to be executed and delivered, such documents and agreements, and shall take or cause to be taken such actions, as LSB may, from time to time, reasonably request to carry out the terms and conditions of this Agreement.

7. Conditions Precedent to Obligations of LSB. After the exercise of this Option, the obligations of LSB to pay the Purchase Price and otherwise perform under this Agreement is subject, at LSB's option, to (a) the condition that all representations and warranties and other statements of ____ and the Shareholders herein are, as of the Closing, true and correct and (b) the condition that ____ perform all of its obligations hereunder to be performed at or prior to the Closing, and (c) the following additional conditions (collectively, "LSB'S Conditions Precedent"):

7.1 Certificates. There shall have been furnished or caused to be furnished to LSB at the Closing, certificates of appropriate officers of _____ and each Shareholder in form and substance satisfactory to LSB as to the continuing accuracy at and as of the Closing of the representations and warranties of ____ and the Shareholders and to the performance by ____ and the Shareholders of all their obligations hereunder to be performed at or prior to the Closing, together with such other certificates as LSB may reasonably request in connection with the Closing.

7.2 Delivery of Subject Shares. Certificates evidencing the Subject Shares, duly executed for transfer to LSB or its designee shall have been delivered to LSB and duly transferred to it on the books of _____.

7.3 Board of Directors. The members of the Board of Directors of ____ and its subsidiaries and affiliates shall resign their directorships effective as of the Closing, and LSB's designees shall have been elected to such Board of Directors effective as of the Closing.

7.4 Counsel to Buyer. All corporate proceedings and related matters in connection with the organization and good standing of ____ and its subsidiaries and affiliates the execution and delivery of this Agreement and the consummation of the transactions herein contemplated, and the performance by it of its obligations hereunder shall have been satisfactory to counsel to LSB and such counsel shall have been furnished with such papers and information as he may reasonably have requested to enable him or her to pass on the matters referred to in this section.

7.5 Opinion of Counsel to_____. Counsel to ____ shall have furnished to LSB their written opinion in form satisfactory to LSB to the effect that:

7.5.1 _____, _____ and _____ have been duly incorporated and are validly existing as a corporation in good standing under the laws of the State of _____;

7.5.2 This agreement has been validly authorized, executed and delivered on the part of ____ and is a valid and binding agreement of _____ in accordance with its terms;

7.5.3 All of the issued and outstanding shares of ____, including the Subject Shares, have been duly authorized, validly issued and are fully paid, nonassessable shares.

7.5.4 ____ has no responsibility, obligation or liability to pay any debts or obligations of _____ , including, without limitation, any debt to any lender of _____ or to any partner of _____ related to the _____ project.

7.6 No Litigation. No suit or action, investigation, inquiry or request for information by any administrative agency, governmental body or private party, and no legal or administrative proceeding shall have been instituted or threatened which questions or reasonably appears to portend subsequent questioning of the validity or legality of this agreement or the transactions contemplated by this agreement, or which materially and adversely affects or questions the title of ____ or its subsidiaries or affiliates to any of its properties or its ability to conducts its business.

7.7 Consents. All consents from third parties required to consummate the transactions provided for in this agreement shall have been obtained.

7.8 No Change. There shall have been no material adverse change in the condition or obligations of ____ or its subsidiaries or affiliates (financial or otherwise).

7.9 Loss. _____ or its subsidiaries or affiliates will not have sustained a substantial loss (whether or not insured) as a result of fire, flood or other casualty which in the sole judgment of LSB

affects materially or interferes with the continuous conduct of its business.

7.10 Subsequent Information. All exhibits, lists, contracts and other documents furnished to LSB after December 31, 1994 by Shareholders or ____ or discovered by LSB, including copies of pleadings and rulings relating to litigation and administrative proceedings, and any other information relating to the business and affairs of ____ or its subsidiaries or affiliates shall be acceptable to LSB.

7.11 Loan Agreement. The Loan Agreement and the Loan Documents (as that term is defined in the Loan Agreement) have been fully executed and no Default or Event of Default exists under the Loan Agreement or the Loan Documents.

7.12 Termination of Shareholders' Agreement. On or before Closing, that certain Shareholders' Agreement dated April 11, 1991 by and between _____, _____, _____ and ____ shall be terminated in writing and of no force or effect.

Notwithstanding any knowledge by LSB of any failure of any of LSB's Conditions Precedent, no waiver of any of LSB's Conditions Precedent shall be inferred from LSB's exercise of the Option granted herein or LSB's execution of this Agreement.

8. Conditions for the Benefit of the Shareholders. The obligations of the Shareholders hereunder at the Closing shall be subject, at their option to the following conditions:

8.1 Representations and Warranties. All representations and warranties and other statements of LSB herein are at and as of the Closing materially true and correct.

8.2 Performance of Obligations. LSB shall have performed all of its obligations hereunder to be performed at or prior to the Closing.

8.3 No Suits. At the Closing Date, there shall not have been instituted any suit, action, or other proceeding or any investigation in any court or governmental agency in which it is sought to restrain or prohibit the consummation of the transactions contemplated by this Agreement.

9. Survival of Representations and Warranties. Except the representations and warranties of LSB (which shall not survive the Closing), all of the representations and warranties of ____ and the Shareholders hereunder shall survive the Closing for a period of one (1) year from the Closing Date; provided, however, ____ and the Shareholders shall have no liability with respect thereto unless LSB's loss occasioned thereby exceeds $_____, and provided further, representations and warranties regarding the payment of taxes shall remain in force and effect as long as liability therefor remains in effect.

10. Expenses. Except as otherwise herein provided, each party hereto will bear and pay its or his own expenses of negotiating and consummating the transactions contemplated hereby.

11. Notices.

11.1 All notices, requests, demands, instructions or other communications called for hereunder or contemplated hereby, shall be in writing, shall be deemed to have been given if delivered in person, by overnight carrier or facsimile, or if mailed, by registered or certified mail, return receipt requested, to the parties at the addresses set forth below. The date of delivery in person, by overnight carrier or facsimile shall be the date of receiving the notice or if any notice, request, demand, instruction or other communication is given or made by mail in the manner prescribed above such shall be deemed to have been given three (3) business days after the date of mailing. Any party may change the address to which notices are given, by giving notice in the manner herein provided.

11.1.1 Notices to LSB shall be addressed as follows:

LSB Holdings, Inc.
16 South Pennsylvania
Oklahoma City, Oklahoma 73107
Attention: President

with a copy to:

LSB Holdings, Inc.
16 S. Pennsylvania
Oklahoma City, OK 73107
Attention: Office of General Counsel

11.1.2 Notices to ____ shall be addressed as follows:

_____
_____
_____
_____

11.1.3 Notices to the Shareholders shall be addressed as follows:

_____
_____
_____

_____
_____
_____

_____
_____
_____

11.2 The mailing of any notice, request, demand, instruction or other communication hereunder shall be accomplished by placing such writing in an envelope addressed to the party entitled thereto as provided above and deposited in the United States mail, properly stamped for delivery as a registered or certified letter.

12. LSB's Right of First Refusal on Non-Subject Shares. Prior to Closing, Shareholders agree that they shall not encumber, sell, convey, assign or otherwise transfer to any third party or entity whomsoever, the shares of ____ owned by them, or any part or interest therein. If, at any time after the Closing, or from time to time after the Closing, should any Shareholder elect to sell, convey, assign, or otherwise transfer to any third party or entity whomsoever the shares of ____ owned by them that are not subject to this Agreement as part of the Subject Shares ("Non-Subject Shares"), or any part or interest therein, each Shareholder hereby grants to LSB the first and preferential right and option to purchase fee simple title to the Non-Subject Shares or to the part or interest therein which such Shareholder intends to sell, convey, assign, or otherwise transfer, under the same terms and conditions proposed by or to such third party or entity as contained in a bona fide offer or conditional acceptance of offer from such third party or entity. With respect to any proposed sale, conveyance, assignment, contract or other transfer of the Non-Subject Shares after the Closing, each Shareholder seeking to sell Non-Subject Shares shall comply with the following requirements:

12.1 Notice by Shareholder. Each Shareholder seeking to sell Non-Subject Shares shall give LSB written notification of such proposal, offer or conditional acceptance of any such offer that has been made and accepted (subject to Buyer's first and preferential right and option to purchase), and each Shareholder seeking to sell Non-Subject Shares shall attach to the said notification the tendered contract, or a true copy thereof, that contains all necessary elements and information to constitute a legally binding contract obligating the transferee to perform, said contract being signed and acknowledge by said transferee, who is ready, willing and able to perform.

12.2 Transfer of Right of Refusal. LSB shall have the right to transfer, convey and assign to any third party whomsoever such first and preferential right and option to purchase the Non-Subject Shares, and the holder of such right of first refusal by any assignment shall have the full right, power and authority to exercise on its own behalf or for the account of itself or its designee or assignee, any and all rights and privileges incident thereto.

12.3 Exercise of Right. LSB shall notify in writing within fifteen (15) business days of said written notification from each Shareholder seeking to sell Non-Subject Shares as to LSB's election to exercise its first and preferential right and option to purchase the Non-Subject Shares. If LSB has not given said notification within fifteen (15) business days, each Shareholder seeking to sell Non-Subject Shares may proceed to close the sale or other transfer to said third party or entity, provided that said sale or other transfer is consummated at the same sum and under the same terms and conditions contained in the contract attached to said notification and on the closing dates set out therein. If LSB (or its designee or assignee) should elect to exercise its option to purchase, by written notification to each Shareholder seeking to sell Non-Subject Shares within said fifteen (15) business days, the transfer to LSB shall be consummated on the closing date and under the same terms and conditions contained in the contract from said third party or entity.

12.4 Continuing Right. The first and preferential right and option to purchase shall be effective and shall apply at all times to any and all proposed sales, conveyances, assignments, contracts and other transfers by any Shareholder of their Non-Subject Shares or any interest therein for a period of ten (10) years from the date of the Closing. Any sale, conveyance, assignment, contract or transfer by any Shareholder of their Non-Subject Shares or any interest therein within ten (10) years from the date of the Closing shall be made expressly subject to the provisions of this right of first refusal. Such first and preferential right and option to purchase shall terminate on the date which is ten (10) years from the date of the Closing with respect to rights which have not accrued by that date.

13. LSB's Sale of Stock. If, LSB should elect to sell the shares of ____ stock to be acquired by LSB under this Agreement (collectively the "LSB's Shares"), or any part or interest therein, LSB agrees that it shall provide each Shareholder that may then still own any of the Non-

Subject Shares the opportunity for their Non-Subject Shares to be included in any such sale on the same terms and conditions afforded to LSB to the extent of their Sharing Percentage (as that term is defined below). The "Sharing Percentage" of any Shareholder shall mean that percentage of the total number of Shares of ____ Stock to be sold which is to be contributed by that particular Shareholder, which percentage shall be the same percentage that the number of Non-Subject Shares owned by that particular Shareholder bears to the total number of all LSB's Shares and Non-Subject Shares then outstanding. With respect to any proposed sale of LSB's Shares, each Shareholder and LSB shall comply this the following requirements:

13.1 Notice. LSB shall give each Shareholder then owning any of the Non-Subject Shares, written notification of such proposal, offer or conditional acceptance that has been made and LSB shall attach to the said notification the tendered contract, or a true copy thereof.

13.2 Exercise of Right. Each Shareholder shall notify LSB in writing within fifteen (15) business days of said written notification as to their election to exercise their right for their Non-Subject Shares to be included in the sale. If any Shareholder has not given said notification within fifteen (15) business days, LSB may proceed to close the sale without participation of that Shareholder, provided that said sale or other transfer is consummated at the same sum and under the same terms and conditions contained in the contract attached to said notification.

13.3 Continuing Right. The right for the Non-Subject Shares to be included in any such sale shall be effective and shall apply at all times to any and all proposed sales by LSB of LSB's Shares or any interest therein for a period of ten (10) years from the date of the Closing and such right shall terminate on the date which is ten (10) years from the date of the Closing with respect to rights which have not accrued by that date. The rights provided to Shareholders under this Section 13 are personal only to the Shareholders and may not be assigned or transferred to any allowed purchaser of the Non-Subject Shares.

14. Miscellaneous.

14.1 Full Agreement - No Oral Modification. This Agreement embodies all representations, warranties and agreements of the parties and supersedes all negotiations and agreements prior to the execution of this Agreement. This Agreement, and any provision under this Agreement, may not be altered, modified or waived except by an instrument in writing signed by the parties.

14.2 Benefit of Agreement. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns; provided, however, that no assignment of this Agreement shall be made to any party other than any of LSB's subsidiaries or affiliates without the written consent of the other party, which consent shall not be unreasonably withheld.

14.3 Governing Law. This Agreement (except Section 6.8 above) shall be governed by and construed in accordance with the laws of the State of Oklahoma applicable to contracts made and performed entirely therein.

14.4 Counterparts. This Agreement may be executed in any number of counterparts, which taken together shall constitute one and the same instrument, and each of which shall be considered an original for all purposes.

14.5 Section Headings. The section headings contained in this Agreement are for convenience and reference only and shall not in any way affect the meaning or interpretation of this Agreement.

14.6 Severability. All Agreements and covenants contained herein are severable, and in the event any of them should be held to be invalid by a court of competent jurisdiction, this Agreement shall be interpreted and enforced as if such invalid Agreements or covenants were not contained herein.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and year first above written.

By:_____
_____, President

LSB HOLDINGS, INC.

By:_____
_____, President

_____
_____, individually

_____

_____, individually

_____
_____, individually

Attachments:

Exhibit "A" - Statement of Net Revenue Expected from _____ and _____ Projects

Exhibit 4.16

FIRST AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of August 17, 1995, 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 ("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.

ARTICLE II

Amendments

Section 2.01. Amendment to Section 9.16 of the Agreement. Section 9.16 is hereby amended to read in its entirety:

9.16 Adjusted Tangible Net Worth. Adjusted Tangible Net Worth (without taking into account any purchases of treasury stock) will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1994				$ 86,000,000(1)
Fiscal Year Ending December 31, 1995	$ 85,000,000(1)	$ 88,000,000(1)	$ 82,000,000(1)	$ 82,000,000(1)
Fiscal Year Ending December 31, 1996	$ 82,000,000(1)	$ 94,000,000(1)	$ 96,000,000(1)	$ 98,000,000(1)
Each Fiscal Quarter during each Fiscal Year ending thereafter:			$ 98,000,000(1)	

(1) This number is to be reduced by the amount of any purchase of treasury stock by LSB pursuant to Section 9.14 of the Loan and Security Agreement between LSB and the Lender and by the purchase of treasury stock in the amount of $885,000 in October and November, 1994.

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:----------
Title:----------

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that First Amendment to Loan and Security Agreement dated as of August 17, 1995, between LSB Industries, Inc. and BankAmerica Business Credit, Inc. ("Creditor") and reaffirms its obligations under that certain Continuing Guaranty with Security Agreement (the "Guaranty") dated as of December 12, 1994 made by the undersigned in favor of the Creditor, and acknowledges and agrees that the Guaranty remains in full force and effect and the Guaranty is hereby ratified and confirmed.

Dated as of August 17, 1995.

UNIVERSAL TECH CORPORATION

By:_____
Name:_____
Title:_____

LSB CHEMICAL CORP.

By:_____
Name:_____
Title:_____

L&S AUTOMOTIVE PRODUCTS, CO.
(f/k/a LSB Bearing Corp.)

By:_____
Name:_____
Title:_____

INTERNATIONAL BEARING, INC.

By:_____

Name:_____
Title:_____

LSB EXTRUSION CO.

By:_____
Name:_____
Title:_____

ROTEX CORPORATION

By:_____
Name:_____
Title:_____

TRIBONETICS CORPORATION

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL SYSTEMS,
INC.

By:_____
Name:_____
Title:_____

HERCULES ENERGY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

MOREY MACHINERY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

CHP CORPORATION

By:_____
Name:_____
Title:_____

KOAX CORP.

By:_____
Name:_____
Title:_____

APR CORPORATION

By:_____
Name:_____
Title:_____

Exhibit 4.17

SECOND AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of December 1, 1995, 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 that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995 (the "Agreement");

WHEREAS, Lender and Borrower desire to further 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.

ARTICLE II

Amendments

Section 2.01. Amendment to Section 3.1(a) of the Agreement. Subsections (i) and (ii) of Section 3.1(a) of the Agreement are hereby amended to read in their entirety as follows:

(i) For all amounts charged as Revolving Loans other than Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one percent (1%) per annum (the Reference Rate Margin) plus the Reference Rate; and

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: three and three-eighths percent (3.375%) per annum (the Eurodollar Margin) plus the Eurodollar Rate determined for the applicable Interest Period.

Notwithstanding the foregoing, if Adjusted Tangible Net Worth equals or exceeds $89,500,000, as reflected on Borrower s most current quarterly Financial Statements provided no Event of Default is outstanding, then for so long as Adjusted Tangible Net Worth is at least $89,500,000, both the Reference Rate Margin and the Eurodollar Margin with respect to the Revolving Loans other than the Short Term Revolving Loans will be reduced by one-half of one percent (.50%), and the reduction will be effective as of the first day of the month following receipt by Lender of the Financial Statements.

Each change in the Reference Rate shall be reflected in the interest rate described in (i) above as of the effective date of such change. All interest charges shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed. Except as otherwise provided herein, (1) interest accrued on each Eurodollar Rate Loan shall be payable in arrears on each Eurodollar Interest Payment Date applicable to such Eurodollar Rate Loan and upon payment thereof in full, and (2) interest accrued on the Reference Rate Loans will be payable in arrears on the first day of each month hereafter.

The remaining provisions of Section 3.1(a) are unchanged.

Section 2.02. Amendment to Section 9.16 of the Agreement. Section 9.16 is hereby amended to read in its entirety as follows:

9.16 Adjusted Tangible Net Worth. Adjusted Tangible Net Worth (without taking into account any purchases of treasury stock) will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1995				$ 78,000,000(1)
Fiscal Year Ending December 31, 1996	$ 78,000,000(1)	$ 79,000,000(1)	$ 80,000,000(1)	$ 81,000,000(1)
Fiscal Year Ending December 31, 1997	$ 81,000,000	$ 82,000,000	$ 83,000,000	$ 84,000,000

Each Fiscal Quarter during each Fiscal Year ending thereafter: $ 84,000,0001

(1) This number is to be reduced by the amount of any purchase of treasury stock by LSB pursuant to Section 9.14 of the Loan and Security Agreement between LSB and the Lender.

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.

(c) Borrower and the other Borrower Subsidiaries shall have collectively paid to Lender an amendment fee of $50,000.

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:_____
Title:_____

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:_____

Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and Security Agreement dated as of December 1, 1995, 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 December 1, 1995.

UNIVERSAL TECH CORPORATION

By:_____
Name:_____
Title:_____

LSB CHEMICAL CORP.

By:_____
Name:_____
Title:_____

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a LSB Bearing Corp.)

By:_____
Name:_____
Title:_____

INTERNATIONAL BEARINGS, INC.

By:_____
Name:_____
Title:_____

LSB EXTRUSION CO.

By:_____
Name:_____
Title:_____

ROTEX CORPORATION

By:_____
Name:_____
Title:_____

TRIBONETICS CORPORATION

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL SYSTEMS,
INC.

By:_____
Name:_____
Title:_____

HERCULES ENERGY MFG.
CORPORATION

By:_____
Name:_____
Title:_____

MOREY MACHINERY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

CHP CORPORATION

By:_____
Name:_____
Title:_____

KOAX CORP.

By:_____
Name:_____
Title:_____

APR CORPORATION

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and Security Agreement dated as of December 1, 1995, 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 December 1, 1995.

INTERNATIONAL ENVIRONMENTAL CORPORATION

By:_____
Name:_____
Title:_____

L&S BEARING CO.

By:_____
Name:_____
Title:_____

CLIMATE MASTER, INC.

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:_____
Name:_____
Title:_____

Exhibit 4.18

SECOND AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of December 1, 1995, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. (Lender) and EL DORADO CHEMICAL COMPANY (El Dorado) and SLURRY EXPLOSIVE CORPORATION (Slurry) (El Dorado and Slurry collectively referred to herein as "Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995 (the "Agreement");

WHEREAS, Lender and Borrower desire to further 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. New Definitions. The following new definitions are hereby added to the Agreement:

Second Amendment Date means December 1, 1995.

Short Term Revolving Facility means the credit facility hereunder consisting of the provision for Short Term Revolving Loans.

Short Term Revolving Loans has the meaning specified in Section 2.1.

ARTICLE II

Amendments

Section 2.01. Amendment to Section 2.1 of the Agreement. Section 2.1 is hereby amended to read in its entirety as follows:

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon a Borrower s request from time to time, make revolving loans (the Revolving Loans) to EDC and Slurry up to the limits of the Availability. The Lender, in its discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability, or to be obligated to exceed the limits of the Availability on any other occasion. If the unpaid balance of the Revolving Loans exceeds the Availability (with the Availability for this purpose determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated. Notwithstanding the foregoing, beginning on the Second Amendment Date and continuing until the earlier to occur of a Mandatory Repayment or May 17, 1996, Lender has agreed to make available to Borrowers a Short Term Revolver Facility in the maximum amount of up to $3,000,000 (the Maximum Short Term Facility Amount), subject to the Mandatory Reductions as hereinafter described. The Short Term Revolver Facility consists of Revolving Loans (the Short Term Revolving Loans) which exceed Availability and which bear interest at a higher Applicable Interest Rate than the other Revolving Loans. The Maximum Short Term Facility Amount shall be subject to the following Mandatory Reductions : beginning on April 5, 1996 and continuing every seven (7) days thereafter, the Maximum Short Term Facility Amount will be reduced by increments of $450,000 each. In addition, if at any time either (a) the term debt under the HCFS Loan Agreement is restructured, or (b) EDC enters into a lease transaction with respect to its Real Property and/or Equipment, then the Short Term Revolver Facility will terminate immediately and all Short Term Revolving Loans will be due and payable (the Mandatory Repayment). Either Borrower may request Revolving Loans either orally or in writing, provided, however, that each such request with respect to Reference Rate Loans shall be made no later than 1:00 p.m. (Los Angeles, California time). Each oral request by either Borrower for a Revolving Loans shall be conclusively presumed to be made by a person authorized by such Borrower to do so and the crediting of a Revolving Loan to the Borrowers deposit account, or transmittal to such Person as either Borrower shall direct, shall conclusively establish the joint and several obligation of the Borrowers to repay such Revolving Loan. The Lender will charge all Revolving Loans and other Obligations to a loan account of the Borrowers maintained with the Lender. All fees, commissions, costs, expenses, and other charges due from the Borrowers, or either of them, pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by Lender and authorized to be charged to the Borrowers, or either of them, pursuant to the Loan Documents, will be charged as Revolving Loans to the

Borrowers loan account as of the date due from the Borrowers or the date paid or incurred by the Lender, as the case may be.

Section 2.02. Amendment to Section 3.1(a) of the Agreement. Subsections (i) and (ii) of Section 3.1(a) of the Agreement are hereby amended to read in their entirety as follows:

(i) For all amounts charged as Revolving Loans other than Short Term Revolving Loans and Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one percent (1%) per annum (the Reference Rate Margin) plus the Reference Rate, provided, however, that with respect to Short Term Revolving Loans other than Eurodollar Rate Loans the Reference Rate Margin will be three percent (3%); and

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: three and three-eighths percent (3.375%) per annum (the Eurodollar Margin) plus the Eurodollar Rate determined for the applicable Interest Period; provided, however, that with respect to Short Term Revolving Loans that are Eurodollar Rate Loans, the Eurodollar Margin will be five and three-eighths percent (5.375%).

Notwithstanding the foregoing, if Adjusted Tangible Net Worth equals or exceeds $89,500,000, as reflected on Borrower s most current quarterly Financial Statements, then for so long as Adjusted Tangible Net Worth is at least $89,500,000, both the Reference Rate Margin and the Eurodollar Margin with respect to the Revolving Loans other than the Short Term Revolving Loans will be reduced by one-half of one percent (.50%).

Each change in the Reference Rate shall be reflected in the interest rate described in (i) above as of the effective date of such change. All interest charges shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed. Except as otherwise provided herein, (1) interest accrued on each Eurodollar Rate Loan shall be payable in arrears on each Eurodollar Interest Payment Date applicable to such Eurodollar Rate Loan and upon payment thereof in full, and (2) interest accrued on the Reference Rate Loans will be payable in arrears on the first day of each month hereafter.

The remaining provisions of Section 3.1(a) are unchanged.

Section 2.03. Amendment to Section 9.16 of the Agreement. Section 9.16 is hereby amended to read in its entirety as follows:

9.16 Adjusted Tangible Net Worth. Adjusted Tangible Net Worth (without taking into account any purchases of treasury stock) will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1995				$ 78,000,000(1)
Fiscal Year Ending December 31, 1996	$ 78,000,000(1)	$ 79,000,000(1)	$ 80,000,000(1)	$ 81,000,000(1)
Fiscal Year Ending December 31, 1997	$ 81,000,000	$ 82,000,000	$ 83,000,000	$ 84,000,000
Each Fiscal Quarter during each Fiscal Year ending thereafter:	$ 84,000,000(1)			

(1) This number is to be reduced by the amount of any purchase of treasury stock by LSB pursuant to Section 9.14 of the Loan and Security Agreement between LSB and the Lender.

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.

(c) Borrower and the other Borrower Subsidiaries shall have collectively paid to Lender an amendment fee of $50,000.

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"

EL DORADO CHEMICAL COMPANY

By:_____
Name:_____
Title:_____

SLURRY EXPLOSIVE CORPORATION

By:_____
Name:_____
Title:_____

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and Security Agreement dated as of December 1, 1995, between El Dorado Chemical Company and Slurry Explosive Corporation 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 December 1, 1995.

UNIVERSAL TECH CORPORATION

By:_____
Name:_____
Title:_____

LSB CHEMICAL CORP.

By:_____
Name:_____
Title:_____

L&S AUTOMOTIVE PRODUCTS, CO.
(f/k/a LSB Bearing Corp.)

By:_____
Name:_____
Title:_____

INTERNATIONAL BEARING, INC.

By:_____
Name:_____
Title:_____

LSB EXTRUSION CO.

By:_____
Name:_____
Title:_____

ROTEX CORPORATION

By:_____
Name:_____
Title:_____

TRIBONETICS CORPORATION

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL SYSTEMS,
INC.

By:_____
Name:_____
Title:_____

HERCULES ENERGY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

MOREY MACHINERY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

CHP CORPORATION

By:_____
Name:_____
Title:_____

KOAX CORP.

By:_____
Name:_____
Title:_____

APR CORPORATION

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and

Security Agreement dated as of December 1, 1995, between El Dorado Chemical Company and Slurry Explosive Corporation 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 December 1, 1995.

INTERNATIONAL ENVIRONMENTAL CORPORATION

By:_____
Name:_____
Title:_____

L&S BEARING CO.

By:_____
Name:_____
Title:_____

CLIMATE MASTER, INC.

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:_____
Name:_____
Title:_____

LSB INDUSTRIES, INC.

By:_____
Name:_____
Title:_____

Exhibit 4.19

SECOND AMENDMENT
TO
LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (the "Amendment") is dated as of December 1, 1995, and entered into by and between BANKAMERICA BUSINESS CREDIT, INC. ("Lender") and INTERNATIONAL ENVIRONMENTAL CORPORATION ("Borrower").

WHEREAS, Lender and Borrower have entered into that certain Loan and Security Agreement dated December 12, 1994, as amended by that certain First Amendment to Loan and Security Agreement dated as of August 17, 1995 (the "Agreement");

WHEREAS, Lender and Borrower desire to further 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. New Definitions. The following new definitions are hereby added to the Agreement:

"Second Amendment Date" means December 1, 1995.

"Short Term Revolving Facility" means the credit facility hereunder consisting of the provision for Short Term Revolving Loans.

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

ARTICLE II
Amendments

Section 2.01. Amendment to Section 2.1 of the Agreement. Section 2.1 is hereby amended to read in its entirety as follows:

2.1 Revolving Loans. The Lender shall, subject to the terms and conditions set forth in this Agreement, and upon a Borrower s request from time to time, make revolving loans (the "Revolving Loans") to International Environmental Corporation up to the limits of the Availability. The Lender, in its discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability, or to be obligated to exceed the limits of the Availability on any other occasion. If the unpaid balance of the Revolving Loans exceeds the Availability (with the Availability for this purpose determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated. Notwithstanding the foregoing, beginning on the Second Amendment Date and continuing until the earlier to occur of a "Mandatory Repayment" or May 17, 1996, Lender has agreed to make available to Borrowers a Short Term Revolver Facility in the maximum amount of up to $2,000,000 (the "Maximum Short Term Facility Amount"), subject to the "Mandatory Reductions" as hereinafter described. The Short Term Revolver Facility consists of Revolving Loans (the "Short Term Revolving Loans") which exceed Availability and which bear interest at a higher Applicable Interest Rate than the other Revolving Loans. The Maximum Short Term Facility Amount shall be subject to the following "Mandatory Reductions": beginning on April 5, 1996 and continuing every seven (7) days thereafter, the Maximum Short Term Facility Amount will be reduced by increments of $300,000 each. In addition, if at any time either (a) the term debt under the HCFS Loan Agreement is restructured, or (b) EDC enters into a lease transaction with respect to its Real Property and/or Equipment, then the Short Term Revolver Facility will terminate immediately and all Short Term Revolving Loans will be due and payable (the "Mandatory Repayment"). Either Borrower may request Revolving Loans either orally or in writing, provided, however, that each such request with respect to Reference Rate Loans shall be made no later than 1:00 p.m. (Los Angeles, California time). Each oral request by either Borrower for a Revolving Loans shall be conclusively presumed to be made by a person authorized by such Borrower to do so and the crediting of a Revolving Loan to the Borrowers deposit account, or transmittal to such Person as either Borrower shall direct, shall conclusively establish the joint and several obligation of the Borrowers to repay such Revolving Loan. The Lender will charge all Revolving Loans and other Obligations to a loan account of the Borrowers maintained with the Lender. All fees, commissions, costs, expenses, and other charges due from the Borrowers, or either of them, pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by Lender and authorized to be charged to the Borrowers, or either of them, pursuant to the Loan Documents, will be charged as Revolving Loans to the Borrowers loan account as of the date due from the Borrowers or the

date paid or incurred by the Lender, as the case may be.

Section 2.02. Amendment to Section 3.1(a) of the Agreement. Subsections (i) and (ii) of Section 3.1(a) of the Agreement are hereby amended to read in their entirety as follows:

(i) For all amounts charged as Revolving Loans other than Short Term Revolving Loans and Eurodollar Rate Loans, including all Revolving Loans which are Reference Rate Loans, then at a fluctuating per annum rate equal to one percent (1%) per annum (the "Reference Rate Margin") plus the Reference Rate, provided, however, that with respect to Short Term Revolving Loans other than Eurodollar Rate Loans the Reference Rate Margin will be three percent (3%); and

(ii) If the Revolving Loans are Eurodollar Rate Loans, then at a per annum rate equal to: three and three-eighths percent (3.375%) per annum (the Eurodollar Margin) plus the Eurodollar Rate determined for the applicable Interest Period; provided, however, that with respect to Short Term Revolving Loans that are Eurodollar Rate Loans, the Eurodollar Margin will be five and three-eighths percent (5.375%);

Notwithstanding the foregoing, if Adjusted Tangible Net Worth equals or exceeds $89,500,000, as reflected on Borrower s most current quarterly Financial Statements provided no Event of Default is outstanding, then for so long as Adjusted Tangible Net Worth is at least $89,500,000, both the Reference Rate Margin and the Eurodollar Margin with respect to the Revolving Loans other than the Short Term Revolving Loans will be reduced by one-half of one percent (.50%), and the reduction will be effective as of the first day of the month following receipt by Lender of the Financial Statements.

Each change in the Reference Rate shall be reflected in the interest rate described in (i) above as of the effective date of such change. All interest charges shall be computed on the basis of a year of three hundred sixty (360) days and actual days elapsed. Except as otherwise provided herein, (1) interest accrued on each Eurodollar Rate Loan shall be payable in arrears on each Eurodollar Interest Payment Date applicable to such Eurodollar Rate Loan and upon payment thereof in full, and (2) interest accrued on the Reference Rate Loans will be payable in arrears on the first day of each month hereafter.

The remaining provisions of Section 3.1(a) are unchanged.

Section 2.03. Amendment to Section 9.16 of the Agreement. Section 9.16 is hereby amended to read in its entirety as follows:

9.16 Adjusted Tangible Net Worth. Adjusted Tangible Net Worth (without taking into account any purchases of treasury stock) will not be less than the following amounts at the end of each of the Fiscal Quarters during the following Fiscal Years:

Fiscal Quarters in the Following Fiscal Years	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal Year Ending December 31, 1995				$ 78,000,000(1)
Fiscal Year Ending December 31, 1996	$ 78,000,000(1)	$ 79,000,000(1)	$ 80,000,000(1)	$ 81,000,000(1)
Fiscal Year Ending December 31, 1997	$ 81,000,000	$ 82,000,000	$ 83,000,000	$ 84,000,000
Each Fiscal Quarter during each Fiscal Year ending thereafter:	$ 84,000,000(1)			

(1) This number is to be reduced by the amount of any purchase of treasury stock by LSB pursuant to Section 9.14 of the Loan and Security Agreement between LSB and the Lender.

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.

(c) Borrower and the other Borrower Subsidiaries shall have collectively paid to Lender an amendment fee of $50,000.

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 Boprower 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"

INTERNATIONAL ENVIRONMENTAL CORPORATION

By:_____
Name:_____
Title:_____

"LENDER"

BANKAMERICA BUSINESS CREDIT, INC.

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and Security Agreement dated as of December 1, 1995, between International Environmental Corporation 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 December 1, 1995.

UNIVERSAL TECH CORPORATION

By:_____
Name:_____
Title:_____

LSB CHEMICAL CORP.

By:_____
Name:_____
Title:_____

L&S AUTOMOTIVE PRODUCTS CO.
(f/k/a LSB Bearing Corp.)

By:_____
Name:_____
Title:_____

INTERNATIONAL BEARINGS, INC.

By:_____
Name:_____
Title:_____

LSB EXTRUSION CO.

By:_____
Name:_____
Title:_____

ROTEX CORPORATION

By:_____
Name:_____
Title:_____

TRIBONETICS CORPORATION

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL SYSTEMS,
INC.

By:_____
Name:_____
Title:_____

HERCULES ENERGY MFG.
CORPORATION

By:_____
Name:_____
Title:_____

MOREY MACHINERY MANUFACTURING
CORPORATION

By:_____
Name:_____
Title:_____

CHP CORPORATION

By:_____
Name:_____
Title:_____

KOAX CORP.

By:_____
Name:_____
Title:_____

APR CORPORATION

By:_____
Name:_____
Title:_____

CONSENTS AND REAFFIRMATIONS

Each of the undersigned hereby acknowledges the execution of, and consents to, the terms and conditions of that Second Amendment to Loan and Security Agreement dated as of December 1, 1995, between International Environmental Corporation 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 December 1, 1995.

LSB INDUSTRIES, INC.

By:_____
Name:_____
Title:_____

L&S BEARING CO.

By:_____
Name:_____
Title:_____

CLIMATE MASTER, INC.

By:_____
Name:_____
Title:_____

SUMMIT MACHINE TOOL MANUFACTURING CORP.

By:_____
Name:_____
Title:_____

EXHIBIT 10.8

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION
AND ITS LOCAL 5-434

Effective: August 5, 1995

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas
TABLE OF CONTENTS

Articles of Agreement between EL DORADO CHEMICAL COMPANY (hereinafter referred to as "Company") and OIL, CHEMICAL, AND ATOMIC WORKERS INTERNATIONAL UNION AND ITS LOCAL 5-434 (hereinafter referred to as "Union"), whom the Company recognizes as the exclusive bargaining agency for all production, chemical, and operating employees included in the bargaining unit at its chemical plant located North of El Dorado, Arkansas, for the purposes of pay, wages, and other conditions of employment. There is excepted from the bargaining unit described all Maintenance employees not otherwise described within the Preamble, guards, shipping attendants, janitors and common laborers, office and clerical employees, non-working Foremen, and all supervisory employees.

ARTICLE I
TERM OF AGREEMENT

This Agreement shall remain in full force and effect for a period beginning at 12:01 a.m. August 5, 1995, and ending at 12:00 Midnight, July 31, 1998. At reasonable times after June 1, 1998, the parties will meet for the purpose of negotiating a new contract to be effective for the period commencing after 12:00 Midnight, July 31, 1998.

ARTICLE II
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct, to assure discipline, and efficient operation; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any classification, operation, service or department; to sell, merge, or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged.

The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE III
RIGHT TO ARBITRATE

All grievances and disputes as to classifications, hours of work, and other working conditions, arising between the Company and the employees shall be governed in manner of settlement by the terms of this Agreement. Whenever any grievance or dispute arises which cannot be otherwise adjusted, the parties hereto agree that the same shall be decided in the manner provided for in Article IV. Only a matter concerning the interpretation or application of a provision of this Agreement shall be the subject of arbitration.

ARTICLE IV
GRIEVANCE PROCEDURE AND ARBITRATION

Section 1.

Grievances shall be limited to matters concerning the provisions of the Agreement. A "grievance," as that term is used in this contract, means a claim by an employee, or the Union, that a term of this contract has been violated. All time limits in the first, second, third, and fourth steps listed below shall be to "working days" which shall be interpreted to include only Monday through Friday, but shall not include holidays. Time limits specified herein may be extended by mutual written agreement of the parties in unusual cases.

First Step

The aggrieved employee, and/or his Steward, shall verbally discuss the grievance with his foreman and/or supervisor. If the foreman and/or supervisor's verbal reply is not satisfactory, the employee and/or his Steward shall submit the grievance in writing to his foreman or supervisor. No grievance shall be considered unless it is filed within fifteen (15) days after the occurrence of the event complained of. The supervisor to whom the grievance is submitted in writing shall provide his written reply within fifteen (15) days after receipt of the grievance.

Within five (5) days after the receipt of the written decision of the supervisor, the Steward shall notify the supervisor as to whether his decision is satisfactory.

Second Step

If the written decision of the supervisor is not satisfactory, the Chief Steward shall submit the grievance in writing, within ten (10) days, to the head of the department in which the grievance arose. He shall give his reply in writing within fifteen (15) days after receipt of the grievance.

Within five (5) days after the receipt of the written decision of the department head, the Chief Steward shall notify the department head as to whether the decision is satisfactory.

Third Step

If the decision of the appropriate department head is not satisfactory, it shall be submitted in writing, within ten (10) days, to the Plant Manager, who shall then have ten (10) days after receipt of the grievance in which to render his decision.

Within ten (10) days after receipt of the written decision of the Plant Manager, the Workmen's Committee shall notify the Plant Manager, in writing, as to whether his decision is satisfactory.

Fourth Step

If the procedure is not adjusted satisfactorily through the procedure hereinbefore mentioned, the matter may be referred to an arbitrator. If the Union desires to submit such grievance to an impartial arbitrator (providing the grievance is one which does not involve matters on which arbitration is specifically prohibited under the terms of this Agreement, and which the Company and the Union have mutually agreed to submit to arbitration) it must notify the other party of that fact, in writing, within thirty (30) days after the date the Plant Manager, or other duly authorized representative, advised the Workmen's Committee of his decision.

The Union and the Company shall make written application to the Federal Mediation and Conciliation Service requesting a seven-name arbitrator panel from which the parties shall select an arbitrator. The parties shall alternately each strike three names, one at a time. After striking, the remaining name shall act as Arbitrator. It is understood that, starting with the first arbitration case following the date of the execution of this Agreement, the Union shall strike the first name. In the next case, the first name stricken will be by the Company and, alternately, the Union and the Company thereafter. Both the Company and the Union shall have the right to reject two panels submitted by the Federal Mediation and Conciliation Service.

When the Arbitrator has been selected, he shall meet for the consideration of the grievance as soon thereafter as is practical. Any such meeting of an Arbitrator shall be held in El Dorado, Arkansas, unless the parties unanimously decide otherwise.

Any such Arbitrator shall decide only the grievance submitted to him upon testimony presented to him by the Union and the Company, and shall render his decision in writing.

Except as otherwise specifically provided in this Agreement, the Arbitrator shall have no power to change the wages, hours, or conditions of employment set forth in this Agreement; he shall have no power to add to, subtract from, or modify any of the terms of this Agreement; he shall deal only with the grievance which occasioned his appointment. He will require that the Union has the burden of establishing its position on behalf of the employee, except in a discipline and/or discharge case when the burden will be on management.

The parties hereto shall comply fully with the award or decision made by any such Arbitrator, and the decision of the Arbitrator will be final and binding on both parties.

The expense of the Arbitrator shall be paid equally by the Company and the Union.

Section 2.

No provision of this Article IV, or of any other Article of this Agreement, shall deprive any employee covered by the terms of this Agreement of any rights to which he may be entitled under Section 9(a) of the Labor Management Relations Act of 1947, or any other Statute of the United States.

Section 3.

In the event a grievance arises over a discharge or layoff, the first and second steps of the grievance procedure may be bypassed.

ARTICLE V
CLASSIFICATION CHANGES

Section 1.

An employee who is temporarily required to perform (for more than one (1) hour) work of a classification which has a higher rate of pay than the rate of pay for the classification to which the employee is regularly assigned, shall be paid at the rate of the higher classification in which he is working so long as, and only as long as, he is required continuously to perform work of the higher classification. The payment of the higher rate for one (1) hour or more will be retroactive to the start of the time when that employee began to work in the higher classification.

Section 2.

Subject to the provision of Article XI, Section 10, when an employee is transferred to a classification paying a smaller wage rate than the classification from which he was transferred, he shall receive the rate of pay of the new classification at the end of ninety (90) calendar days.

If an employee is shifted to any classification paying a smaller wage rate than his regularly assigned classification due to the temporary shutdown of equipment, no reduction in rate shall be made during the first ninety (90) calendar days.

If an employee is transferred to a lower classification due to the exercise of seniority provisions of this Agreement, he shall receive the rate of his new classification on the date of transfer.

Section 3.

An employee who is to be laid off, due to reduction in the work force shall be given two (2) weeks' notice of the date of the layoff. In the absence of such notice, the employee shall be given two (2) weeks' pay at his rate at the time of his layoff. It is provided, however, if an employee is temporarily laid off and is reemployed within less than two (2) weeks of the date on which he was temporarily laid off, he shall be paid only a sum equal to the number of hours he would have worked during the period of the layoff on his regular schedule, multiplied by the hourly wage rate which he was earning at the time he was laid off.

Neither notice nor pay in lieu of notice referred to in this Section 3 shall be required with respect to a temporary layoff which is due to a reduction in forces caused by fire, storm, explosion, Act of God, production emergency due to manpower shortage, or by a strike of any employees of the Company at the Chemical Plant (which employees are in another bargaining unit), or by a strike of any employees of any other employer.

Section 4.

All work peculiar to any classification shall normally be done by employees regularly assigned to that classification except in cases of emergency. An employee called out or assigned to fill that vacancy will be considered regularly assigned to that classification. However, operating personnel in operating areas may perform any other duties and routine process control analyses related to the operation of the Unit. No arbitrary changes in present classifications or duties thereof will be made with the purpose or result of reducing the pay of any classification. Any man who has available time over and above his normal duties shall assist other employees in his area.

When an employee's area duties are down and there is to be no work for him at all on his shift, he may be assigned to:

1. Fill other operating vacancies within his area.

2. Assist in maintenance efforts anywhere in the plant.

3. Perform yard maintenance work anywhere in the plant.

4. Perform minor maintenance in his unit.

5. Perform any other duties as directed by his supervisor so long as it does not require the performance of an immoral or unsafe act.

(Under this condition, an employee may be notified to change shifts and, if so notified sixteen (16) hours or more in advance of the beginning of his new shift, will not be entitled to pay in lieu of short notice under Article VII of the current agreement.)

When an employee's assignment is down only part of the shift, he may be assigned to:

1. Assist in maintenance efforts in his unit.

2. Perform yard maintenance work in his unit.

3. Perform minor maintenance in his unit.

4. Perform any other duties as directed by his supervisor so long as it does not require the performance of an immoral or unsafe act.

An Operating Department employee shall perform minor maintenance functions while his unit is operating if he has time available over and above his primary operating duties.

Section 5.

Except in cases of emergency and for training purposes, no foreman, supervisor, or employee not covered by this Agreement shall do any work peculiar to any classification covered by the bargaining unit. However, Maintenance employees may from time to time perform minor operating functions when accompanied by operating personnel. The Company shall use technical employees from time to time to make tests and inspections requiring engineering skill.

ARTICLE VI
HOURS OF WORK

Section 1.

The regular hours for work shall be eight (8) hours per day and forty (40) hours per work week. One and one-half (1-1/2) times the applicable hourly rate will be paid for all work in excess of eight (8) hours in any one day, in excess of eight (8) hours in succession, or forty (40) hours in any one week.

Section 2.

The work week shall begin at 11:00 p.m. on Sunday and end at 11:00 p.m. the following Sunday. The work day shall begin at 11:00 p.m. and end at 11:00

p.m.

Section 3.

The work schedule and shift schedules which are presently in effect and which are made a part of this contract as Exhibit "C" shall remain in full force and effect for the terms of this Agreement. Regular hours of work for laboratory personnel shall be 8:00 a.m. to 4:30 p.m.

Hours of work may be changed to 7:00 a.m. to 3:00 p.m. as dictated by the needs of the production or production accounting departments and will not be considered a change in shift. Laboratory personnel may be assigned to work other shifts periodically as necessary to meet the needs of the production department.

Section 4.

The payment of additional compensation for any hours worked in excess of eight (8) hours in any one day, or forty (40) hours in any one work week, shall be in satisfaction of the obligation of the Company under this Agreement. There shall be no duplicate payment for daily overtime and weekly overtime. If daily overtime is greater in any one work week, only daily overtime shall be paid, or if weekly overtime is greater in any one work week, only weekly overtime shall be paid.

Section 5.

Notwithstanding any other provision of this Agreement to the contrary, no employee, except in case of emergency, shall be allowed or required to work more than sixteen (16) consecutive hours.

ARTICLE VII
CALL-OUT OVERTIME AND LOCAL NOTIFICATION

Overtime shall initially be distributed, as equitably as practicable, to employees regularly assigned within the area where the overtime is required. The Company may then offer such work to employees in other areas who are qualified.

Section 1.

Work that is required beyond the end of the shift (or end of the day) that is expected to be four (4) hours or less in duration will be performed by a holdover, whereby the overtime will be offered to the employees on duty who are qualified for the work in the order that their names appear on the respective area call-out list. If the work will exceed four (4) hours, Company shall have the option of holding an employee over four (4) hours and calling a qualified oncoming employee in four (4) hours early to complete the overtime, or calling an employee out from the appropriate call-out list.

An employee held over for as much as one (1) hour in a case in which his relief is not late, shall be paid a minimum of four (4) hours at straight time at his regular rate even though the full four (4) hours may not be worked. However, in the case of a holdover due to a Company meeting, individuals will be paid time and one-half (1-1/2) for hours worked.

An employee called for work outside his regular schedule shall be paid a minimum of four (4) hours at time and one-half (1-1/2) his regular rate even though the full four (4) hours may not be worked or he does not work at all.

An employee called out for work outside his regular hours will not be deprived of completing his daily schedule of hours on account of the extra hours worked on such call-out. An employee called out for work who works continuously until the beginning of his regular hours of work and continues to work the regular hours of his scheduled work shall not be considered to have had a change in shift within the meaning of Section 3 of this Article VII. Notwithstanding the fact that an employee has been called out for work, such employee shall be required to perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused by the Company.

In the event overtime distribution and/or call-out procedures do not provide the Company with sufficient qualified personnel to perform the overtime work, the Company shall have the right to assign qualified personnel, or at its option, assign the work to a salaried employee.

Section 2.

If an employee reports to work on time as scheduled, he shall be given the opportunity of working a full 8-hour shift. If an employee reports to work late for a scheduled work day and arrangements have been made to have an employee work overtime in his place, the Company shall allow the employee who reported to work late to work the remainder of his regular schedule, and the employee who is working overtime due to such employee being late will be relieved of duty.

Section 3.

No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change. However, any employee who is working extra to complete his forty (40) hours per week may be used for filling vacancies in his area in accordance with his seniority. The Company further agrees that each employee shall receive twenty-four (24) hours' notice prior to any change in his shift, or in lieu thereof, the employee shall receive time and one-half (1-1/2) for the first shift worked; however, no such extra pay shall be paid when an employee's shift is changed incident to his promotion to a higher vacancy or when he is returned to his regular assignment from an advancement.

However, if an employee's assignment is temporarily shut down and, as a result, there is no work for him on his regular assignment, he may be so notified and reassigned to fill other operating vacancies on another shift or to work with Maintenance on another shift. If the employee is so notified sixteen (16) hours or more in advance of the beginning of his new shift, he will not be entitled to pay in lieu of short notice for shift change.

If an Operator Trainee (in order to complete his forty (40) hours per week) must work outside the regularly scheduled hours of a day employee, he will be assigned to work extra and may be used as a relief man for filling vacancies in the operating area in which he last worked in accordance with his seniority.

Section 4.

If an employee is instructed to work and does work continuously for as much as two (2) hours before or beyond his regular shift or schedule, he shall be paid a sum equivalent to thirty (30) minutes at straight-time pay in lieu of meal time.

ARTICLE VIII
SHIFT MEN - DAY MEN

The term "shift employee" as used herein shall be deemed to mean one who is employed for specific periods in the course of continuous operations regularly carried on during two (2) or more shifts per day, five (5) or more days a week; each other employee is a "day employee."

ARTICLE IX
HOLIDAY DAY

Each of the following days is a holiday:

New Year's Day
Good Friday
Memorial Day
July Fourth
Labor Day
Columbus Day
Thanksgiving Day
Day after Thanksgiving
Christmas Eve
Christmas Day

Each of the above-mentioned holidays shall be deemed to begin at 11:00 p.m. on the day immediately preceding the holiday and end at 11:00 p.m. on the holiday, except when the holiday falls on Sunday, in which case those employees who are working a 6-day week will observe the holiday on the following Monday.

Each employee who works on a holiday will be paid eight (8) hours' holiday pay at his straight time rate and, in addition, will be paid one and one-half (1-1/2) times his straight time rate for each hour worked on the holiday.

Each employee covered by this Agreement who does not work on a particular holiday shall be paid, with respect to that holiday, a sum equal to his regular straight time for eight (8) hours worked, provided that no such payment shall be made to an employee, with respect to a holiday, if such employee (a) is scheduled to work on that holiday and, without permission of the Company, fails to report for work; or (b) is on leave of absence; or (c) is on layoff; or (d) is on sick leave and has not worked or does not work at any time during the 2-week pay period in which the holiday occurs.

Holiday Pay -- Employee will be off on a holiday if so notified that his services are not needed. Employees who fail to receive proper notification will receive time and one-half (1-1/2) for the first shift worked after the said holiday. Proper notification will be twenty-four (24) hours. Such notification shall not be required in the event of unit or equipment mechanical failure, fire, storm, explosion, or Act of God.

Employees will have the option, by seniority, to elect to work or leave if less than all can be excused.

Day Employees -- assigned to the Operating areas -- who normally work Monday through Friday, shall observe a holiday falling on Saturday the preceding Friday, and a holiday falling on Sunday the following Monday, and not report for work unless notified. However, the Christmas Eve holiday shall be observed on the last scheduled work day prior to Christmas Day holiday.

ARTICLE X
VACATIONS

Section 1.

Normal vacation accruals will be computed in accordance with the following provisions:

(a) Two weeks (80 hours) after having accrued one (1) year's Company seniority.

(b) Three weeks (120 hours) during the calendar year after having accrued six (6) or more years' Company seniority.

In computing length of service for vacations, time spent working at the El Dorado Plant will be used.

Section 2.

Those employees who had previously accrued or who will accrue, during the term of this Agreement, twelve (12) years or more Company seniority shall be entitled to a vacation accrual of four weeks (160 hours). Thereafter, and for all other employees, the maximum vacation accrual shall be as provided in Section 1.

Section 3.

Each employee must take his vacation during the calendar year in which it falls due. However, when an employee is absent from work due to authorized occupational injury or illness or personal sick leave and has not returned to work by December 31, he may, at the Company's option, be permitted to take his vacation or receive vacation pay between January 1 and April 1 of the following year. An employee may elect to split his vacation in 40-hour periods, or he may take all his vacation in one period. However, an employee that works the Uniform shift schedule (Exhibit "C-3") may elect to schedule his vacation in either 40-hour periods or 56-hour periods, or a combination of the two. Any remaining vacation of less than forty (40) hours must be scheduled in a single period.

Section 4.

Vacation schedules must be prepared and submitted to the department head by March 1, if possible. Scheduling of vacations will begin immediately after November 1 each year and no employee shall be allowed more than forty-eight (48) hours after being contacted by his Foreman or supervisor in which to select his vacation date. Vacation preferences will be determined within an area by bargaining unit seniority. Employees who have not indicated their preference of vacation dates at the end of this 48-hour period will be assigned vacation dates by their supervisors. No employee may change his vacation dates after the schedule has been prepared except with his supervisor's permission. Vacations taken before March 1 will be on a first come basis.

An employee will not be eligible for overtime or call-out after 11:00 p.m. of his last scheduled work day prior to the start of his vacation and until his first scheduled shift to return to work following completion of his vacation.

If any employee is not permitted to take his vacation in the calendar year in which it is due because the Company finds it not convenient to excuse him from work, such employee shall be paid a sum equal to the sum to which he would have been entitled if he had taken his vacation within the period of time immediately preceding the end of the year which period is equal to his vacation period. No more than five (5) employees from the Operating Department and one (1) Laboratory may be on vacation at one time.

Section 5.

If an employee so requests at least five (5) days prior to the beginning vacation, the Company shall, prior to his beginning vacation, pay him in advance for all vacation being taken, in 5-day increments only.

Section 6.

An employee who (a) resigns, (b) retires, (c) is laid off as part of a reduction in forces, (d) is discharged for cause, or (e) is granted a military leave under the provisions of Article XV, at a time when he has earned vacation to that date but has not taken or previously received pay in lieu of, shall be paid in lieu of any vacation he has earned to that date but has not taken nor previously received pay in lieu of.

Computation of vacation under this section will be earned at the rate of one-twelfth (1/12th) for each month from employee's anniversary date. Sixteen (16) or more calendar days of employment in any calendar month will be considered a full month in computing vacation accruals.

Section 7.

Vacation pay shall be based upon the straight time rate of an employee's regular classification at the beginning of the vacation and will be taken in accordance with his established work schedule. If a holiday, as defined in Article IX, occurs during an employee's vacation period, the employee will receive pay for said holiday as defined in Article IX.

In the event of the death of an employee who (as of the last day on which that employee worked) had earned but not taken a vacation, a sum of money, in lieu of such vacation, computed on the basis herein stated, shall be paid to the executor or administrator, to the surviving spouse of that employee or, if there is no such representative or surviving spouse, to the next of kin of such employee.

ARTICLE XI
SENIORITY

Subject to Article XI, Section 15, seniority shall be adhered to in vacancies within an area, shifts, and layoffs as outlined below in this Article XI, other than discharge for cause. It is understood the Company shall have the right to retain sufficient numbers of qualified personnel in such event and may assign personnel to particular shifts when required temporarily for training.

Section 1. Eligibility for Seniority.

An employee shall be first entitled to seniority when he has been

continuously employed for 180 days within the bargaining unit, his seniority dating from the date of the beginning of such employment.

The Company shall have the right to layoff or discharge, without cause, any employee who has not worked in the bargaining unit a sufficient length of time to be entitled to seniority, and such action on the part of the Company shall not be the subject of a grievance on the part of the Union or the employee involved under any provision of this Agreement.

Section 2. Seniority Credits.

In applying the seniority provisions of this Agreement, each employee shall be credited with the seniority, if any, to which he is entitled as shown on the records of the Company at the time of execution of this Agreement.

Section 3. Progression Chart.

Attached hereto as Exhibit "A" and made a part hereof is a Progression Chart showing all classifications in the various areas of the Operating Department. Only those employees covered by the terms of this Agreement and included in the bargaining unit shall be entitled to exercise their seniority in their respective areas.

Section 4. Bargaining Unit and Area Seniority.

(a) Subject to the provisions of Section 1 of this Article XI, bargaining unit seniority shall be cumulative and shall be continuous from the date on which the employee enters the bargaining unit as shown on Exhibit "A" attached hereto.

(b) Subject to the provisions of Section 1 of this Article, area seniority shall be cumulative and shall be continuous from the date on which the employee enters any particular area by bidding or by assignment to a vacancy of more than ninety (90) days. In the event that two (2) or more employees have the same area seniority date, area seniority will be determined by bargaining unit seniority.

(c) In the event an employee is permanently assigned to an area by reasons of (i) shutdown, (ii) reduction in force in an area, (iii) the return of an employee to that area after an absence in excess of ninety (90) days, or (iv) the application of Section 9 of this Article, he shall continue to be considered a part of the area from which he was so transferred until he has failed to accept a vacancy in the area from which he was so transferred.

The last employee to enter an area shall be the first employee reduced from an area upon the termination of an authorized leave in the area. All other reductions from the area will be made by area seniority.

(d) If an employee in any area elects to bid to another area of the Operating Department and is the successful bidder, upon his transfer, he shall then lose his accrued seniority in the area from which he bid. Should he fail to qualify in the area to which he transferred, he will be transferred to Operator Trainee position and will lose any seniority he has accrued in the area where he failed to qualify.

Section 5. Vacancies of More Than Ninety (90) Days.

(1) Pursuant to Section 15 of this Article, when a vacancy of more than ninety (90) days occurs in any area, the vacancy will be filled by the bidding procedure.

(2) Pursuant to Section 7(1)(a) of this Article, if there are employees not in the area who have retained seniority in the area in which the vacancy occurs, the employee with the most retained seniority shall be assigned without bidding, to the vacancy or forfeit his seniority in the area.

(3) Area seniority shall be adhered to in all shift vacancies of more than ninety (90) days within an area.

Section 6. Vacancy Posting and Bidding Procedure.

(a) The Company shall post promptly and keep posted on the appropriate bulletin board for ten (10) days the notice of any vacancy. It shall be the duty of any employee who feels himself entitled to such vacancy, based on his seniority, to file his signed bid in the manner hereinafter stated.

(b) In order to be considered valid, a bid must be signed, dated, and the original must be deposited in a locked box marked "OCAW Bids for Company," and the duplicate must be deposited in a locked box marked "OCAW Workmen's Committee." Each of said boxes will be provided at or near the main entrance gate.

(c) Immediately upon expiration of the posting period of ten (10) days, the names of all bidders will be posted on the bulletin board for a period of five (5) days. Within this 5-day period, each bidder who still wants the vacancy must sign an acceptance notice to this effect and deposit in the box marked "OCAW Bids for Company" and place a copy of the notice in the "OCAW Workmen's Committee" box at the clock house. However, if an employee is going to be off from work for the duration of this 5-day period, he may leave his acceptance notice with the personnel department.

(d) At the end of this 5-day period, the employee with the most bargaining unit seniority who has turned in an acceptance notice will be assigned the vacancy, and he will be transferred to the new vacancy as soon as possible. The successful bidder's seniority in the area to which he is transferred will start on the sixteenth (16th) day after the vacancy was originally posted. An employee accepting a promotion by either the area

realignment or the bidding procedure to a vacancy with a higher rate of pay will not receive the higher rate of pay until qualified for the vacancy.

In cases where more than one (1) vacancy is posted, a bidder must indicate his order of preference on all vacancies he is willing to accept when he turns in his acceptance notice.

(e) In the event no one wishes to accept the posted vacancy, Company may elect to employ a qualified operator or to assign an Operator Trainee to the vacancy.

(f) Notwithstanding any other provisions of this Section 6, it is agreed that the Company shall have the right at any time during said 10-day posting mentioned above, to withdraw that posting in the event the Company decides that such vacancy need not be filled. The provisions of this paragraph will not apply to filling normal vacancies.

Section 7. Filling Vacancies of Ninety (90) Days or Less.

(1) Pursuant to Section 15 of Article XI, when a vacancy exists for a period up to and including ninety (90) days, it shall be filled by promoting the senior employee of the next lower classification who is working the same shift in the area in which the vacancy occurs. If no Operator Trainee, with retained area seniority, is available, this lowest vacancy will be filled on an assignment basis by an Operator Trainee assigned to that area with the most bargaining unit seniority who is available and qualified to perform the work.

In the event the vacancy(ies) cannot be filled by this procedure, the vacancy(ies) will be filled by overtime procedures and will normally be the vacancy which existed in the area before any reassignment.

(a) However, if an employee is removed from the active payroll, the vacancy caused by this action will be filled according to Section 5 of this Article on the first (1st) day after this action.

(2) In the event an Operator Trainee is not available and overtime is required, the following procedure will be used:

(a)(i) When overtime is required other than holdover or early call-in overtime, set forth in Section 1 of Article VII, call-outs will be made from the appropriate call-out list. Overtime call-outs may start up to forty-eight (48) hours in advance of the actual time required. Call-out lists will be maintained for Operator Trainees, Area II, Area III, Area IV, Emergency Squad, and a Master List. Call-outs will be made starting at the top of the list for the area where the overtime is required and proceeding to the bottom, calling those individuals possessing the necessary qualifications for the work.

In the event there will be a vacancy as the result of vacation or other scheduled absence, Company may assign qualified employees to cover such absences up to seven (7) days in advance of such need. Company may also utilize hold-over and call-in, or fill such vacancy by regular call-out procedures.

Upon acceptance or rejection of a call-out, the individual's name will be placed at the bottom of the list. If the call-out is canceled, the employee shall be offered makeup overtime without his name moving on the call-out list. Makeup overtime is defined as: Work of the nature encountered in normal operations but not normally done on overtime. At the time the makeup overtime is offered, the employee must accept or reject the makeup overtime. Makeup overtime will be offered for a full 8-hour shift.

Employees are ineligible for call-outs that interfere with previously arranged call-outs or their normal schedule.

The master call-out list will consist of a list of names of regularly assigned employees on Area II, Area III, and Area IV call-out lists who desire to work overtime. Employees called on this list will rotate on this list, but will not rotate on the area list their name appears on for any overtime worked on a master call-out. Master list call-outs will terminate when the work is completed.

(a)(ii) Each call-out will terminate at the end of the shift during which the work on that call-out began. An employee working a call-out, except for filling shift vacancies, will be expected to do the work for which that person was called and other operational work, excluding housekeeping work, in the area that may arise after the individual reports to work, for which that person is qualified. A call-out will end when the work for which the person was called, plus the additional operational work, is completed.

(a)(iii) Individuals' names will not be moved on the call-out lists for any overtime associated with Safety and Housekeeping Inspection Teams, or Accident Investigation Teams, or Safety Meetings, or Emergency Squad Training, or for overtime set forth in Section 1 of Article VII.

(a)(iv) Employees who work the Uniform Shift Schedule will have their names moved to the bottom of their respective call-out lists at the beginning of the 7-3 shift of the day which is their sixth (6th) work day in the same work week.

(a)(v) Operator Trainees may have their names appear on the list in the area where they possess qualifications. For employees with retained area seniority, the call-out list to which their names will be assigned will be the area where they have retained seniority. Upon acceptance or rejection of a call-out, an individual's name will be moved to the bottom of each list where his name appears. An Operator Trainee's name will be moved from one area call-out list to another, at the beginning of the day of transfer of that individual to another area in which the Operator Trainee holds qualifications.

(a)(vi) Any time an employee's name is entered on an area call-out list, his name will be entered at the bottom of that list.

(a)(vii) An employee may, for personal reasons, have his name removed from the call-out list(s). At such time as he desires, he may return his name to the bottom of the appropriate call-out list(s). An employee who is off for vacation, sick leave, or leave of absence will not be available for overtime. His name shall be turned over on the call-out list(s). Upon return, he will be available as though he had no opportunity during his absence.

(a)(viii) The call-out lists will be maintained under the direction of the area supervisors or Foremen, and it will be their responsibility to keep such records as are necessary to administer the call-out procedure and to present the proper information to the shipping attendants for execution. Copies of the daily call-out sheets will be furnished to the Union representatives.

(a)(ix) Any employee who accepts an assignment outside the bargaining unit will have his name placed at the bottom of the appropriate list(s) for the duration of the assignment.

(a)(x) An employee must have a telephone in his residence or be available at the plant in order to be eligible for a call-out. Only one (1) telephone may be listed for each employee.

(a)(xi) Employees will not be eligible for overtime in an operating area until they have qualified on a vacancy in that respective area. Upon qualifying on a vacancy in an area, a new employee's name will be placed on the bottom of that area call-out list and the master call-out list.

If, at the time of each monthly meeting, it is brought to the attention of the Company that an inequity exists between areas in the distribution of overtime, an attempt will be made to equalize overtime.

When an employee is held over due to negligence in providing relief and proper notice has been given, the employee held over will be paid a minimum of two (2) hours at his straight-time rate.

The above procedure may be modified by mutual agreement between the Union and the Plant Manager or his designated representative.

(b)(i) Any employee who has been off duty due to illness, injury, or an unauthorized leave will be required to give his supervisor eight (8) hours' notice of his intention to return to work or secure permission of the Company to return to work earlier.

(b)(ii) When an employee's shift is changed for any reason so that he will have only eight (8) hours off between shifts, he will not be eligible to double over from the first shift, and he will not be eligible for call-out during the 8-hour interval between shifts.

(b)(iii) When an employee who is temporarily working in a higher classification, other than his regular classification, accepts the opportunity to work over, his classification will revert to his regular classification. At the end of his regular shift, said employee who has stayed over onto a shift may exercise his seniority to receive any temporary upgrading that occurs on that shift.

(b)(iv) When a unit or piece of equipment is temporarily shut down and as a result there is no work for an employee on his regular assignment, such employee may be required to: (a) perform the duties of other assignments within his area, (b) assist in maintenance efforts anywhere in the plant, or (c) perform minor maintenance in his area. If such employee is absent from work during such temporary shutdown, the Company shall not be required to fill his position.

(b)(v) Notwithstanding any other provisions of this Section, if notice of an employee's absence is not reported, the employee not receiving relief will be required to work over if relief is not available; however, if said employee does not desire to work over, he may waive this work provided there are other employees on the same shift who desire to work over. The employees in the same classification will be given the opportunity to work over in order of their seniority. If no employee in that classification accepts the opportunity to stay over, the overtime will be offered to the other employees on that shift in accordance with their seniority. In case a relief man is not found within thirty (30) minutes, he may not be used to fill such vacancy. If an Operator Trainee does not report on schedule, this paragraph is not applicable.

An employee not eligible to work over in accordance with (b)(iii) of this Section will be required to work over only until relief can be obtained.

The same procedure will be applicable to all employees if proper notice is given that an employee will be less than three (3) hours late. Such employee will be relieved when his relief reports.

Section 8. Classifications and Shifts

(a) Each employee returning to the service of the Company or an area from an authorized leave without pay or from sick leave, or temporary shutdown of equipment of sixty (60) days or less, shall resume his duties uninterrupted service in the area from which he left on the same lettered shift, or any shift that has become vacant during his absence, and has been filled by a man younger in area seniority. Notwithstanding any other provisions of this contract upon (1) the termination of an authorized leave, or (2) the temporary shutdown of equipment of sixty (60) days or less, each employee who was

promoted or changed shifts shall revert to the same classification (area), and the same lettered shift from which he moved, or any shift within his area that has become vacant during the leave or shutdown of equipment and is filled by a younger man in area seniority.

(b) Any time a new vacancy is established within an area, the employee with the most area seniority shall have the right to this vacancy if he so desires.

(c) Any new operating facility for products not now being manufactured will be filled by the bidding procedure before being transferred to any area.

(d) When employees return to an area because equipment is started up after a shutdown of more than sixty (60) days, all shifts within a classification will be chosen by area seniority.

(e) Any time that it becomes necessary for an employee to be demoted to a lower classification, other than a demotion caused by the termination of an authorized leave, he shall be given an opportunity to pick his shift within the classification in accordance with his seniority.

(f) Subject to the provisions of Subsection (e) of this Section 8 of this Article XI, an employee displaced from his shift has been discontinued, shall have the right to displace any other employee in that area in accordance with his area seniority.

(g) Any shift changes made in accordance with this Section shall be made on Monday following the determination of employees' choices provided that the determinations are made by noon on the preceding Friday and will be made without involving any overtime pay. Determination of employees' choices of shifts must be made within one (1) week after the shift is declared vacant, except as specified above.

Section 9. Reduction in Forces.

1. Effective August 1, 1986, employees who are permanently assigned in areas of the Operating Department who may be transferred from their regularly assigned classifications and thereby assigned, in accordance with the seniority provisions of the Agreement, to a vacancy with a lower rate of pay, shall continue to receive the higher rate of pay until they have had an opportunity to bid on and are the successful bidder to another vacancy calling for the same or higher rate of pay.

When there is more than one (1) bidder receiving the frozen rate of pay, all except the youngest employee in seniority shall have the right to refuse the vacancy. An employee who accepts a vacancy in order to protect a frozen rate or his retained seniority shall have the right to return to the vacancy from which he vacated if the vacancy he takes does not last for more than ninety (90) days.

Any question arising pertaining to safety due to reduced personnel in any area will be subject to Article XVII, Section 2.

2. Reduction in personnel and reduction in rate can, however, result from the fact that the operation of all or part of the equipment being operated in area is shut down either permanently or temporarily.

Any layoff will be in accordance with Article XI, Section 13. No employee will be reduced in pay for ninety (90) calendar days because of temporary shutdown.

3. Bumping Procedure - Employees permanently assigned to an area who are transferred to the Operator Trainee classification due to the shutdown of equipment will be allowed to replace other employees as follows:

(a) An equivalent number of vacancies permanently filled by employees with least bargaining unit seniority in any classification with less bargaining unit seniority, than employees reduced back to the Operator Trainee classification, will be declared vacant. The declaring of vacancies will be made within ninety (90) days after area shutdown and the assignments will be made on the ninety-first (91st) day.

(b) The vacancies declared vacant by the application of Item (1) above will be filled in accordance with bargaining unit seniority by those employees reduced to the Operator Trainee classification, or by the employees whose assignments were declared vacant.

(c) Employees reduced to the Operator Trainee classification who bid on and are the successful bidders before vacancies are declared as provided in Item (a) above will not be included in the number of assignments to be declared vacant.

4. Any employee who has replaced another employee under the provisions of subsection 9(2) above must return to the area from which he was originally reduced when he has an opportunity to do so on a vacancy of more than ninety (90) days or forfeit his seniority in the area to which he was transferred under subsection 9(2) above and go to the Operator Trainee classification.

5. The Bumping Procedure, as set forth in this Section, will not apply as a result of consolidation of assignments, automation, or change in shift schedules.

Section 10. Status of Employees Laid Off.

The accrued seniority, both bargaining unit and area, of an employee who has been laid off through no fault of his own shall continue to exist as of

the date of the layoff for the following periods:

Length of Service	Period Seniority to Exist
Less than 180 days	0
180 Days to 2 Years	Length of Previous Service
2 Years or More	2 Years

Section 11. Seniority Lists.

Seniority lists shall be complied and be kept at all times available to the Workmen's Committee, and the Workmen's Committee shall also have access to daily time reports to verify disputed seniority lists and service records.

Section 12. Seniority - Outside Assignments.

Any employee, after having established seniority under the provisions of this Agreement, who is temporarily assigned to another classification by the Company, outside of the bargaining unit, shall continue for not more than ninety (90) working days per calendar year on a cumulative basis to accrue seniority on his regular classification during such period of temporary assignment. If such employee works more than ninety (90) days per calendar year on a cumulative basis, he shall forfeit one (1) day of bargaining unit seniority for each day in excess of ninety (90) days worked outside of the bargaining unit during that calendar year. This paragraph is not applicable to employees who transfer to the Maintenance Department. Such employees forfeit both area seniority and bargaining unit seniority on the date which they transfer to Maintenance.

Section 13. Layoffs and Reemployment.

The last employee hired shall be the first employee to be laid off on the basis of bargaining unit seniority. The last employee laid off shall, if he still has seniority, be the first employee rehired (notwithstanding any provisions of Section 9 of this Article).

An employee who has worked in the bargaining unit sufficiently long to be entitled to seniority in that department, and who was laid off through no fault of his own, has kept his current address on file with the Company and continues to be entitled to seniority under the terms of this contract, shall, subject to the provisions of this Section, be given first opportunity for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with copy of such letter to the Chairman of Workmen's Committee), addressed to him at his address then on file with the Company. He shall be allowed ten (10) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article XI (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed ten (10) days from the date of delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work, totally disabled to work, he shall, on or before that date, deliver to said Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended ninety (90) days.

Section 14. New Operations and Existing Operations.

The classification to be established in any new operations and the area in which new operations will be incorporated shall be discussed with the Workmen's Committee not less than thirty (30) days prior to the posting of new vacancies in that area.

Section 15. Promotional Requirements.

The minimum qualifications required in order for an employee to be eligible to bid on a classification posted as a vacancy will be the ability to write and to read and comprehend written and verbal operating instructions.

ARTICLE XII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

The Company may, from time to time, require all employees to have periodical physical examinations by a doctor selected by the Company. However, as long as an employee is physically fit, such examination shall not be used as a cause for termination. Each employee shall receive his regular rate of pay for all time required for him to be examined at the request of the Company.

Section 2.

In the case of an employee being absent from work due to illness or physical impairment, he may be required to present a certificate of physical fitness, signed by a licensed physician, before being readmitted to work. This rule, however, shall not limit the right of the Company to require physical examination by a physician in the Company's service in exceptional cases of constantly recurring absence from duty.

Section 3.

Notwithstanding any of the provisions of Article II or Article IV of

this Agreement, in case a dispute arises over the physical fitness of an employee to return to work or continue to work, a board of three (3) physicians shall be selected, one by the Company, one by the employee, and one selected by the two so named. The decision of the majority of this board shall be final and binding.

ARTICLE XIII
AUTHORIZED DEDUCTIONS

1. Union Dues.

Upon receipt of a signed authorization by an employee in the form provided herein, requesting deductions from his or her wages of his or her monthly Union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form of such individual authorization shall be as follows:

> "Until further notice you are hereby requested and authorized to deduct from wages due me and payable on the first regular pay day of each month, the sum equal to my monthly dues as set by Oil, Chemical and Atomic Workers International Union, Local 5-434, for my account on or before the 15th day of the month following the calendar month for which said deductions are made."

The Financial Secretary of Local Union 5-434 and an International Representative of the Union shall, from time to time, notify the Company in writing the amount of the monthly deduction to be made, from time to time, under this authorization. The Company shall remit to the Union the amount so deducted on or before the 15th day of the calendar month following that for which deductions are made.

2. Political Contributions

The Company hereby agrees to honor contribution deduction authorizations from its employees who are Union members in the following form:

> "I hereby authorize the Company to deduct from my pay a yearly specified sum and forward that amount to the Oil, Chemical and Atomic Workers International Union, Local 5-434 Political Committee. This deduction should be made and remitted to the Union on the first regular pay day of February each year. This authorization is voluntarily made on the specific understanding that the signing of this authorization and the making of payments to the Oil, Chemical and Atomic Workers Political Committee are not conditions of membership in the Union or the employment with the Company and that the OCAW Political Committee will use the money it receives to make political contributions and expenditures in connection with federal, state, and local elections."

The Union agrees to indemnify the Company for any loss the Company may suffer as the result of this deduction taken by the Company from an employee's pay to be remitted to the Union.

ARTICLE XIV
DISCHARGE

Section 1.

An employee shall not be discharged if physically and mentally capable of continuing his duties on account of any accident unless the accident was caused by negligence, carelessness, or malicious intent of the employee.

Section 2.

The company shall expect all of its employees to adhere to its rules and regulations.

Section 3.

The question as to whether a person who is discharged was rightfully discharged shall be a proper subject of arbitration.

The Company and the Union will share in the expenses of arbitration equally.

ARTICLE XV
MILITARY LEAVE

Section 1. Leave of Absence.

The rights of employees of the Company who enter military service during the term of this Agreement will be governed in all respects by the Military Selective Service Act including amendments.

Section 2.

An employee, upon return to work from Military Leave, will be allowed to claim any assignment that became vacant during his term of Military Leave to which his area seniority would have entitled him had he not been on Military Leave.

ARTICLE XVI
BULLETIN BOARDS

The Company shall maintain a bulletin board to be placed on the property where it may be seen by employees entering and leaving their place of employment.

Such bulletin board may be used by the Workmen's Committee of the Union for any matters pertaining to its membership provided the material posted shall contain nothing of a political or controversial nature nor reflect upon the Company or any of its employees or products.

Any notices other than notices of Union meetings, results of elections, sample ballots of Union elections, social events shall be approved in writing by Plant Manager or his representative before posting.

This bulletin board will be locked with keys, released to the Chairman of the Workmen's Committee, the Chief Steward, the Chairman of El Dorado Chemical Company Group of Local 5-434 of the Union and to the Company.

ARTICLE XVII
SAFETY & HEALTH

Section 1.

The Company shall institute and maintain all reasonable precautions for safeguarding the health and safety of its employees, and all employees are expected to cooperate in the implementation thereof. Both the Company and the Workmen's Committee recognize their mutual interest to assist in the prevention, correction, and elimination of all unhealthy and unsafe working conditions and practices.

Section 2.

No employee shall be required to perform services that seriously endanger his physical safety, and his refusal to do such work shall not warrant or justify discharge. In all such cases, an immediate conference between the Company and Union shall be held to settle the issue in question.

Section 3.

The Company recognizes the Workmen's Committee to be a Union Health and Safety Committee that will discharge this responsibility at a scheduled session as held under Article XVIII. Discussion of Safety and Health topics will be included in minutes issued from that session. The Health and Safety Committee will have the responsibility of making constructive recommendations for changes to eliminate unhealthy and unsafe conditions and practices. Recommendations of the Health and Safety Committee will not be subject to the Grievance Procedure under Article IV.

Section 4.

The Company will provide and maintain adequate health and safety equipment, monitoring devices, and personnel protective equipment. Additionally, the Company will provide employee training to ensure that employees are knowledgeable in use and maintenance of health and safety equipment and personnel protective equipment.

Section 5.

The Company will provide appropriate routine medical examinations at its discretion. A report of the medical findings will be made to the affected employee.

Section 6.

Inspection of all equipment throughout the plant or place of employment shall be continued by the Plant Manager or other persons designated by the Company from time to time. An inspection of any equipment may be secured upon the recommendation of the Workmen's Committee or the workmen employed on such equipment. The Union Workmen's Committee may make written suggestions to the Plant Manager or his representatives as to the elimination of hazards in order to prevent accidents.

Section 7.

A Safety and Housekeeping Inspection Team will be maintained for purposes of making periodic inspections of the plant premises and recommendations to improve Safety and Housekeeping. This team will consist of not more than two (2) members of this Workmen's Committee, or two (2) other members of the bargaining unit, and other persons outside the bargaining unit as designated by the Company. Those members of the bargaining unit who serve on the team will be excused from work, with pay, on the day of the inspection, and the vacancy created will be filled in accordance with Article XI, Section 8.

Section 8.

Two (2) "at-large" employees will be selected by the Company to participate in the Manufacturing Department Safety Planning Committee. The term of service will normally be one (1) year for these employees. The Company will maintain a list of those employees agreeing to serve.

Section 9.

One (1) "at-large" employee from the area in which the accident occurred, selected by the Company, will be asked to serve on formal Accident Investigation Teams as formed. The Company will maintain a list of those employees agreeing to serve.

Section 10.

The Company may, at its discretion, maintain a plant Emergency Squad for preserving the well-being of both employees and the physical facilities within

the plant. The Company may assign employees to the Emergency Squad by classification and classification qualification.

The Emergency Squad shall be trained in first aid, personal rescue, fire fighting and other emergency training under the overall direction of the plant Safety Supervisor. Other selected personnel will be expected to attend training sessions to complement the makeup of the Emergency Squad, emergency equipment, and substitute as Emergency Squad Leader.

The Emergency Squad will be called in the event of an emergency, consistent with the Plant Emergency Plan, and shall be considered the primary crew to perform the duties and direct the operation during the emergency. However, should the need arise, other available employees, including salaried employees, may assist the Emergency Squad. If a need arises during an emergency, the Emergency Squad Leader may, at his discretion, call out additional Emergency Squad members.

The Company will maintain relationships with local emergency service groups so that, if available and if required, these groups may assist the Plant Emergency Squad.

ARTICLE XVIII
WORKMEN'S COMMITTEE CONFERENCES

Workmen's Committee, composed of five (5) members from the employee work force, and management representatives, shall hold regular meetings on a bimonthly basis. It shall be the responsibility of both parties to submit a written agenda of each subject it wishes to discuss no less than forty-eight (48) hours before the day of any such meeting. In the event the aforementioned day occurs on a holiday, the day preceding the holiday shall be the day of the meeting. This date may be changed by mutual agreement.

The members of the Workmen's Committee, when scheduled to work the graveyard shift on the day after any such regular meeting, will be excused from work on that graveyard shift with pay.

ARTICLE XIX
SEVERANCE PAY

Any employee covered by the terms of this Agreement whose services are terminated through no fault of his own shall be granted severance pay after one (1) year of continuous service of one (1) week's pay, equivalent to forty (40) hours' straight-time pay at his regular rate; after two (2) years' service, two (2) weeks' pay equivalent to eighty (80) hours straight-time pay at his regular hourly rate.

If the services of an employee who has been continuously employed by the Company for one (1) year or longer is terminated through no fault of his own, and he has not been notified by the Company (by notice given at least two (2) weeks prior to the date upon which his services are terminated) that his services will be terminated on that date, he shall be paid, in addition to the amount to which he is entitled under the provisions of the first paragraph of this Article, two (2) weeks' pay equivalent to eighty (80) hours straight-time pay at his regular hourly rate.

ARTICLE XX
CONTRACT WORK

It is agreed that any work or operation as covered by this Agreement will not be contracted out if the Company has men and equipment available for such work.

ARTICLE XXI
DISCRIMINATION

There shall be no discrimination by the Company against any employee on account of his membership in this labor union or on account of any activity undertaken in good faith in his capacity as a representative of other employees. The Union shall not discriminate against any employee who is not a member of the Union.

Where the male gender is used in this contract, it is intended to refer to both male and female. It is a continuing policy of the Company and the Union that the provisions of this Agreement shall be applied to all employees without regard to race, color, religion, sex, physical disability, national origin, or age.

ARTICLE XXII
LEAVE OF ABSENCE

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with written consent of the Company, signed by the Plant Manager or his representative, so long as he does not desire to be off work over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service. The provisions of this Section 1 shall not be extended to more than two (2) employees in each area at any one time.

Section 2. Union Business.

(a) The Company shall grant a leave of absence, without pay, extending not longer than thirty (30) days to employees in order to engage in any work pertaining to the business of the Union, local or otherwise, upon sufficient notice so that the employee's absence will not cause overtime employment.

Upon completion of such leave that employee will resume employment with previous seniority retained. This privilege will not be extended to more than four (4) employees at any one time. This privilege will not be extended to any one (1) employee for more than an aggregate of sixty (60) days in any one (1) calendar year. This does not apply to negotiations.

(b) Notwithstanding the provisions of the foregoing subdivision (a), the Company agrees that upon written request of the President of the Union (addressed to El Dorado Chemical Company, P. O. Box 231, El Dorado, Arkansas, Attention: Plant Manager) one (1) employee will be given a leave of absence not to exceed one (1) year, without pay, to work as an employee of the Union, or any of its affiliates, with the provision, however, that such leave of absence shall, upon the written request of the President of the Union (addressed in like manner) be extended for a period of time not to exceed one (1) additional year.

It is provided, however, that not more than one (1) employee at a time may be on leave of the character mentioned in the paragraph immediately preceding.

No employee shall be granted a leave of absence pursuant to this subsection who has not, immediately preceding the date upon which such leave of absence is to begin, worked for a period of one (1) year continuously.

Upon completion of the leave of absence mentioned within this subsection, or upon completion of the extended term of such leave of absence, if the term thereof is extended pursuant to this subsection, the employee involved will resume employment with previous seniority retained, provided such employee reports to the Company for work within one (1) day following the expiration of said leave of absence or within one (1) day following the extended term of such leave of absence if the term thereof is extended pursuant to this subsection.

An employee who fails to report for work within one (1) day following the end of such leave of absence shall thereby forfeit all of his seniority and his services with the Company shall be terminated; provided, however, if the employee involved is (on the date which he would otherwise be required to report to work) totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended thirty (30) days.

Company shall have the right to require such employee to be examined by a physician of its choice before extending such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employ of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously accrued seniority, whichever is less, during the period of his disability as a result thereof, notwithstanding any provisions of Article XI. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employ of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the department in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better assignment elsewhere, his seniority shall be canceled.

ARTICLE XXIII
JURY DUTY

Each employee of the Company who is called to serve upon any grand jury, petit jury, coroner jury, or jury commission shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount which he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

ARTICLE XXIV
WAGE RATES AND CLASSIFICATIONS

Each employee who works during the period beginning 12:01 a.m., August 5, 1995, and ending 12:00 midnight, July 31, 1998, in one of the classifications shown on Exhibit "B" attached hereto, shall be paid for his work in that classification in accordance with the applicable wage rate, shift differential, and clothing allowance in accordance with Exhibit "B".

Notwithstanding any other provision of this Agreement to the contrary, the question of wages to be paid shall not be construed to include any allowance which results in an increase in the compensation of an employee or of employees.

ARTICLE XXV
VALIDITY

If any court shall hold any part of this Agreement invalid, such decision shall not invalidate the entire Agreement.

ARTICLE XXVI
NOTICES

Any notice required to be given an employee under Article V, Section 3, or under Article XIX, may be given by posting a notice on the bulletin board of the Union, with a copy of said notice to the Chairman of the Workmen's Committee. If any employee named in such notice is on vacation or on leave of absence, a copy of said notice will be mailed in a sealed envelope, registered, and addressed to him at his address as shown on the records of the Company. Each employee named in any such notice shall be deemed to have received the notice at the time said notice is posted on the bulletin board or mailed to him at his home address.

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to El Dorado Chemical Company, P. O. Box 231, El Dorado, Arkansas 71731, Attention: Plant Manager.

Any notice to be given to the Union may be given by depositing the same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to the Oil, Chemical and Atomic Workers International Union, El Dorado, Arkansas 71731, with a copy of the notice to the Secretary, Local 5-434, of the Union, El Dorado, Arkansas 71731.

ARTICLE XXVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or to attend the funeral or any of the relatives of the employee hereinafter mentioned for the time hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) days. One of these days shall be the day of the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purpose stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for a deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight-time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as: vacation pay, holiday pay, or sickness benefits payments.

ARTICLE XXVIII
SICKNESS BENEFITS

Group Insurance and Pension.

Effective with the date of this Agreement, the Company and employees will share the entire cost of group insurance benefits for employees and employee dependents on the following basis:

Company	75%
Employee	25%

Effective with the date of this Agreement, the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance (twice an employee's annual income).

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

ARTICLE XXIX
NO LOCKOUT -- NO STRIKE

The Company agrees that there shall be no lockout and the Union agrees there shall be no strike, sympathy strike, or interruption of production during the term of this Agreement.

ARTICLE XXX
RETIREMENT AGE

Any employee who becomes seventy (70) years of age shall be retired and his services with the Company terminated on the first (1st) day of the month following the day upon which he is age seventy (70).

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

IN WITNESS WHEREOF, this instrument is executed on the 5th day of

August, 1995, to be effective as of 12:01 a.m. on the 5th day of August, 1995.

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION

BY:
Ray T. West - International Representative

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

EXHIBIT "A"
OPERATING DEPARTMENT
PROGRESSION CHART

AREA II	AREA III	AREA IV
"A" Operator	"A" Operator	"A" Analyst
"B" Operator	"B" Operator	"B" Analyst
"C" Operator	"C" Operator	"C" Analyst
"D" Operator	"D" Operator	"D" Analyst
*"E" Operator	"E" Operator	"E" Analyst

* (First 180 Days)

EXHIBIT "B"

WAGE RATES AND CLASSIFICATIONS

	8/5/95	8/5/96	8/5/97
"A" Operator/"A" Analyst	15.79	16.22	16.71
"B" Operator/"B" Analyst	15.09	15.50	15.97
"C" Operator/"C" Analyst	14.53	14.93	15.38
"D" Operator/"D" Analyst	12.77	12.90	13.03
*"E" Operator/"E" Analyst	8.90	8.90	8.90

* (First 180 Days)

An "A" Operator who assigned as Control Board Operator shall receive a premium of $.50 per hour for such hours worked.

Management shall have the right to use casual labor for periods of employment not to exceed ninety (90) days per year for a given individual.

SHIFT DIFFERENTIAL

In addition to the foregoing hourly rates, there shall be paid a shift differential of forty cents ($.40) for each hour worked on the 3:00 p.m. to 11:00 p.m. shift and eighty cents ($.80) for each hour worked on the 11:00 p.m. to 7:00 a.m. shift.

For payroll purposes, shift differential pay will be averaged over all three (3) shifts (7:00 a.m. to 3:00 p.m., 3:00 p.m. to 11:00 p.m., and 11:00 p.m. to 7:00 a.m.) - forty cents ($.40) per hour will be paid for each hour worked. Shift differential will be paid to operating personnel assigned to rotating shifts.

CLOTHING ALLOWANCE

In addition to the foregoing hourly wage rates, there shall be paid a clothing allowance of nine cents ($.09) per hour for each hour worked by an

employee. Effective August 5, 1995, through the term of this Agreement the clothing allowance will be sixteen cents ($.16) per hour worked by an employee.

EMERGENCY SQUAD PREMIUM

In addition to the foregoing rates, there shall be paid a rate of five cents ($.05) per hour for each hour worked to employees working classifications designated for inclusion on the Plant Emergency Squad.

EXHIBIT "C-2"
5-2 SHIFT SCHEDULE

	M T W T F S S	M T W T F S S	M T W T F S S
SHIFT 7-3	X X X X X	Y Y Y Y Y	Z Z Z Z Z
SHIFT 3-11	Y Y Y Y Y	Z Z Z Z Z	X X X X X
SHIFT 11-7	Z Z Z Z Z	X X X X X	Y Y Y Y Y
DAYS OFF	X X Y Y Z Z	X X Y Y Z Z	X X Y Y Z Z

EXHIBIT "C-3"
UNIFORM SHIFT SCHEDULE

	M T W T F S S	M T W T F S S	M T W T F S S	M T W T F S S
SHIFT 11-7	A A A A A D D	D D D D D C C	C C C C C B B	B B B B B A A
SHIFT 7-3	D D D C C C C	C C C B B B B	B B B A A A A	A A A D D D D
SHIFT 3-11	C C B B B B B	B B A A A A A	A A D D D D D	D D C C C C C
OFF	B B C D D A A	A A B C C D D	D D A B B C C	C C D A A B B

EXHIBIT "D"
CONSOLIDATION POLICY

During their negotiations, the Company and the Union discussed the procedures to be followed by the Company in its job consolidation program and agreed as follows:

The Company will accomplish consolidation of jobs in each operating department whereby each employee will be trained through the training program announced by the Company.

As soon as an employee has demonstrated the technical knowledge and qualifications to properly perform all duties of each job within an assigned area (II), (III), then such employee will be promoted to the classification of "A" Operator at the appropriate increase in pay.

(a) The length of training will be determined by the individual's ability to learn and perform the skills required by consolidation. To become qualified and entitled to "A" Operator pay and classification, an employee must have the skills and knowledge to perform any job duty within his/her work area.

(b) Areas and shifts will not be changed as a result of consolidation.

(c) Company shall have the right to determine the frequency of rotation, (not more often than weekly) in order to accomplish job consolidation. Such rotation shall normally be on a regular basis with exceptions made only because of justifiable business needs such as unplanned personnel absence, Acts of God, and production equipment failure.

(d) The parties have discussed the possible impact of consolidation on a limited number of employees who are not yet "A" Operators because:

1. They do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator. (This does not mean physical fitness which is provided for in Article XII.)

2. A very limited number of employees who allege they currently have medical conditions which limit their assignment to perform all the duties of the "A" Operator classification.

3. Those who allege they do not possess the necessary ability to learn, retain, and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and with whom the Company disagrees.

4. Those who have neither alleged nor requested disqualification, but who are nominated by the Company. Following negotiations, a joint committee shall meet for the purpose of discussing the above individuals subject to the

following:

(a) Each employee in categories 1-3 must, no later than September 30, 1989, submit a signed, dated request to the Manager of Manufacturing, requesting consideration for one of the above reasons. This procedure is offered on a one-time basis during such period.

(b) In the event the joint committee agrees that such an employee is disqualified for the reason alleged, such person shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B". The Company may utilize such individual in any job he/she is qualified to perform in his/her area.

(c) An employee who has submitted a request to be disqualified, due to physical reasons, for assignment to perform all duties of the "A" Operator classification may be required to submit to a physical examination by the Company's physician pursuant to the provisions of Article XII. In case of a disagreement over such employee's physical fitness for such work assignment, the procedures of Section 3 of Article XII may be resorted to by the employee within three (3) working days or the decision of the Company's physician shall be final and binding.

(d) In the case of an employee who has alleged that he/she does not possess the ability to learn, retain and satisfactorily complete the requirements of job knowledge and demonstrated skills required for promotion to "A" Operator and the joint committee cannot reach a mutual agreement, the Company shall have the right to require such employee to proceed with its job consolidation and training program until the employee either qualifies or the Company agrees that such individual does, in fact, lack such ability. Such individual shall then be "red-circled" at the rate of the employee's present classification as provided by Exhibit "B" and assigned any duties qualified to perform within his/her area.

(e) In the event the joint committee does not agree that a person nominated by the Company under paragraph 4 is not qualified for training for promotion to "A" Operator, the individual may grieve the Company's decision.

(f) The above procedure is available only on a one-time basis, limited to those individuals who have submitted written request for consideration under the provisions of paragraphs 1, 2, or 3, or who were nominated by the Company during the 60-day period commencing August 1, 1989.

It is understood that there may be a situation where, because of training needs, it is necessary to train someone other than the senior operator and shift. In this case, as soon as such individual has been promoted to "A" Operator, the most senior operator will be placed in training for advancement to "A" Operator or paid at the rate of "A" Operator.

DATED this 5th day of August, 1995.

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION

BY:
Ray T. West - International Representative

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

LETTER OF UNDERSTANDING

The parties have agreed that not withstanding any other clause or provision of the agreement the following procedures shall apply during the life of the Agreement, effective August 5, 1995:

(a) Commencing August 1, 1990, each employee shall be limited to one bid during each 12-month period commencing with the date the successful bidder is informed of the bid award. A successful bidder will be transferred as soon as a qualified replacement is available to fill

his vacancy.

(b) Skills balancing, by shift within each area. Company shall have the right to balance assignment skills in each area on each shift in order to maintain production efficiency and to accomplish training needs.

A shift is considered not balanced until each operating assignment has available a minimum of two qualified operators.

The Company has the right to balance skills on each shift in each area. Whenever three (3) or more employees are qualified on any one assignment within a shift and another shift has only one person qualified for that assignment, the Company may transfer one person to the shift having only one trained person in that assignment in the following manner:

Company will offer the transfers first by area seniority to such qualified personnel and in the event the senior qualified employees decline, there by assignment of the qualified employee(s) with the least area seniority necessary to achieve shift skill balancing.

When more than one shift exceeds minimum skill balancing personnel numbers, the initial offer of transfer opportunity or assignment, will be by area seniority and qualifications from all shifts in the area.

It is understood that the same individual may not be involuntarily transferred for the purpose of skills balancing more frequently than once each twelve (12) months.

Skills balancing between shifts takes precedence over bidding procedures.

In the event the transfer of an employee from one shift to another creates a surplus on the receiving shift, the surplus employee shall then be assigned to the shift from which the transferred employee came. If an employee is not surplus the bidding procedure will be followed.

When there is a conflict between terms of the Agreement and this Letter of Understanding, this document shall control.

DATED this 5th day of August, 1995.

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION
AND ITS LOCAL 5-434

BY:
Ray T. West - International Representative

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

EXTRA CREW
LETTER OF UNDERSTANDING

During their negotiations, the parties discussed the Company's objective of facilitating its commitment to job consolidation training, recognizing the need for extra personnel who could be used for purposes of relief, training, or replacement of employees who are absent or for overtime assignment.

The parties have agreed that the Company shall have the right to utilize certain lowest seniority individuals who will be designated as "Extra Crew" and assigned as the Company may elect. Such "Extra Crew" personnel will not be assigned to a shift or area until there is a vacancy after the completion

of the realignment and bidding procedures, even though the employee has completed 180 days of service.

Such "Extra Crew" members will be drawn from the lowest senior employees in the plant or from "new hires." No regular assignment will be deleted to provide employees for this "Extra Crew."

The Company will utilize four (4) current employees to establish the "Extra Crew," or new hires as attrition takes place.

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION
AND ITS LOCAL 5-434

BY:
Ray T. West - International Representative

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

AMERICANS WITH DISABILITIES ACT
LETTER OF UNDERSTANDING

The Company and Union recognize the provisions of the American's with Disabilities Act may impact the terms of this Agreement, and thus agree to discuss each instance individually in order to reach a mutual understanding.

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION
AND ITS LOCAL 5-434

BY:
Ray T. West - International Representative

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

TWELVE HOUR SHIFT
LETTER OF UNDERSTANDING

There is presently an operating practice of a twelve hour shift schedule. All matters regarding the twelve hour shift policy are governed by the policy which is contained in Standard Operating Procedures Manual No. A002.

EL DORADO CHEMICAL COMPANY

BY:
Richard Milliken, Plant Manager

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION
AND ITS LOCAL 5-434

BY:
Ray T. West - International Representative

APPROVED:

BY:
Stacey Burson

BY:
Rick Bailey

BY:
James Turbeville

BY:
Paul Voss

BY:
James Haltom

AGREEMENT

between

EL DORADO CHEMICAL COMPANY

and

INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE WORKERS,
AFL-CIO
LOCAL NO. 224

Effective: August 5, 1995

EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas
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PREAMBLE

This Agreement is made and entered into by and between EL DORADO CHEMICAL COMPANY (hereinafter referred to as the "Company"), and the INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL-CIO, LOCAL NO. 224 (hereinafter referred to as the "Union"), which the Company recognizes as the sole bargaining agency for the Maintenance employees of the Company at its chemical plant located north of El Dorado, Arkansas, who are eligible for membership in the Union in accordance with the Labor Management Relations Act of 1947.

ARTICLE I
APPLICATION OF AGREEMENT

The Company hereby recognizes the Union as the exclusive bargaining agency for the employees of the Company at said plant who work in the capacities hereinafter stated in this Article I.

(a) All Maintenance employees, as described in Exhibit "A", engaged in the installation, maintenance and repair of machinery and equipment, but excluding all production, chemical and operating employees, shipping attendants, office and clerical employees, managers, supervisors and guards.

ARTICLE II
PERIOD OF AGREEMENT

This Agreement shall remain in full force and effect for a 3-year contract term commencing August 5, 1995, at 12:01 a.m., and ending 12:00 Midnight, July 31, 1998. At reasonable times after June 1, 1998, the parties will meet to attempt to negotiate a new contract to be effective for a period beginning after 12:01 a.m., August 1, 1998.

ARTICLE III
MANAGEMENT RIGHTS CLAUSE

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct; to assure discipline and efficient operations; to determine what work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the allocation and assignment of work to employees; to determine the location of the business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any job, operation, service, or department; to sell, merge or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged. The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE IV
CHECK-OFF OF UNION DUES

Upon receipt of a signed authorization by an employee requesting deductions from his wages for his monthly union dues, the Company agrees to honor such authorization according to its terms during the life of this Agreement. The form of such individual authorization shall be as set forth in Exhibit "D" hereto.

The Financial Secretary of Local 224, IAM-AW, shall, from time to time, notify the Company in writing of the amount of the monthly deduction to be made, from time to time, under this authorization. All money so deducted by the Company shall be paid to the Union on or before the end of the month during which deductions are made. Upon receipt of written request by an employee, the Company shall, after thirty (30) days' notice, discontinue dues deduction.

ARTICLE V
SENIORITY

Section 1. Length of Service.

Length of service in the bargaining unit and with the El Dorado Plant shall, in that order, govern the promotion, demotion, and transfer of employees.

Section 2. Order of Seniority.

An employee's seniority shall be determined as follows:

Order of Importance Seniority

1st	Bargaining Unit
2nd	Plant

Section 3. Eligibility for Seniority.

An employee shall be first entitled to seniority in the bargaining unit when he has been continuously employed in that unit for 180 days; his seniority dating from the date of the beginning of such employment.

However, an employee who has been employed in the bargaining unit, who has been laid off prior to his having been employed therein for 180 days continuously, and who is reemployed in the bargaining unit within 180 days from the date upon which he is laid off, shall, upon such reemployment, be entitled to have the number of days which he has worked in the bargaining unit, during the period of his most recent previous employment herein, included in any subsequent computation of his seniority in the bargaining unit and shall be entitled to seniority when he has accrued 180 days on that basis.

The Company shall have the right to layoff or discharge, without cause, any employee who has not worked in the bargaining unit a sufficient length of time to gain seniority, and such action on the part of the Company shall not be the subject of a grievance on the part of the Union under any provision of this Agreement.

Section 4. Filling Vacancies.

(a) Temporary and permanent vacancies will be filled only when the Company sees a need to fill the vacancy. In the event the Company sees a need to fill a vacancy, it will be filled by the employee having the most bargaining unit seniority, who desires the job, and who possesses a skill of the group in which the vacancy occurs. Any person so promoted must accept the duties and responsibilities of the job.

(b) When there is a permanent vacancy in a group and the Company sees a need to fill that vacancy, the Company shall post promptly, and keep posted for fifteen (15) days, notice on its bulletin board of the job vacancy. It shall be the duty of an employee who feels himself entitled to such job on account of his seniority to file his sealed bid for such job with the Plant Manager or his representative, and send a copy thereof to the Chairman of the Shop Committee within said 15-day period. In order to be considered valid, a bid must be signed, dated, and deposited in a locked box marked "I.A. of M. and A.W. Bids" located at the plant entrance gate.

Immediately upon expiration of the posting period of fifteen (15) days, the names of all bidders will be posted on the bulletin board, and the bidder having the most seniority and who desires the job shall be assigned to the group and receive the "C" Mechanic rate of pay if he possesses the necessary skill. In the event no qualified bidder possessing the necessary skill bids on the vacancy, the Company may hire a qualified employee from the outside.

If he does not possess the skill, he will be reduced to the rate that compares to his previous experience beginning not later than the beginning of the work week following the week in which the successful bidder is determined, provided the successful bidder is available to report for work on that day.

If the group vacancy is not filled by the procedure set forth above and the Company sees the need to fill the vacancy, a first-year "E" Mechanic job will be posted for filling outside the bargaining unit.

Notwithstanding any other provisions of this subsection (b), it is agreed that the Company shall have the right at any time during said 15-day posting period to withdraw the posting of a new job in the event the Company decides that such job need not be filled.

(c) Should an employee within a group who is entitled to a promotion desire to waive his opportunity for that promotion, he shall do so by signing a waiver.

(d) In the event that it becomes necessary to establish a permanent rotating shift the Company will notify the Shop Committee to discuss the procedure and shift to be implemented at least thirty (30) calendar days before establishing such shift.

Section 5. Qualifications for Job.

(a) It is not the intention of the parties to this Agreement that any employee shall be permitted to work on a job when he is not qualified to perform the work which that job requires. However, if, in the opinion of the Company, an employee is not qualified for a particular job to which he would otherwise be entitled by virtue of his seniority, and the Company determines that an employee's application for the job shall be denied on the basis of his lack of qualifications, the Company shall notify the Chairman of the Shop Committee and the employee involved of their decision, at least five (5) days prior to the date upon which any other employee is permanently assigned to the job.

Section 6. Seniority List.

Seniority lists will be compiled on April 1 and October 1 and will be available to all employees. One copy of each seniority list will be furnished to the Shop Committee.

Section 7. Seniority Accrued.

Each employee shall retain the seniority accrued to him based upon actual service at the El Dorado Plant.

Section 8. Seniority - Outside Assignments.

Any employee, after having established seniority under the provisions of this Agreement, who is temporarily assigned to another job by the Company (outside the bargaining unit) shall continue, for not more than ninety (90) days per calendar year, on a cumulative basis, to accrue seniority on his regular classification during such period of temporary assignment. If such employee works more than ninety (90) days per calendar year on a cumulative basis, he shall forfeit one (1) day of bargaining unit seniority for each day in excess of ninety (90) days worked outside of the bargaining unit during that calendar year.

Section 9. Discharges and Reemployment.

When there is a reduction in the number of employees in the bargaining unit, the employee last employed in the bargaining unit shall be the first employee laid off. The employee laid off through no fault of his own, who has the greatest bargaining unit seniority, shall (subject to the following provisions of this Article) be the person first reemployed in the event additional employees are employed, provided that the person is qualified to perform the duties of the job to which he would be assigned on reemployment.

A person who has worked in the bargaining unit sufficiently long to be entitled to seniority in that unit, and who is laid off through no fault of his own, who has kept his current address on file with the Company, and who continues to be entitled to seniority under the terms of this Agreement shall (subject to the following provisions of this Article) be given first consideration for reemployment.

If reemployment is available for any such person, the Company shall so notify him by letter (with a copy of such letter to the Chairman of the Shop Committee), addressed to him at his address then on file with the Company, and he shall be allowed fifteen (15) days from the date upon which said letter was mailed, or until he no longer retains his accrued seniority as provided in Section 10 of this Article V (whichever is the shorter period), in which to notify the Company in writing of his desire to return to work. In the event he delivers such notice, he shall be allowed seven (7) days from the date of the delivery thereof to report for work; provided, however, if the employee involved is, on the date which he would otherwise be required to report for work totally disabled to work, he shall, on or before that date, deliver to the Company a statement in writing from a licensed physician stating that he is so disabled, in which event the period within which he shall be permitted to return to work shall be extended ninety (90) days.

Section 10. Status of Employees Laid Off.

The accrued seniority of an employee who has been laid off through no fault of his own shall continue to exist from the date of his layoff for the following periods:

Years of Service	Period Seniority to Exist
0-180 days	-0-
181 days to 2 years	Length of previously accrued seniority
2 years or more	2 years

Section 11. Loss of Seniority.

Seniority shall be lost and employment terminated for any of the following reasons:

(a) Quitting.

(b) Absence from work for three (3) consecutive days without having notified the Company, unless physically impossible to do so.

(c) Discharge for just cause.

(d) Failure to return at the expiration of a leave of absence or vacation.

(e) If an employee misrepresents the reason for requesting a leave of absence.

(f) If an employee fails to file for reinstatement within ninety (90) days following discharge from the U.S. Military Service.

(g) Failure to return to work from layoff within the time specified in Section 9 of this Article.

(h) At the end of the period specified in Section 10 of this Article, or upon earlier rejection after layoff of an offer of reemployment in a classification equal to the classification from which laid off.

ARTICLE VI
HOURS OF WORK AND OVERTIME

Section 1. Hours of Work.

(a) Regular base hours of work shall be eight (8) hours per day and forty (40) hours per week.

(b) The work week shall begin at 12:01 a.m. each Monday and end at

12:00 midnight the following Sunday. The work day shall begin at 12:01 a.m. and end at 12:00 midnight.

(c) The work week shall normally be five (5) consecutive 8-hour days, Monday through Friday, and will normally begin work at 7:00 a.m. and end at 3:30 p.m. with a 30-minute lunch period from 12:00 noon to 12:30 p.m.

(d) No employee shall be required to work more than twelve (12) hours during any normal work day except in case of an emergency.

(e) All employees shall be expected to report to work promptly at the scheduled time. No employee shall be permitted to work if such employee reports for work more than one and one-half (1-1/2) hours after his regular scheduled reporting time, unless such delay has been previously excused by the Company.

(f) No employee shall be allowed to work more than sixteen (16) continuous hours nor more than sixteen (16) hours in any one day except in the case of an emergency. However, an employee will be allowed to complete his regularly scheduled hours of work as provided in Sections 5, 8 and 10 of this Article VI.

(g) Maintenance overhauls may be staffed on 8-hour, 10-hour, or 12-hour shifts as may be necessitated by the needs of the operation.

The Company will specify and select the number and classifications of personnel on each shift by work group classification for each particular overhaul on a shift basis. Preference to shifts will be governed by the employee's bargaining unit seniority. Shift change notice will be handled as outlined in Article VI, Section 3. In the event there are insufficient qualified personnel on each shift, the Company shall have the right to assign qualified personnel as needed.

Section 2. Overtime and Call-Out Pay Rates.

(a) Overtime and call-out rates shall be one and one-half (1-1/2) times the regular rate and shall be paid for all work performed in excess of forty (40) hours per week, continuous actual work in excess of eight (8) hours, and for all work performed as a result of call-out and for hours worked outside an employee's regularly scheduled hours.

(b) Any employee who works over, beyond his regular scheduled work day, shall be paid a minimum of three (3) hours at straight time. If the employee is required to stay over beyond his regular scheduled work day to attend meetings or to receive training, and no production work is involved, he will receive pay for actual time spent at one and one-half (1-1/2) times his regular rate of pay, providing he has received a minimum of twenty-four (24) hours' notice in advance.

(c) No employee shall work overtime without the approval of his Foreman.

Section 3. Shift Change Notice.

(a) The Company shall pay each employee one and one-half (1-1/2) times his regular rate of pay for the first shift of a rearranged work schedule if the employee whose shift is changed shall not have been notified of the change at least twenty-four (24) hours prior to the beginning of said first shift. If notice of employee's shift change shall be posted on his regular day off, notice of the change shall be posted at least seventy-two (72) hours prior to the beginning of said first shift. Any notice required to be given to an employee under the provisions of this Section 3 may be given by written notice posted on the general bulletin board of the Company and the bulletin board of the Union, and each employee named in any notice shall be deemed to have received the notice at the time copies of said notices are posted on said boards.

(b) The changing of an employee's shift, incident to the return of an employee from sickness or accident, shall not be considered a change in shift within the meaning of this Section 3, unless the absent employee has given the Company at least seventy-two (72) hours' notice of his intention to return to work and the time at which he will return to work by notifying his supervisor.

(c) The changing of an employee's shift from 7:00-3:30 to 7:00-3:00, or from 7:00-3:00 to 7:00-3:30 will not constitute a shift change.

(d) A change in shift at the request of an employee shall not be considered a change in shift for the purpose of this Section 3.

(e) No employee shall lose any time from his normally scheduled 40-hour week occasioned by any shift change.

Section 4. Meal Time.

(a) If a "Day Man" is instructed to and continues to work overtime past 6:00 p.m., he shall be allowed a 30-minute period beginning at 6:00 p.m. for supper on Company time; and if said "Day Man" then continues to work additional overtime, he shall be allowed a 30-minute lunch period on Company time; each such period to begin at the end of four (4) hours of additional continuous overtime worked after 6:30 p.m.

(b) Any employee called for work outside of his regular working hours, who is required to work more than four (4) consecutive hours outside his regular hours, shall be allowed a 30-minute period for a meal on Company time at the end of the fourth consecutive hour and at the end of each consecutive 4-hour period thereafter that said employee continues to work outside his regular hours.

Section 5. No Reduction of Work Week as Result of Overtime.

No employee will be required to take any time off from his regular work week because of overtime worked in that or any other week. If an employee is required to work on his day off, he shall not be forced to take another day off in lieu thereof.

Section 6. Computation of Overtime.

For the purpose of computing overtime under this Article, the exact time worked, rounded to the nearest quarter hour, shall be accounted for, which shall be paid for at the overtime rate.

There shall be no duplicate payment for daily overtime and weekly overtime. If daily overtime is greater in any one work week, only daily overtime shall be paid, or if weekly overtime is greater in any one work week, only weekly overtime shall be paid. There shall be no pyramiding of overtime.

Section 7. Distribution of Overtime and Call-Out Time.

Overtime work opportunities shall initially be distributed, as equitably as practicable, within each work group where the overtime is required in accord with the Company's distribution policy. The Company may then offer such work to employees in other work groups who are qualified.

For the purpose of distributing overtime, the Company will submit a list, biweekly, to the work group steward showing the overtime worked, refused and overtime standing of each employee covered within the group.

Each employee who is requested to report for overtime duty shall report at the required time unless he shall first obtain permission from his supervisor to be relieved of such duty.

Section 8. Call-Out.

An employee who is called out and reports for work outside his regular working hours shall work until excused by the person then supervising his work; provided that no one shall be required to work longer than is provided in Section 1(d) of this Article. An employee who is called out and reports for work shall be paid a minimum for four (4) hours at time and one-half (1-1/2), even though the full four (4) hours may not be worked because no work is available, or he does not work at all because no work is available. An employee called for such work, who works continuously until the beginning of his regular hours of work and continues to work during the regular hours of his scheduled work, shall not be considered to have had a change in shift within the meaning of Section 3 of this Article VI.

A description of the work or jobs to be done, or the problem necessitating the call-out, is provided as accurately as possible by the supervisor in order that the person being called may judge: (a) whether or not he has the ability to do the work, and (b) about how long he may have to work. It is not intended to have a person come out on one job, then surprise him with a list of additional jobs to be done. However, due to emergencies, it cannot be guaranteed that he will only be required to do what he was called for.

Notwithstanding the fact that an employee has been called out for work, such employee shall perform his regular work schedule during the remainder of the work week in which such call-out occurs unless excused from such work.

If an employee is called out for work and works until the beginning of his regular work schedule, the call-out will be considered as ending at the beginning of his regular schedule.

Section 8A. Advance Scheduling of Overtime.

Overtime may be scheduled up to three (3) weeks in advance of the actual time required. In the event the scheduled overtime is cancelled, eight (8) hours' notice will be given or a call-out will be paid.

Section 8B. Right to Assign Qualified Personnel.

In the event overtime distribution and call-out procedures do not provide the Company with sufficient, qualified personnel to perform the overtime work, the Company shall have the right to assign such work to qualified personnel. The performance of such work is mandatory.

Section 9. Holiday Pay.

The following days shall be considered holidays and normally no work will be performed on the designated holidays except in cases of emergency, around-the-clock shift work, and in those crafts where work is necessary for continued operations:

1. New Year's Day
2. Good Friday
3. Memorial Day
4. July Fourth
5. Labor Day
6. Columbus Day
7. Thanksgiving Day
8. Day after Thanksgiving
9. Last work day before Christmas holiday
10. Christmas Day

When any of these holidays fall on Sunday, the following Monday will be observed as the holiday.

When any of these holidays fall on Saturday, the preceding Friday will be observed as the holiday.

Each employee who is not required to work and who does not work on a holiday shall be paid a bonus equivalent to eight (8) hours at his regular rate at straight time pay, providing he has worked his last scheduled work day immediately preceding the holiday and his first scheduled work day following the holiday unless the failure to work these days is because of confirmed illness or accident no more than five (5) work days before or after the holiday, unless the employee was excused in advance by the Company.

Each employee who works on a holiday will be paid, in addition to the 8-hour bonus mentioned above, one and one-half (1-1/2) times his regular rate of pay.

Section 10. Reporting for Work and Not Used.

Except when no work is available due to Act of God, such as fire, flood, explosion, or tornado, an employee who reports for duty on his regular schedule shall be given the opportunity of working a full 8-hour shift.

ARTICLE VII
WAGE RATES AND CLASSIFICATIONS

Section 1. Wages and Pay Period.

The regular pay periods for employees subject to this Agreement will cover every two (2) scheduled work weeks, and checks will be available to the men on their regular shifts on the Friday following completion of the 2-week period.

Each employee who works during the period beginning 12:01 a.m., August 5, 1995, and ending 12:00 Midnight, July 31, 1998, shall be paid for his work in that classification on the basis of the basic hourly wage rate for that classification shown on Exhibit "A" to this Agreement. Each employee will be paid the applicable clothing allowances provided on Exhibit "B" to this Agreement.

Section 2. Changes in Classification of Work.

(a) Each employee covered by any classification is expected to perform any duties to which he may be assigned within his classification or lower classification.

(b) It is understood and agreed by the parties hereto that two (2) work groups shall be recognized under this Agreement. A tabulation of the groups with explanatory notes is made in Exhibit "C", Part 1, which is a part of this Agreement.

(c) All Maintenance personnel may be assigned to do any jobs that they have the ability to perform subject to the provisions of Article V, Section 5, and Article XIV, Section 5, of the current contract.

(d) The Company reserves the right to increase or reduce, at any time and from time to time, the number of men employed in any group mentioned in Exhibit "C", Part 1, to that number of men which, in the opinion of the Company, are required to perform work in that group for maintaining the plant. Any such increase or reduction of force in any group shall be made on the basis of bargaining unit seniority in that group. The Company shall advise the employee(s) affected seventy-two (72) hours in advance of any permanent change in the number of persons who shall work in any classification.

ARTICLE VIII
HANDLING OF GRIEVANCES

Section 1. Routine Submission.

(a) For the purpose of adjusting a grievance arising out of the application or interpretation of a written provision of the Agreement, it is agreed that an employee, and/or with his Steward, shall first seek adjustment of the matter with his Foreman; and, if not resolved, the employee, and/or with his Steward, may submit the grievance in writing to his Foreman. No grievance will be considered unless it has been submitted to his Foreman within five (5) working days after the employee knew or should have known that the grievance occurred.

The Foreman shall advise the employee and/or the Steward, in writing, within five (5) days (Saturdays, Sundays and holidays excluded) of his decision on the grievance, if submitted. The grievance must be filed, in writing, on grievance forms provided by the Company and signed by the individual grievant.

If the grievance is not satisfactorily adjusted with the Foreman, the employee and the Steward may submit the grievance to the Shop Committee for handling with the Department Head.

(b) If the Shop Committee elects to process the grievance, it shall submit the grievance to the Department Head, along with a factual statement of the reasons that the Foreman's answer was not satisfactory. The grievance must be submitted to the Department Head within five (5) days (excluding Saturdays, Sundays and holidays) after the date the Foreman advised the Steward and/or employee of his decision. The Department Head shall, within seven (7) calendar days following receipt of the grievance, meet with the designated members of the Shop Committee at a time to be mutually agreed upon. The Department Head shall advise the Shop Committee, in writing, within five (5) days following this meeting (excluding Saturdays, Sundays and holidays) of

his decision regarding the grievance.

(c) If the response of the Department Head is not satisfactory, the Shop Committee may submit the matter, in writing, to the Plant Manager within ten (10) days (excluding Saturdays, Sundays and holidays) after the date the Department Head furnishes his grievance response to the Committee. The Plant Manager shall, within ten (10) calendar days following receipt of such grievance (and documentation) meet with the designated members of the Shop Committee, at a time to be mutually agreed upon. The Plant Manager, or his authorized representative, shall render a decision on the grievance, in writing, within ten (10) days (Saturdays, Sundays and holidays excluded) following this meeting.

Section 2. Arbitration.

If the grievance is not adjusted satisfactorily through the procedure hereinbefore mentioned, the issue may be referred to an arbitrator. If the Union desires to submit such grievance to an impartial arbitrator (providing the grievance is one which does not involve matters in which arbitration is specifically prohibited under the terms of this Agreement, and which the Company and Union have mutually agreed to submit to arbitration) it must notify the Company of that fact, in writing, within thirty (30) days after the date the Plant Manager, or other duly authorized representative, advised the Workmen's Committee of his decision.

The Union and the Company shall make written application to the Federal Mediation & Conciliation Service requesting a seven-name arbitrator panel from which the parties shall select one (1) arbitrator. The parties shall alternately each strike one name until only one (1) name remains who shall act as Arbitrator. It is understood that, starting with the first arbitration case following the date of the execution of this Agreement, the Union shall strike the first name. In the next case, the first name shall be stricken by the Company, and alternately the Union and the Company thereafter. Both the Company and the Union shall have the right to reject two (2) panels submitted by the Federal Mediation & Conciliation Service.

When the Arbitrator has been selected, he shall meet for the consideration of the grievance as soon thereafter as is practical. Any such procedure shall be held in El Dorado, Arkansas, unless the parties unanimously decide otherwise.

The expense of the Arbitrator shall be shared equally by the Company and the Union.

The Arbitrator shall decide only the grievance submitted to him upon testimony presented to him by the Union and the Company, and shall render his decision in writing.

Except as otherwise specifically provided in this Agreement, the Arbitrator shall have no power to change the wages, hours, or conditions of employment set forth in this Agreement; he shall have no power to add to, subtract from or modify any of the terms of this Agreement; he shall deal only with the grievance which occasioned his appointment. He will require that the Union has the burden of establishing its position on behalf of the employee, except in a discipline and/or discharge case when the burden will be on management.

The parties hereto shall comply fully with the award or decision made by any such Arbitrator, and the decision of the Arbitrator will be final and binding on both parties.

No provisions of this Article, or of any other Article of this Agreement, shall deprive any employee covered by the terms of this Agreement of any rights to which he may be entitled under Section 9(a) of the Labor Management Relations Act of 1947, or any other Statute of the United States.

The Union has the authority to process, abandon, or settle grievances on behalf of employees. It is provided, however, that no grievance as to wage scales that shall be paid to all or any group of the employees in the bargaining unit shall be submitted to an arbiter, in any event.

The question as to whether a person has been paid the rate to which he is entitled, in accordance with the wage rates set forth in Exhibit "A" to this Agreement, for work which he has performed shall be a subject for arbitration.

The grievance and arbitration provisions provided for herein, in addition to any other right or obligation under the Agreement, are limited to grievances or clams arising and actually filed in writing during the term of this Agreement.

In the event a grievance arises over a discharge or layoff, the first and second steps of the grievance procedure may be bypassed.

ARTICLE IX
SHOP COMMITTEE AND STEWARDS

Section 1. Shop Committee.

The Shop Committee, composed of four (4) members from the employee work force, and management representatives, shall hold regular meetings on a bimonthly basis. It shall be the responsibility of the Shop Committee to submit a written agenda of each subject it wishes to discuss with the Company no less than forty-eight (48) hours before the day of any such meeting. Only three (3) employees in any one group at any one time shall be a member of the Committee.

Section 2. Stewards.

(a) A Steward and an assistant Steward may be elected in each work group by the employees of that group, and the Union shall submit to the Company, in writing, the names of each person so designated. The Company shall consider the person so designated as Steward and assistant Steward of each work group until notified, in writing, to the contrary.

(b) Duly-elected Stewards or Committeemen shall be deemed to possess top ranking seniority for purposes of layoff and recall rights within his respective work group or classification while acting as such.

ARTICLE X
LEAVE OF ABSENCE

Section 1. Personal Business.

If an employee desires to be off on personal business (not emergencies), he may do so with the consent of the Company so long as he does not desire to be off over two (2) work weeks and provided that he gives the Company forty-eight (48) hours' notice of his desire to be absent and the length of time he desires to be off. Upon completion of such leave, he will resume employment on the basis of uninterrupted service.

Section 2. Union Business.

(a) The Company shall, upon a minimum of thirty (30) days' prior written request from an employee and the President of Local No. 224 of International Association of Machinists and Aerospace Workers, grant a leave of absence, extending not longer than fourteen (14) days, to the employee applying for such leave in order that he may, during that leave, engage in work pertaining to the business of Local No. 224 of International Association of Machinists and Aerospace Workers.

Such a leave shall not be granted to more than one (1) employee at any one time. Such employee shall not be granted such a leave for more than an aggregate of thirty(30) days in any one (1) calendar year.

(b) The Company shall grant (upon a minimum of sixty (60) days advance prior written request of an employee and the President or Vice President of International Association of Machinists and Aerospace Workers) a leave of absence for a period not to exceed one (1) year in order that the employee requesting such leave may, during the period of such leave, work as any employee of International Association of Machinists and Aerospace Workers. Not more than one (1) employee shall be permitted to be absent from work at any one time on any such leave.

Section 3. Sickness or Accident.

If an employee who has established seniority is out of service due to occupational injury or occupational disease suffered or contracted while he is in the employment of the Company, he shall retain his seniority accrued at the date of his disability and continue to accrue seniority for a period of twenty-four (24) months or length of previously-accrued seniority, whichever is less, during the period of his disability as a result thereof. If an employee who has established seniority is out of service due to nonoccupational injury or disease suffered while he was in the employment of the Company, he shall retain his accrued seniority for a period of twenty-four (24) months and will accrue seniority in the classification in which he was last regularly employed for a period of one (1) year.

Under either of the above conditions, if an employee should accept an equal or better job elsewhere, his seniority shall be cancelled.

Section 4. Notice to the Company.

When an employee becomes aware of the fact that he is going to be absent from work due to sickness, accident, or other emergency, he must notify his supervisor as far in advance of his scheduled shift as he/she has knowledge of such intended absence, but no less than one (1) hour before the time he is due to report to work. In the event the employee cannot contact his Supervisor, it is permissible to contact any member of Management.

Section 5. Military Reserve Training.

(a) Any regular employee (not probationary) may be granted a special leave of absence for a period not to exceed fourteen (14) days, plus a reasonable period to cover travel time, when required for the purpose of engaging in a training program for Enlisted Reserve, Reserve Officers, or National Guard Encampment, provided:

1. He furnishes the Company with a copy of orders from the military authorities calling him for duty; and

2. He gives advance notice to his immediate supervisor so that arrangements may be made for his replacement during the period of his leave.

(b) Only one (1) leave of absence for Military Reserve Training shall be granted to any employee during a calendar year.

ARTICLE XI
VACATIONS

Section 1.

Normal vacation accruals will be computed in accordance with the follow-

ing provisions:

(a) Two weeks (80 hours) - after having accrued one (1) year's Company seniority;

(b) Three weeks (120 hours) - during the calendar year in which an employee accrues six (6) year's plant seniority;

In computing length of service for vacations, time spent working at the El Dorado Plant will be used.

Section 2.

Those employees who had previously accrued or who will accrue, during the term of this Agreement, twelve (12) years or more Company seniority shall be entitled to a vacation accrual of four weeks (160 hours). Thereafter, and for all other employees, the maximum vacation accrual shall be as provided in Section 1.

Section 3.

(a) Normally, all vacations will begin with the first work day of the work week schedule.

(b) Vacation pay shall be based upon the straight time rate of an employee's regular classification at the beginning of the vacation and will be taken in accordance with his established work schedule. If a holiday, as defined in Article VI, occurs during an employee's vacation period, the employee will receive pay for said holiday as defined in Article VI.

(c) Each employee must take his vacation during the vacation year (January 1-December 31) in which it falls due, subject to subsections (d) and (i) below.

(d) If an employee is not permitted to take his vacation in any calendar year in which it is due because the Company finds it not convenient to excuse him from work, he shall be paid a sum equal to the sum to which he would have been entitled for working at his regular job based on straight-time pay at normal working schedule during the last part of that year equal to the number of weeks' vacation to which he is entitled.

(e) Except with special permission of the Company, no employee shall be permitted to begin a vacation in any year within three (3) months of the date of the end of the vacation taken by him during the preceding calendar year, and any employee who has received pay in lieu of vacation for one (1) calendar year shall be entitled to his next annual vacation before March 1 of the following year, if it is practical for the Company to give him a vacation.

(f) An employee who (a) resigns, (b) retires, (c) is laid off as part of a reduction in forces, or (d) is granted a military leave under the provisions of Article XII, at a time when he has earned vacation to that date but has not taken, nor previously received pay in lieu of, shall be paid in lieu of any vacation he has earned to that date but has not taken, nor previously received pay in lieu of.

Computation of vacation under this section will be earned at the rate of one-twelfth (1/12th) for each month from employee's anniversary date. Sixteen (16) or more calendar days of employment in any calendar month will be considered a full month in computing vacation accruals.

(g) An employee will not be eligible for overtime or call-out during the period beginning with the first day of his vacation and until his first scheduled work day following completion of his vacation.

(h) In the event of the death of any employee who was then otherwise eligible for a vacation but who had not taken it, a sum of money equal to pay in lieu of such vacation shall be paid to the person(s) who shall be entitled to the personal property of such decedent.

(i) No employee shall receive pay in lieu of vacation except as provided in Article XI, Section 2(d). However, when an employee is absent from work due to authorized occupational injury or illness, or personal sick leave, and has not returned to work by December 31, he may, at the Company's option, be permitted to take his vacation or receive vacation pay between January 1, and April 1 of the following year.

Section 4.

The vacation schedule will be initiated January 2nd of each year for those eligible for vacation in that year. Employees shall choose their vacation periods in order of their bargaining unit seniority. The Company will, insofar as operations permit, arrange by choice and by seniority the employee's request in the vacation schedule. An employee not submitting his vacation preference within a reasonable time after being contacted will have his vacation scheduled during the year at a time convenient to the plant operations.

Normally, a maximum of five (5) employees, (only one of the five (5) may be assigned to the Electrical/Instrumentation Group) may be on vacation at the same time.

ARTICLE XII
MILITARY LEAVE

Section 1. Military Selective Service Act.

The rights of employees of the Company who enter Military Service during

the term of this Agreement will be governed in all respects by the Military Selection Service Act including amendments.

Section 2. Pay in Lieu of Vacation.

Each such employee who is entitled to a vacation under the vacation policy of the Company at the time he leaves to enter the Armed Forces, who elects not to take the vacation but to receive pay in lieu thereof, shall, upon furnishing to the Company a certificate from his commanding officer establishing the fact that he had been inducted into the military service, be paid the amount of money he would have received had he taken his vacation just prior to the beginning of his military leave.

ARTICLE XIII
PHYSICAL EXAMINATIONS

Section 1. Periodical Examinations.

The Company may, from time to time, require all employees to have periodical physical examinations by a doctor selected by the Company. However, such examinations shall not be used for the purpose of discriminating against an employee. Each employee shall receive his regular rate of pay for all time required to be examined as provided in this Section 1.

Section 2. Certificate of Physical Fitness.

In the case of an employee being absent from work due to illness or physical impairment, he may be required to present a certificate of physical fitness, signed by a licensed physician, before being readmitted to work. This rule, however, shall not limit the right of the Company to require physical examination by a physician in the Company's service in exceptional cases of constantly recurring absence from duty.

Section 3. Dispute Resolution.

Notwithstanding any of the provisions of Article VIII of this Agreement, in case a dispute arises over the physical fitness of an employee to return to work or continue to work, a board of three (3) physicians shall be selected; one by the Company, one by the employee, and one selected by the two so named. The decisions of the majority of this board shall be final and binding.

ARTICLE XIV
MISCELLANEOUS AND GENERAL

Section 1. Tool Check-in Time.

Employees will be allowed fifteen (15) minutes time to clean and check in their tools before quitting time, if such action is required by them.

Section 2. Bulletin Board.

The Company shall maintain at the plant entrance gate at the Chemical Plant a bulletin board which shall be designated as "Local No. 224 Bulletin Board" and shall be for the use of the Union for posting -- subject to the approval of the Company -- of any matters of interest to or affecting the business of the Union. It is understood and agreed that the posting of notices by the Union within the plant area will be on this bulletin board only and will be posted by the Chairman of the Shop Committee or his recognized representative. This bulletin board will be locked with a key, released to the Chairman of the Shop Committee and to the Company.

Section 3. Discrimination.

There shall be no discrimination by the Company against any employee with respect to any conditions of employment on account of his membership in this labor union, or on account of any activity undertaken in good faith in his capacity as a representative of other employees. The Union shall not discriminate against any employee who is not a member of the Union.

Where the male gender is used in this contract, it is intended to refer to both male and female. It is a continuing policy of the Company and the Union that the provisions of this Agreement shall be applied to all employees without regard to race, color, religion, sex, physical disability, national origin, or age.

Section 4. Wage Rate Changes.

There shall be no change in the basic hourly wage rates set forth in Exhibit "A" to this Agreement, or in the clothing allowance set forth in Exhibit "B" to this Agreement, during the term of this Agreement.

Section 5. Safety Provisions.

The Company shall continue to make reasonable provisions for the safety and the health of its employees at the plant during hours of their employment. Protective devices from injury shall be provided by the Company. Employees, subject to this Agreement, will abide by safe practice rules and regulations of the Company, and failure to do so may be considered grounds for dismissal.

No employee shall be required to perform services which, in the considered judgment of the Company and the Union, seriously endanger his physical safety; his refusal to do such work shall not warrant or justify discharge. If any employee refused to perform such work, representatives of the Company and the Union shall immediately attempt to decide the safety factor. Should they be unable to agree, the decision of a representative of the Safety Department of the Company shall be obtained. If the employee still feels an unsafe condition exists, he will not be required to perform that given job,

and the Company will have the work done by any means it elects.

Section 6. Discharges.

It is agreed by and between the Company and the Union that the Company may, without limitation upon its right to discharge an employee for any other valid reason, discharge any employee, subject to this Agreement, for the violation of any of the Company's rules or regulations, which said rules and regulations heretofore have been approved by both the Company and the Union.

Section 7. Recess Period (Smoking).

Where men are required to work continuously in restricted and confined areas where smoking is not permitted, the Foreman is authorized to grant a recess of not longer than ten (10) minutes to employees upon request, providing in his judgment, work conditions permit; however, no employee shall be granted more than two (2) such recesses in any one (1) normal work day.

Section 8. Jury Duty.

Each employee of the Company who is called for service upon any grand jury, petit jury or coroner jury shall, after furnishing to his Foreman, a certificate in evidence of his jury service, be paid by the Company for each day which he serves upon said jury a sum equal to the difference between the amount he would have earned if he had been required to work for the Company on that day for the number of hours of his regular work schedule and the jury pay he received, with the provision that no such payment shall be made to an employee for jury service on any day during which, in accordance with his regular work schedule, he would not have worked for the Company.

Section 9. Termination Pay.

An hourly employee whose work comes within the scope of the Fair Labor Standards Act, and who has been continuously employed by the Company for one (1) year, shall, if discharged through no fault of his own, receive a sum equivalent to forty (40) hours' straight time pay at his regular rate, based upon his normal schedule of work, and twice that amount if he has been employed by the Company for a period of five (5) years. No employee shall receive such termination pay more than once in any one (1) calendar year.

Section 10. Contract Work.

It is agreed that any classified work covering maintenance and repair of equipment and machinery now being done by employees of the Company shall not be contracted out as long as the Company has the necessary equipment and as long as there are qualified men available to do the work.

Section 11. Technical and Supervisory Employees.

The Company may use technical and supervisory employees to install temporary test equipment to be used in evaluating conditions and/or performance of plant facilities.

Section 12. Minor Maintenance.

It is agreed that Operating Department personnel will perform minor maintenance functions. Minor maintenance functions shall be similar in scope but not limited to the following examples:

1. Tightening loose mechanical connections.

2. Tightening leaking packing.

3. Changing instrument charts.

4. Tightening piping fittings to stop minor leaks.

5. Changing light bulbs.

6. Hooking up loading and unloading lines.

Section 13. Minor Operating Functions.

Maintenance personnel may perform minor operating functions when requested by production supervision, but only when accompanied by a qualified member of the operations group. Typical example: Assisting in closing or opening large block valves that are difficult for one person to handle.

ARTICLE XV
VALIDITY OF CONTRACT

If any court shall hold any provision of this contract invalid, such decision shall not invalidate the other provisions.

ARTICLE XVI
NOTICE

Any notice to the Company provided herein may be given by depositing same in the U.S. Mail in a sealed envelope, registered, postage prepaid, and addressed to:

El Dorado Chemical Company
P.O. Box 231
El Dorado, Arkansas 71731
Attention: Plant Manager

Any notice to be given to the Union may be given by depositing same in

the U.S. Mail in a seal envelope, registered, postage prepaid, and addressed to:

Recording Secretary
International Association of Machinists
and Aerospace Workers, AFL-CIO,
Local No. 224
Box 1332
El Dorado, Arkansas

A copy of notices should be likewise mailed to:

President, International Association of
Machinists and Aerospace Workers
AFL-CIO Machinists Building
9000 Machinist Place
Upper Marlboro, Maryland 20772-2687

ARTICLE XVII
FUNERAL LEAVE

Any employee in the bargaining unit shall be allowed to be absent from work to arrange for or attend the funeral of any one of the relatives of the employee hereinafter stated:

(a) If the deceased relative was the husband, wife, child, father, mother, brother, sister, grandfather, grandmother, or grandchild of the employee, the employee shall be permitted to be absent from work for a period not to exceed two (2) continuous days. One of these days shall be the day of the funeral. The other day may be the day before the funeral or the day after the funeral. If either or both of these days are scheduled working days, he shall be allowed pay for the day(s) off during his regular working schedule.

(b) If the deceased relative was the father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, or daughter-in-law of the employee, the employee shall be permitted to be absent from work with pay for the purposes stated for one (1) scheduled working day if the funeral is held on a scheduled working day. Brother-in-law and sister-in-law will be interpreted as (i) the spouse of an employee's brother or sister; (ii) the brother or sister of an employee's spouse; or (iii) the spouse of an employee's spouse's brother or sister.

(c) If, to attend the funeral for the deceased relative, the employee travels to a point more than 100 miles from El Dorado, Arkansas, he shall be allowed such leave for an additional day with pay.

The pay for each day's leave which the employee receives under the provisions of this Article shall be a sum equal to straight time for his regular schedule of work on the day involved. There shall be no duplication of payment under provisions of this Article for any other employee benefits such as vacation pay, holiday pay, or sickness benefits payments.

Any request for such time off with pay based on false statements will subject the employee making the request to immediate disciplinary action or discharge.

ARTICLE XVIII
GROUP INSURANCE

The Company agrees to provide group insurance benefits. Employees participating in these plans will be furnished a booklet explaining the provisions of the agreements.

Section 1. Group Insurance and Retirement.

Effective with the date of this Agreement the Company and employees will share the cost of employee and employee dependent group insurance coverage on the following basis:

Company 75%
Employee 25%

Effective with the date of this Agreement the Company agrees to pay the cost of employee long-term disability insurance and basic life insurance.

Dental insurance coverage will be made available as an option. The employee may elect to purchase the insurance by paying the premium each month, or by increasing the deductible amounts of the current group medical plan.

The Savings Incentive Plan for Employees, adopted effective December 1, 1985, shall be continued during the term of this Agreement.

ARTICLE XIX
NO STRIKE OR LOCKOUT

There shall be no strike, sympathy strike, or lockout during the term of this Agreement for any reason.

ARTICLE XX
SERVICE WITH COMPANY

The Company shall honor previous service at the El Dorado Chemical Company for purposes of seniority and vacation eligibility only. Previous service at the plant, or any predecessor of the Company, shall not be credited for purposes of pension benefits.

ARTICLE XXI

RETIREMENT AGE

The mandatory retirement age for employees shall be in accord with federal law.

The seniority of each employee whose services are terminated under the provisions of this Article shall cease as of the date of such retirement.

IN WITNESS HEREOF, this instrument is executed on the 5th day of August, 1995, to be effective as of August 5, 1995, at 12:01 a.m.

EL DORADO CHEMICAL COMPANY

By:_____
R.L. Milliken, Plant Manager

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:_____
F.D. Haydon, Grand Lodge Representative

Members of the Shop Committee:

_____
Jim McKnight

_____
Todd Lambert

_____
Don Fletcher

_____
Wayne Husbands

_____
Alan Barker

EXHIBIT "A"

BASIC HOURLY WAGE RATE

Classification	8/5/95	8/5/96	8/5/97
*"A" Mechanic	$15.79	$16.22	$16.71
*"B" Mechanic	$15.09	$15.50	$15.97
*"C" Mechanic	$14.73	$15.14	$15.59
*"D" Mechanic	$11.06	$11.36	$11.70
*"E" Mechanic-New Hire	**	**	**

*(First 180 Days)
** Rate of pay determined by Company on basis of employees qualifications.

The Company shall have the right to select and appoint employee(s) as Lead. In addition to the regular work of their classification, a Lead may be assigned to train, assist, assign employees, carry out the instructions of supervision, and to perform any other duties pertaining to the maintenance department, which may be assigned by management. The selection of Lead personnel and the duration of their appointment is within the sole discretion of management. While so assigned, Lead(s) shall receive a premium of one dollar ($1.00) above their regular hourly rate.

EXHIBIT "B"

CLOTHING ALLOWANCE

In addition to the hourly rates set forth in Exhibit "A", there shall be paid a clothing allowance of each hour worked, as indicated below:

	Clothing Allowance Per Hour
All Maintenance Personnel	$.09

Effective August 5, 1995, through the term of this Agreement the clothing allowance will be sixteen cents ($.16) per hour worked by an employee.

EXHIBIT "C"
Part 1

RECOGNIZED MAINTENANCE WORK GROUPS

Group I - Mechanical

Includes work ordinarily done by:

Pipefitter, Plumber

Welder, Lead Burner
Heavy Duty Operator
Rigger
Machinist
General Mechanic
Tank Car Repairman
Carpenter
Painter
Mason, Insulator, Concrete Finisher

Group II - Electrical/Instrumentation

Includes work ordinarily done by:

Electrician
Instrument Repairman

EXHIBIT "D"

EMPLOYEE DUES AUTHORIZATION LETTER

DATE:_____

TO: EL DORADO CHEMICAL COMPANY
El Dorado, Arkansas

Until further notice, you are hereby requested and authorized to deduct from wages due me, and payable on the first regular pay day of each month, the sum equal to my monthly dues as set by Local 224, IAM & AW, AFL-CIO, for my account on or before the end of the month during which deductions are made.

"Contributions or gifts to Local Lodge 224, International Association of Machinists and Aerospace Workers are not deductible as charitable contributions for federal income tax purposes. However, they may be tax deductible under other provisions of the Internal Revenue Code."

_____
Employee

AMERICANS WITH DISABILITIES ACT
LETTER OF UNDERSTANDING

The Company and Union recognize the provisions of the American's with Disabilities Act may impact the terms of this Agreement, and thus agree to discuss each instance individually in order to reach a mutual understanding.

Dated this 5th day of August, 1995.

EL DORADO CHEMICAL COMPANY

By:_____
R.L. Milliken, Plant Manager

INTERNATIONAL ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:_____
F.D. Haydon, Grand Lodge
Representative

Members of the Shop Committee:

_____
Jim McKnight

_____
Todd Lambert

_____
Don Fletcher

_____
Wayne Husbands

_____
Alan Barker

SHIFT DIFFERENTIAL
LETTER OF UNDERSTANDING

Effective August 5, 1995, in addition to the foregoing hourly rates, employees who are regularly assigned to a specific shift shall be paid a shift differential of forty cents ($.40) for each hour worked on the evening shift and eighty cents ($.80) for each hour worked on the graveyard shift. For payroll purposes, employees who are regularly assigned to a three shift rotating

schedule shall receive shift pay averaged over all three shifts (forty cents ($.40) per hour).

NOTE: Maintenance personnel who are not regularly assigned on a rotating shift basis or to the evening or graveyard shift will receive shift differential in accordance with the August 3, 1989, Letter of Understanding (regarding turnarounds and major maintenance projects).

EL DORADO CHEMICAL COMPANY

By:_____
R.L. Milliken, Plant Manager

INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS AFL-CIO, LOCAL NO. 224

By:_____
F.D. Haydon, Grand Lodge Representative

Members of the Shop Committee:

_____
Jim McKnight

_____
Todd Lambert

_____
Don Fletcher

_____
Wayne Husbands

_____
Alan Barker

AGREEMENT

between

EL DORADO CHEMICAL COMPANY
CENTRAL CITY, KENTUCKY AREA WORK GROUP

and

UNITED STEELWORKERS OF AMERICA
AFL-CIO-CLC

Effective November 1, 1995

through

October 31, 1998

INDEX

A G R E E M E N T

This Agreement entered into the 1st day of November, 1995, by and between the CENTRAL CITY, KENTUCKY AREA WORK GROUP, EL DORADO CHEMICAL COMPANY (hereinafter referred to as the "Company"), and the UNITED STEELWORKERS OF AMERICA, AFL-CIO-CLC (hereinafter referred to as the "Union").

W I T N E S S E T H :

That in consideration of the mutual and reciprocal promises of the parties hereto, the parties covenant and agree as follows:

ARTICLE I
RECOGNITION OF UNION

The Company recognizes the Union as the sole collective bargaining agency with respect to rates of pay, wages, hours, and other conditions of employment for all employees on the hourly payroll at its Central City Area Work Group, but excluding all office, clerical, technical, and professional employees, guards, and supervisors.

ARTICLE II
PAYROLL DEDUCTION OF UNION DUES

SECTION 1. The Company will deduct membership dues, including initiation fees during the first month of membership in the Union and each month thereafter from the last pay received each month for the current month's dues of such members of the Union as individually certify to the Company in writing that they authorize such Union dues deduction. The deduction will continue for one (1) year or for the term of the contract, whichever is less, unless revoked by the terms of the check-off authorization.

The dues and initiation fee shall be forwarded after the first payroll period in each month to the International Treasurer, at the address which he authorizes for this purpose. Notification of a change in address for forwarding of dues and initiation fees must be received by registered mail one month in advance of the change by the International Treasurer's office.

SECTION 2. The Union shall indemnify, defend, and save the Company harmless against any and all claims, demands, suits, or other forms of liability that shall arise out of or by reason of action taken by the Company under Section 1, or upon a wage deduction authorization submitted under Section 2.

ARTICLE III
MANAGEMENT RIGHTS

The Union expressly recognizes that the Company has the exclusive responsibility for and authority over (whether or not the same was exercised heretofore) the management, operation, and maintenance of its facilities and, in furtherance thereof, has, subject to the terms of this Agreement, the right to determine policy affecting the selection, hiring, and training of employees; to direct the work force and to schedule work; to institute and enforce reasonable rules of conduct, to assure discipline, and efficient operation; to determine that work is to be done, what is to be produced and by what means; to determine the quality and quantity of workmanship; to determine the size and composition of the work force; to determine the location of the business, including the establishment of new locations or departments, divisions, or subdivisions thereof; to arrange for work to be done by other companies or other divisions of the Company; to alter, combine, or eliminate any classification, operation, service, or department; to sell, merge, or discontinue the business or any phase thereof; provided, however, in the exercise of these prerogatives, none of the specific provisions of the Agreement shall be abridged.

The Company will not use the vehicle of subcontracting for the sole purpose of laying off employees or reducing the number of hours available to them.

ARTICLE IV
WAGES

SECTION 1. Rates of Pay.

A wage schedule setting for the rates of pay of the various classifications is attached hereto as Appendix "A". The listing of classifications is for purpose of establishing a pay rate and does not constitute a job description.

SECTION 2. Reporting Pay.

An employee who reports for work at his regular starting time and who has not been given at least four (4) hours previous notice not to report, shall receive a minimum of four (4) hours' work, or four (4) hours' straight-

time pay in lieu thereof, unless the Company is prevented from giving such notice by acts of God or other conditions beyond its control. Contact or attempted contact by telephone at the number listed by the employee with the Company will be considered as notice as referred to above in this Section.

SECTION 3. Call-In Pay.

When an employee is called in to work at any other time other than his designated or scheduled shift, he will be given not less than four (4) hours' work at one and one-half (1-1/2) his regular rate. If such work does not extend for four (4) hours, he, nevertheless, shall be paid four (4) hours at one and one-half his regular rate.

ARTICLE V
HOURS OF WORK AND OVERTIME

SECTION 1. For the purpose of computing pay for an employee, the work week shall begin at 11:00 p.m. Sunday and end at 11:00 p.m. the following Sunday. The normal work day shall be eight (8) hours of work per day and a designated thirty (30) minute unpaid lunch period. The normal work week shall be forty (40) hours per week during a five (5) day period.

Nothing in this Article V shall be construed as a guarantee of work or a limit of work.

SECTION 2. The normal work week shall be Monday through Friday, and the normal working hours shall be scheduled by management. It is understood that the above-mentioned days and hours are normally scheduled days and hours, and that the Company has the right to change the days and hours of work, subject to the needs of the operation, recognizing that it is a service organization.

For the purpose of entitlement to shift differential pay, shift schedules are defined in Appendix "B".

Recognizing that the Company is a service organization, employees shall be paid the appropriate shift differential pay according to Appendix "B".

SECTION 3. One and one-half (1-1/2) times the regular rate will be paid for:

(a) All work performed in excess of eight (8) hours in a work day, unless, pursuant to Sections 2 and 4, the work week or work days are for different periods of time or hours of work;

(b) All work performed in excess of forty (40) hours in a work week;

(c) Work performed on Saturday and Sunday.

It is provided however, that only the straight-time rate will be paid for Saturday and Sunday work for:

(a) The number of hours an employee misses from his normal work week of Monday through Friday because of personal reasons; and

(b) For the hours worked by an employee who is normally scheduled to work on Saturday and Sunday.

SECTION 4. It is understood that the above-mentioned days and hours are the normal scheduled days and hours, and that the Company has the right to change the days and hours of work.

SECTION 5. In no case will overtime be paid twice for the same hours worked.

SECTION 6. No employee will be called off his regular shift for the sole purpose of avoiding the payment of overtime.

ARTICLE VI
GRIEVANCE PROCEDURE

SECTION 1. Any employee may discuss with his or her supervisor any complaint or other matter which he feels requires adjustment. Should they fail to reach a settlement, the complaint may be treated as a grievance, provided the difference arises over the interpretation, application, or compliance of any article or section of this Agreement.

Step 1

The aggrieved employee shall submit his grievance in writing to the Services Manager or designated representative stating the article and/or sections violated. In order to be valid, the complaint shall be submitted within five (5) days after occurrence of the basis of the grievance. The Services Manager or designated representative shall render his decision, in writing, within ten (10) working days following presentation of the grievance.

Step 2

If the grievance is not settled by the Services Manager or designated representative, the aggrieved employee and/or his steward, representative of International Union, designated representative, or Grievance Committee, shall submit the grievance to the Manager of Blasting Services or his designated representative within ten (10) days after receiving the Services' Manager or designated representative's answer. The Manager of Blasting Services or his designated representative shall have fifteen (15) days to submit his answer to

the grievance.

ARTICLE VII
ARBITRATION

If the Manager of Blasting Services' or his designated representative's answer does not satisfactorily settle the grievance and the aggrieved employee desires to proceed to arbitration, he may do so provided he notifies the Manager of Blasting Services or his designated representative within thirty (30) days after receiving the Manager of Blasting Services or his designated representative's reply to the grievance.

In the event the Company and the Union are unable to agree on an arbitrator, they shall jointly request the Federal Mediation and Conciliation Service to submit a panel of seven (7) arbitrators. The Company shall strike three (3), the Union shall strike three (3), with the remaining member to be designated as the arbitrator.

The arbitrator shall not have the power to add to, subtract from, or modify any of the terms of this Agreement.

The decision of the arbitrator shall be final and binding on both parties. Each party shall bear its own expenses in connection with such arbitration, and the expenses of the arbitrator shall be borne equally by the Company and the Union.

Wage rates and classifications will not be the subject of arbitration.

Unless it is mutually agreed otherwise, only one (1) grievance will be arbitrated at the same hearing.

ARTICLE VIII
SAFETY AND SECURITY

SECTION 1. All employees are required to follow the Company safety rules and working procedures and are to report or correct any unsafe acts or conditions to his or her supervisor.

Likewise, employees will participate in keeping the work place in a safe condition by practicing good housekeeping methods.

SECTION 2. For safety and security reasons, all visitors to the job site must be properly approved by the Services Manager. All visitors will be logged in and instructed concerning Company safety rules.

SECTION 3. The Company shall continue to make reasonable provisions for the safety and the health of its employees during their hours of employment. Protective devices, including goggles, gloves, first-aid facilities, and other articles necessary to properly safeguard the health of the employees and protect them from injury shall be provided by the Company. This does not include shoes, uniforms, or safety and prescription glasses, which shall be the obligation of the employee. The Company will provide an annual protective equipment allowance of One Hundred Thirty-Three and 00/100 Dollars ($133) each contract year, effective the signing date of this Agreement. Commencing with the contract year 1996 and thereafter, the Company will provide the annual protective equipment allowance on the anniversary date of each individual employee and each employment date anniversary thereafter.

ARTICLE IX
STRIKES AND LOCKOUTS

The Union agrees that there shall be no strike, sympathy strike, slowdowns, or other interruption of work by any of its employees during the term of this Agreement.

The Company agrees that there shall be no lockouts during the term of this Agreement.

ARTICLE X
HOLIDAYS

The following days will be observed as holidays:

New Year's Day
Memorial Day
Independence Day
Labor Day
Thanksgiving Day
Christmas Day
Employee's Birthday
Three optional days

When a holiday falls on Saturday, the preceding Friday will be observed as the holiday.

When a holiday falls on Sunday, the following Monday will be observed as the holiday.

The three (3) optional holidays will be selected by the Company. The Company will provide the Employees with no less than thirty (30) days notice in advance of the selected dates for the three (3) optional holidays.

Each employee will be paid a holiday bonus equal to eight (8) hours of

straight-time pay on each holiday. However, this payment will not be made if he/she is:

(a) Scheduled to work on the holiday and fails to report to work without permission;

(b) On leave of absence;

(c) On lay off and not on payroll.

If it is necessary to work on a holiday, an employee will be paid time and one-half (1-1/2) for all hours worked in addition to his holiday bonus.

Holiday time paid for but not worked shall be counted as time worked in computing overtime over forty (40) hours in a work week.

To be eligible for holiday pay, an employee must work the scheduled work day before and the scheduled work day after the holiday, unless excused.

ARTICLE XI
VACATIONS

An employee must complete one (1) year of continuous active service before becoming eligible for a vacation with pay or pay for any vacation credit. If hired on or before the 15th day of the month, it will be considered that the whole month was worked. If hired after the 15th of the month, it will not be considered as a month worked.

Each employee shall receive a paid vacation each year in accordance with the following rules:

(a) January 1 of each year is the official beginning of the vacation period for purposes of scheduling and taking vacation.

(b) The employee's date of hire will be used for purposes of calculating accrued vacation.

(c) Vacations may not be carried over from one year to the next.

(d) Those employees who have continuous length of service of one (1) through five (5) years shall receive a vacation with pay of two (2) weeks (80 hours).

(e) Those employees who have continuous length of service of six (6) years or more shall receive a vacation with pay of three (3) weeks (120 hours).

It may be necessary to schedule vacations for all employees at the same time to meet customer service schedules. If so, employees will be notified as soon as practicable to do so.

All vacations must be scheduled with the Services Manager and are subject to his approval. It may be necessary to limit the number of employees scheduling vacations at any one time to meet customer service schedules.

ARTICLE XII
SENIORITY

SECTION 1. Seniority.

The Company recognizes the principle of seniority. Employees who have the greatest time of service in the employment of the Company shall have preference in retention or regaining employment in case of any curtailment or expansion of operations, subject to the individual qualification of each employee.

SECTION 2. Employees shall be assigned, promoted, demoted, transferred, laid off, and recalled in accordance with skill, ability, and fitness except that where two or more employees have the same foregoing qualifications, seniority shall be the determining factor.

SECTION 3. Probationary Period.

New employees shall not be considered regular employees of the Company until after a probationary period consisting of sixty (60) calendar days in any consecutive 120-day period. During such period, the Company shall have the right to discharge such probationary employee for any reason, which decision shall not be subject to the grievance and arbitration procedures. Employees retained after the probationary period acquire seniority status dating from the first day of employment.

SECTION 4. Loss of Seniority.

An employee shall lose his seniority and will be taken off the seniority list if:

(a) He quits;

(b) He is discharged for cause; or

(c) He is on lay off for a period in excess of one (1) year.

SECTION 5. Reemployment After Lay Off.

Each employee on lay off shall be notified by the Company of the first

opportunity for reemployment, such notice of recall to be given in writing by registered mail, return receipt requested, to such employee's last known address filed with the Company. Any employee who fails to accept an offer for reemployment within five (5) days after receipt of notice by registered mail shall thereupon forfeit his seniority rights with respect to employment.

The rights of an employee otherwise eligible for recall shall expire after one (1) year or length of previously accrued service, whichever is less, from the date of lay off.

ARTICLE XIII
MISCELLANEOUS

SECTION 1. Jury Duty.

The Company will pay to an employee performing jury duty requiring absence from his regularly scheduled work the difference between what would have been the employee's regular straight-time rate of pay (maximum: eight (8) hours per day) during such absence and the amount received by the employee for such jury service.

SECTION 2. Funeral Leave.

An employee having a death in his immediate family shall be given two (2) scheduled work days off with pay at his regular straight-time hourly rate to attend the funeral. A third day at his regular straight-time rate will be given when a distance of more than one hundred (100) miles is required to attend the funeral. Time paid for while on funeral leave shall count as time worked for purposes of computing overtime.

The "immediate family," as used herein, shall mean and include spouse, children, parents, brothers, sisters, grandmother, grandfather, grandparents-in-law, spouse's sisters and brothers, and parents-in-law of the employee.

SECTION 3. Legality.

In the event that any provision of this Agreement shall, at any time, be declared invalid by any court of competent jurisdiction, the decision shall not invalidate the entire Agreement; it being the express intention of the parties that al other provisions shall remain in full force and effect.

SECTION 4. Break Periods.

Break periods will be of ten (10) minutes duration, twice per shift. An unpaid mealtime of thirty (30) minutes duration will be scheduled.

SECTION 5. Non-discrimination.

The Company and the Union agree that there will be no discrimination in hiring or advancement because of race, creed, color, sex, age, national origin, or physical disability.

SECTION 6. Sickness Benefits.

The Company agrees to provide group insurance benefits as submitted in draft form to the Union's committee during negotiations. Effective with the date of the Agreement, the Company and the employees will share the cost of employee and dependent group medical insurance on the following basis:

Company will contribute an amount equal to seventy-five percent (75%) and each employee will contribute twenty-five percent (25%) of an amount to be determined as of each November 30, on the basis of employee and dependent group medical insurance utilization costs for the preceding fiscal year.

Effective with the date of the Agreement, the Company will pay the entire premium cost of Long Term Disability and Life Insurance for employees.

ARTICLE XIV
DURATION

This Agreement shall become effective on the 1st day of November, 1995, and shall remain in full force and effect to and including the 30th day of October, 1998, and shall continue in full force and effect from year to year thereafter unless either party to this Agreement desires to change or modify any of the terms or provisions of the Agreement. The party desiring the change or modification must notify the other party to this Agreement in writing, at the address given below, not less than sixty (60) days and not more than seventy-five (75) days prior to any subsequent anniversary date hereof. Should either party to this Agreement serve such notice on the other party, a joint conference of the Company and the Union shall commence not later than thirty (30) days prior to the expiration date in the year in which the notice is given.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their duly authorized representatives as of the day and year first above written.

EL DORADO CHEMICAL, INC.
CENTRAL CITY, KENTUCKY AREA
WORK GROUP
c/o LSB Industries
P.O. Box 754

UNITED STEELWORKERS OF AMERICA
AFL-CIO-CLC

District 35
205 E. Reynolds Rd., Suite E

Oklahoma City, Oklahoma 73101 Lexington, Kentucky 40517

By: _____

George F. Becker, Int'l President

Leo W. Gerard, Int'l Secretary-Treasurer

Richard H. Davis, Int'l V.P. (Administration)

Leon Lynch, Int'l V.P. (Human Affairs)

David Wilson, Director, Dist. 8

Claude Hall, Sub Dist. Director

Frank D. Pittman, Staff Rep.

LOCAL UNION COMMITTEE:

_____

_____

_____

APPENDIX "A"

CLASSIFICATION	BASIC HOURLY WAGE RATE		
	EFFECTIVE 11/01/95	EFFECTIVE 11/01/96	EFFECTIVE 11/01/97
Shift Leader	$11.00	$11.25	$11.50
Operator A	$10.75	$10.90	$11.00
Operator	$10.37	$10.55	$10.75
Junior Operator	$ 8.30	$ 8.30	$ 8.30
Probationary Operator	$ 7.30	$ 7.30	$ 7.30

Employees who successfully complete their probationary period as provided in Article XII shall then be classified as Junior Operator and paid the rate of pay listed above for such classification. Upon completion of one (1) year of active service, such employee shall be considered for advancement to higher paying classifications in accord with the provisions of Article XII, Seniority, Sections 1 and 2. The Company shall have the right to give credit for previous experience or qualifications and to advance employees on that basis.

Shift Leader:

The Company may, in its sole discretion, designate an Operator as a Shift Leader within the production group. The determination to select or retain an individual in this capacity and the qualifications therefore will be made solely by the Company.

In addition to the duties of the Operator, all individuals selected as Shift Leaders will have the following duties:

Responsible to convey instructions from management to a group of workers as set up by management. Also works as part of the group; fills in and performs any job necessary to expedite work flow. Works from general instructions of the supervisor to schedule or assign work to individual operators in accordance with their skills and responsibilities and to maintain quality and quantity standards. Checks, reviews and expedites work flow. Detects faulty operations or defective material and reports these and other operating conditions to management. Instructs and trains new employees in proper work methods, quality, performance standards, safety regulations, etc. Shift leaders will have no supervisory authority to hire, fire, promote, demote, discipline, or effectively recommend such action. They will only have the authority to pass on orders issued by a supervisor.

APPENDIX "B"

The first shift consists of an eight (8) hour work period during any

twenty-four (24) hour period, with starting times between 4:00 a.m. through 11:59 a.m.

The second shift consists of an eight (8) hour work period during any twenty-four (24) hour period, with starting times between 12:00 noon through 7:59 p.m.

The third shift consists of an eight (8) hour work period during any twenty-four (24) hour period, with starting times between 8:00 p.m. through 3:59 a.m.

Those employees who are regularly assigned to the second shift schedule shall receive, in addition to their regular hourly rate of pay, a differential of fifteen cents ($.15) for each hour worked during each such eight (8) hour shift.

Those employees who are regularly assigned to the third shift schedule shall receive, in addition to their regular hourly rate of pay, a differential of thirty cents ($.30) for each hour worked during each such eight (8) hour shift.

This LIMITED PARTNERSHIP AGREEMENT is made and dated as of the _____ day of February, 1995, between _____, a _____ corporation, as general partner, and LSB Holdings, Inc., an Oklahoma corporation, as limited partner.

WHEREAS, the parties hereto have determined that it is in their best interests to own and operate a _____ program at _____ in _____, and

WHEREAS, the parties have determined that it is desirable to form a limited partnership under the laws of the State of _____ for the foregoing purposes;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

SECTION 1: DEFINITIONS

The capitalized terms used in this Agreement shall have the meanings ascribed to them in this Section 1 (such meanings to be equally applicable to both the singular and plural forms of the terms defined). Except to the extent expressly included in this Section 1, the definitions contained in _____ of the Act shall not apply to this Agreement.

Act.__The _____ Revised Limited Partnership Act, _____, as amended from time to time. Reference to any section of the Act shall be deemed to refer to a similar provision in any amendment to the Act.

Affiliate.__Any person (a) who, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, any specified Partner (the term "control" for these purposes meaning the ability, whether by ownership of shares or other equity interests, by contract or otherwise, to elect a majority of the directors of a corporation, to select the managing or general partner of a partnership, or otherwise to select, or have the power to remove and then select, a majority of those persons exercising governing authority over an entity, and, without limiting the generality of the foregoing, shall conclusively be presumed in the case of ownership of fifty percent (50%) or more of the equity interests of such entity), (b) who is an executive officer, director, trustee or general partner of any Partner, or (c) who is an officer, director, trustee or general partner of any person described in clauses (a) or (b).

Agreement. This Limited Partnership Agreement, including any amendments.

"Army" shall mean the United States Department of the Army.

"Army Novation" shall mean the Novation in the form of Exhibit A to the Loan Agreement.

Assignee. A Person who has acquired from a Partner a beneficial interest in the Partnership's Profits, Losses and distributions, but who is not a substituted Partner.

Bankruptcy. With respect to the Partnership or a Partner therein: (a) an adjudication that it is bankrupt or insolvent, or the entry of an order for relief under the Federal Bankruptcy Code or any other applicable bankruptcy or insolvency statute or law, (b) its inability to pay its debts generally as they mature (after giving effect to applicable grace periods), (c) the making by it of an assignment for the benefit of creditors or the dissolution and winding up of its affairs, (d) the filing by it of a petition in bankruptcy or a petition for relief under any section of the Federal Bankruptcy Code or any other applicable bankruptcy or insolvency statute or law or any answer or other pleading admitting or failing to deny the allegations of any such petition, (e) the filing against it of any such petition (unless such petition is dismissed within 90 days from the date of filing thereof), (f) its seeking, consenting to or acquiescence in the appointment of a trustee, conservator, receiver or liquidator for it or for all or any substantial part of its assets, (g) the appointment without its consent or acquiescence of a trustee, conservator, receiver or liquidator for it or for all or any substantial part of its assets (unless such appointment is vacated or stayed within 90 days from its effective date), or (h) with respect to a Partner, the acquisition by a creditor of such Partner, or by any other Person acting on behalf of such creditor, of any rights with respect to such Partner's interest in the Partnership or to Profits (other than by the voluntary grant of such rights by the Partner), if such acquisition shall continue for a period of 90 days.

Business Day. Any day other than a Saturday, Sunday or other day on which banks in _____ are authorized to close.

Capital Account. The account maintained by the Partnership for each Partner as provided in Section 4.2.

Cash From Refinancing. The net cash the Partnership realizes from the refinancing of all or a portion of the Partnership Property after (i) retirement of debt secured by the Partnership Property or the portion thereof refinanced, (ii) payment of all Partnership Expenses related to such refinancing transaction, (iii) application of the refinancing proceeds for the uses for which they were procured, and (iv) deduction of amounts

for Reserves related to such refinancing transaction.

Cash From Sales. The net cash the Partnership realizes from the sale or other disposition of Partnership Property, or from insurance proceeds paid for damage to or destruction of Partnership Property, or due to any award paid on account of a taking of Partnership Property by eminent domain, after (i) retirement of debt secured by the Partnership Property or the portion thereof sold, damaged or taken; (ii) payment of all Partnership Expenses related to such transaction or event, including the cost of any repairs or reconstruction; and (iii) deduction of amounts for Reserves related to such transaction or event.

Certificate and "Certificate Register. Certificate and Certificate Registered as defined in Sections 10.1.4 and 10.1.5, respectively.

Code. The United States Internal Revenue Code of 1986, as amended.

Consent. The written consent of a Person. Used as a verb, "Consent" shall have a correlative meaning.

Contribution. Money and the Net Book Value (as defined in Exhibit A) of any property contributed as capital to the Partnership by a Partner in its capacity as a Partner.

Depositary Agreement. The Depositary Agreement as defined in the Loan Agreement.

Distribution Period. Quarterly on the dates provided for withdrawals from the Revenues Account, as defined in the Depositary Agreement, under Subsection 4.7(c) of the Depositary Agreement.

Delivery Date. The date on which the Facility is acquired by the Partnership.

Excess Cash. Gross Revenues less (a) the aggregate amount of all disbursements the Partnership makes for Partnership Expenses and (b) amounts set aside for Reserves.

Facility.

.

GAAP. Generally accepted accounting principles in effect from time to time in the United States, consistently applied.

General Partner. _____, a _____ corporation qualified to do business in _____, in its capacity as General Partner of the Partnership, or its successors or permitted assigns.

Gross Revenues. The sum of all cash receipts of the Partnership from any source other than (a) Contributions, (b) Cash From Sales, (c) Cash From Refinancing and (d) proceeds of any other loan to the Partnership.

Indebtedness. All items that in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet as of the date as of which indebtedness is to be determined, including, without limitation, (a) monetary obligations under leases, (b) indebtedness secured by any mortgage, pledge, lien or other security interest or encumbrance existing on property owned subject to such mortgage, pledge, lien or other security interest or encumbrance, even though the indebtedness secured thereby shall not have been assumed, (c) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by the obligor, even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property and (d) guarantees of obligations that themselves would constitute "Indebtedness" but for the fact that they are obligations of another Person.

Interest. An ownership interest in the Partnership held by a Limited Partner or successor thereto including any and all benefits to which the holder of such an Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement.

Lender. The Lender as defined in the Loan Agreement and its successors and assigns.

Limited Partner. LSB Holdings, Inc., an Oklahoma corporation, or any Person who has been admitted to the Partnership as a Substitute Limited Partner or additional Limited Partner in accordance with Section 10. Any General Partner who is separately designated as a Limited Partner shall have the rights and powers and be subject to the restrictions and liabilities of both a General Partner and a Limited Partner to the extent of its participation in the Partnership as each.

Loan Agreement. That certain Note Purchase Agreement of even date herewith entered into by and among the General Partner, the Partnership and Prudential Insurance Company of America, a New Jersey mutual insurance company.

Loan Note(s). The promissory note(s) executed and delivered by the Partnership pursuant to the Loan Agreement.

Majority Vote. The affirmative vote or Consent of Partners collectively holding 75 percent or more of the Percentage Interests held by all of the Partners.

Partner. The General Partner or any Limited Partner.

Partner Funded Minimum Gain. "Partner Funded Minimum Gain" means the sum of each Partner's "share of the minimum gain attributable to a partner non-recourse debt" as those quoted terms are used in Treasury Regulations Section 1.704-IT(b)(4)(iv)(h)(5).

Partnership. Limited Partnership, as such partnership may from time to time be constituted.

Partnership Accountants. As defined in Section 9.7.

Partnership Expenses. All costs and expenses of every kind and character the Partnership incurs in connection with the Partnership's management, business affairs and operations, including, without limitation, (a) capital expenditures (but only to the extent financed out of Gross Revenues), (b) debt service on Partnership Indebtedness, (c) fees of independent public accountants, attorneys and other Persons engaged by the General Partner to perform work on behalf of the Partnership pursuant to the authority granted in Section 7.1(d) (including, without limitation, fees of the _____ and (d) start-up expenses (including, without limitation, fees and expenses of counsel to the Partners incurred in connection with the organization of the Partnership) but only to the extent paid out of Gross Revenues or advances made by the General Partner which have not been reimbursed. Partnership Expenses shall not include (x) any salaries, compensation and fringe benefits of directors, officers and employees of the General Partner; (y) overhead of the General Partner, including rent and general office expenses; or (z) expenses incurred by the Operator pursuant to the _____ to the extent such expenses are not expressly stated therein to be the responsibility of the Partnership.

Partnership Minimum Gain. The amount determined, in accordance with the Treasury Regulations promulgated under Section 704 from time to time and subject to any modification or elaboration therein, by (i) computing, with respect to each nonrecourse liability of the Partnership, the amount of gain that would be realized by the Partnership if, in a taxable transaction, it disposed of Partnership Property subject to such liability in full satisfaction thereof (and for no other consideration) and (ii) then aggregating the amounts so computed.

Partnership Property. The Partnership's right, title and interest in (a) the Facility and (b) any other real or personal property, whether tangible or intangible, other than cash.

Percentage Interest. The amount (expressed as a percentage) which shall be utilized to measure certain aspects of a Partner's interest in the Partnership. The Partners' initial respective Percentage Interests are: _____, fifty percent (50%); and LSB Holdings, Inc., fifty percent (50%). Thereafter, the Partners' respective Percentage Interests are subject to change from time to time as a result of transfers pursuant to Section 10 hereof and as provided in Section 4.2 hereof.

Person. Any individual, firm, partnership, trust estate, association, corporation or other entity.

Profits and Losses. For each fiscal year or other period an amount equal to the Partnership's income or loss, or any items of income or loss, determined in accordance with the accounting method and principles used by the Partnership in maintaining its books and records, including those described in Exhibit A attached hereto, provided that the determination shall include any adjustments or other items the Tax Matters Partner in its good faith judgment considers necessary or appropriate to assure compliance with the rules set forth in Treasury Regulations Section 1.704-1(b).

Prudent Electrical Practices. At a particular time, those practices, methods, equipment and acts then commonly used in prudent electrical engineering and operations to design, operate and maintain electric equipment of the type and nature in the Facility lawfully and with safety, dependability, efficiency and economy.

Reserves. The amount of cash the General Partner from time to time reasonably determines in good faith to be necessary or advisable as reserves for: (a) repayment of Partnership Indebtedness authorized pursuant to this Agreement: (b) payment of taxes, insurance premiums, professional fees and fees payable under the _____; and (c) other contingencies related to the Partnership's business; provided, however, that in no event shall the General Partner include in Reserves (i) any amount pursuant to the foregoing clause (c) in excess of $_____; or (ii) any amount with respect to any payment that is the responsibility of any Person other than the Partnership.

Securities Act. The Securities Act of 1933, as amended.

Security. A "security" within the meaning of Section 2(1) of the Securities Act.

Substitute Limited Partner. A Person who has become a Substitute Limited Partner pursuant to Section 10.5.

Tax Book Value. The value of an asset determined in accordance with the rules described in Exhibit A attached hereto.

Tax Matters Partner. As defined in Section 7.4.

Terminating Event.

(a) For an individual Partner: Bankruptcy; death; any disabling mental or physical condition which continues for an uninterrupted period of more than six months; entry of an order adjudicating the Partner incompetent by a court of competent jurisdiction; appointment of a conservator; or execution of a certificate diagnosing the Partner's incompetency by a physician licensed to practice medicine in the state of the Partner's residence.

(b) For a Partner that is an entity: Bankruptcy; filing of a certificate of dissolution or its equivalent for any corporation; dissolution of a partnership; termination of a trust; distribution of an estate's entire Partnership interest; or the dissolution or termination of any other entity that is a Partner, whether voluntary or involuntary; provided, however that neither (i) the consolidation or merger of a Partner with or into any other Person nor (ii) the sale, conveyance or transfer of all or substantially all of a Partner's assets to any Person, shall be a Terminating Event if either (x) the Partner is the surviving corporation, or (y) provided the conditions set forth in Section 10 with respect to the Transfer effected thereby have otherwise been met, the corporation formed by such consolidation or into which the Partner is merged or the Person which so acquires all or substantially all of such Partner's assets is an entity organized under the laws of the United States, any state thereof or the District of Columbia, assumes in writing or by operation of law the timely performance of every covenant of this Agreement on the part of such Partner to be performed or observed.

(c) For the General Partner, in addition to the foregoing, as applicable: withdrawal from the Partnership; removal of the General Partner from the Partnership pursuant to this Agreement.

Transaction Documents. Transaction Documents shall have the meaning ascribed thereto in the Loan Agreement.

Transfer. Any sale, exchange, assignment, encumbrance, hypothecation, pledge, foreclosure, conveyance in trust, gift or other transfer of any kind, whether direct or indirect, other than as a direct consequence of a Terminating Event. Used as a verb, "transfer" shall mean to effectuate a Transfer.

Voting Stock. Securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing a similar function).

SECTION 2: FORMATION

2.1 Statutory Authority and Documents. The parties hereto have agreed to and by these presents and upon filing of a certificate of limited partnership do form the Partnership as a limited partnership under and pursuant to the Act.

The General Partner hereto has executed and filed with the Secretary of State of the State of _____ an LP-1 form and such other forms as are required to constitute the Partnership as a limited partnership under the Act. The parties hereto shall execute such other documents and shall perform such other filings and recordings and such other acts conforming hereto as shall constitute compliance with all requirements for the organization and/or continuing of a limited partnership under the laws of the State of _____ and such other states or political subdivisions in which the Partnership elects to do business.

2.2 Term. The Partnership will commence on February 2, 1995. Unless sooner dissolved in accordance with the terms of this Agreement, the Partnership shall continue in existence until February 20, 2025, upon which date it shall be dissolved.

2.3 Name. The name of the Partnership shall be "_____ Limited Partnership."

2.4 Purpose. The purpose of the Partnership shall be to construct, own, hold, operate, manage, lease or sell the Facility and other Partnership Property incidental thereto, to maximize revenues from the Facility to the extent consistent with Prudent Electrical Practices and to undertake any and all other acts and things reasonably necessary, proper, convenient or advisable to effectuate and carry out such purpose.

2.5 Principal Office: Agent For Service of Process. The street address of the Partnership's principal executive office shall be _____, or such other address as the General Partner may designate from time to time by an appropriate certificate filed in the office of the _____ Secretary of State.

2.6 Fiscal Year: Accounting Method. The Partnership's fiscal year shall be January 1 through December 31. The Partnership's books and records shall be maintained on an accrual basis in accordance with (a) GAAP except as otherwise agreed by the Partners, (b) tax accounting methods, unless otherwise required by law, and (c) the Treasury Regulations under Section 704(b) of the Code.

SECTION 3: CERTIFICATES

3.1 Certificate of Limited Partnership. The General Partner has caused to be executed and filed in the office of the _____ Secretary of State an LP-1 form in accordance with the Act.

3.2 Certificates of Amendment. The General Partner shall timely

prepare, sign, acknowledge and file in the office of the _____ Secretary of State any certificate of amendment the Act requires, and shall promptly deliver a copy of the certificate of amendment to each Limited Partner. If the General Partner fails to sign or file any certificate of amendment that the Act requires within five Business Days after a Limited Partner has requested in writing that it be filed, a Limited Partner may cause the certificate to be prepared, signed, acknowledged and filed.

3.3 Certificates of Dissolution and Cancellation. The General Partner shall timely prepare, sign, acknowledge and file in the office of the _____ Secretary of State any certificates of dissolution, continuation and cancellation the Act requires, unless the dissolution is caused by an event described in Section 11.l(c), in which case the Limited Partners winding up the affairs of the Partnership under the Act shall prepare, sign, acknowledge and file the required certificates.

3.4 Other Certificates. The General Partner shall timely prepare, sign, acknowledge, verify, publish, file or record, as may be necessary or appropriate, any notices, certificates, statements or instruments required: (a) to comply with all laws that apply to the Partnership or the conduct of its business; (b) to perfect the Partnership's formation and maintain its existence; (c) to enable the Partnership to hold Partnership Property in the Partnership's name; or (d) to create presumptions in favor of bona fide lenders or encumbrancers for value of Partnership Property.

SECTION 4: CAPITAL

4.1 Requisite Contributions. Subject to satisfactory completion of all required documentation, the General Partner will contribute to the Partnership one hundred percent (100%) ownership of the Facility, any contracts, goods, equipment, assets, property and rights associated with the Facility, and _____ Dollars ($_____) and the Limited Partner will contribute to the Partnership _____ Dollars ($_____). In no event shall any Partner be obligated to make contributions to the Partnership in excess of the amounts set forth in the previous sentence. The Limited Partner shall make its Contribution by depositing the same with the Depositary (as defined in the Loan Agreement) on or before the date of satisfaction of all other conditions to the Initial Advance (as defined in the Loan Agreement) as provided in Section 4.1 of the Loan Agreement and upon the satisfaction of all other conditions to the initial draw as provided in Section 4.1 of the Loan Agreement. The General Partner shall make its monetary Contribution by depositing with the Depositary one or more installments aggregating the total amount of its Contribution on or before the earlier of the Conversion Date (as defined in the Loan Agreement) or one year from the date of funding of the Initial Advance. Said Contribution may be made from funds available in the Revenues Account (as defined in the Depositary Agreement) in accordance with and subject to the terms and conditions of the Depositary Agreement and the Loan Agreement. Those portions of the General Partner's contributions made from funds available in the Revenues Account which would otherwise be distributed to this Partnership and then to the Limited Partners shall be repaid to Limited Partner from the General Partner's first distributions under this Agreement. The General Partner's non-monetary Contribution shall be made by assignment thereof from General Partner and by General Partner causing an assignment thereof from _____ directly to the Partnership.

4.2 Capital Accounts. A Capital Account shall be maintained for each Partner in accordance with Treasury Regulations Section 1.704-1(b), as modified and supplemented by Treasury Regulations Section 1.704-IT(b) or any successor provision, and, to the extent consistent therewith, the rules set forth in Exhibit A.

4.3 No Interest on Capital. The Partnership shall not pay to any Partner interest upon any Contribution or upon undistributed or reinvested Profits.

4.4 Capital Withdrawals and Returns. Except as otherwise provided in this Agreement: (a) no Partner shall have the right to withdraw or reduce its Contributions to the capital of the Partnership; and (b) no Partner shall have the right to demand or receive property, other than cash, in return for its Contribution or have priority over another Partner, either as to the return of Contribution of capital or as to Profits, Losses or distributions.

4.5 Waiver of Partition. The Partners hereby waive and forfeit all rights arising out of statute or by operation of law to seek, bring or maintain in any court an action for partition pertaining to any Partnership Property.

4.6 No Third Party Rights. The obligations or rights of the Partnership or of Partners to make or require any contribution under this Section 4 shall not grant any rights to or confer any benefits upon any Person who is not a Partner.

4.7 Additional Capital Contributions and Loans. No Partner shall have the right to make voluntary contributions of capital or loans to the Partnership other than advances by the General Partner to meet Partnership Expenses incurred by the Partnership in the conduct of its ordinary course of business; provided, however, that nothing in this Section 4.7 shall require the General Partner to make any such advances. No Partner shall have the obligation to make mandatory contributions of capital other than the contributions required by Section 4.1 above.

SECTION 5: PROFITS AND LOSSES

5.1 Allocations of Profits and Losses.

(a) The Profits and Losses shall be allocated among the Partners according to their respective Percentage Interests.

(b) Profits and Losses shall be determined and specific items of income, gain, loss or credit shall in all events be allocated in the manner necessary to assure compliance with Treasury Regulations Section 1.704-1(b) or any successor provision and, to the extent consistent therewith, pursuant to the allocation rules described in Exhibit A and the other provisions of this Section 5.

5.2 Special Allocations.

(a) Notwithstanding anything to the contrary herein and except as provided in Section 5.2(b) hereof, if any Partner unexpectedly receives any adjustment, allocation or distribution described in subparagraphs (4), (5) and (6) of Treasury Regulations Section 1.704-l(b)(2)(ii)(d), items of Partnership gross income and gain (consisting of a pro rata portion of each item of Partnership income, including gross income, and gain) shall be specially allocated to that Partner in an amount and manner sufficient to eliminate a deficit balance in that Partner's Capital Account as quickly as possible. This provision is intended to constitute a "qualified income offset" within the meaning of Section 1.704-l(b)(2)(ii)(d) of the Treasury Regulations and shall be interpreted as such.

(b) If in any fiscal year of the Partnership, there is a net decrease in Partnership Minimum Gain, items of Partnership gross income and gain shall be allocated to the Partners in accordance with Section 1.704-l(b)(4)(iv)(e) of the Temporary Treasury Regulations. This provision is intended to constitute a "minimum gain chargeback" within the meaning of Section 1.704-IT(b)(4)(iv)(e) of the Temporary Treasury Regulations and shall be interpreted as such.

(c) Notwithstanding any provision hereof to the contrary, any item (or any portion of any such item) of Partnership loss, deduction or expenditure described in Section 705(a)(2)(B) of the Code for any fiscal year attributable to "partner nonrecourse debt" shall be allocated to the Partner or Partners that bears or bear the economic risk of loss for such debt, in accordance with Treasury Regulation Section 1.704-IT(b)(4)(iv)(h)(2). If in any fiscal year of the Partnership, there is a net decrease in Partner Funded Minimum Gain, items of Partnership gross, income and gain shall be allocated to Partners in accordance with Section 1.704-IT(b)(4)(iv)(h)(4) of the Temporary Treasury Regulations.

(d) The allocations set forth in this Section 5.2 hereof (the "Regulatory Allocations") are intended to comply with certain requirements of Sections 1.704-1(b) and 1.704-IT(b) of the Treasury Regulations. The Partners acknowledge and agree that the Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide the Partnership distributions. Accordingly, the General Partner is hereby authorized and directed to divide other allocations of Profit and Loss among the Partners in any reasonable manner (not inconsistent with Section 704(b) of the Code or the Treasury Regulations promulgated thereunder) so as to prevent the Regulatory Allocations from distorting the manner in which the Partnership distributions would otherwise be divided among the Partners pursuant to Section 5 hereof and upon dissolution. In general, the Partners anticipate that this will be accomplished by specially allocating other items of Profit and Loss among the Partners so that, after offsetting special allocations are made, the amount of each Partner's Capital Account balance shall equal the Capital Account balance such Partner would have had if the Regulatory Allocations were not a part of this Agreement and all Partnership items had been allocated to the Partners solely pursuant to Section 5.1 hereof.

5.3 Other Allocation Rules.

(a) Generally, all Profits and Losses allocated to the Partners shall be allocated among them as provided in Section 5.1. If additional Limited Partners are admitted to the Partnership on different dates during any fiscal year, Partners withdraw from the Partnership during any fiscal year or the interests of any Partner in Profits or Losses changes during any fiscal year, the Profits or Losses allocated to the Limited Partners for such fiscal year shall be allocated among them in proportion to the Percentage interests each holds from time to time in accordance with Section 706 of the Code, using any convention permitted by law and selected by the Tax Matters Partner.

(b) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss, deduction, and any other allocations not otherwise provided for shall be allocated among the Partners in the same proportions as they share Profits or Losses, as the case may be, for the subject period.

5.4 Tax Allocations. In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss, and deductions with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of the property to the Partnership for federal income tax purposes and its Tax Book Value at the time it is contributed. If the Tax Book Value of any Partnership Property is adjusted, subsequent allocations of income, gain, loss, and deduction with respect to that property shall take into account any variation between its adjusted basis for federal income tax purposes and its Tax Book Value in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder. Any elections or other decisions relating

to these allocations shall be made by the Tax Matters Partner in a manner that reflects the purpose and intention of this Agreement. These allocations are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement. Nothing herein shall be construed to permit any Partner to make any contribution to the capital of the Partnership of property other than money or to make any voluntary contribution inconsistent with Section 4.7.

SECTION 6: DISTRIBUTIONS

6.1 Distribution of Excess Cash. The General Partner shall cause the Partnership to make distributions of Excess Cash (and any reserves that may have been set aside and are subsequently deemed available for distribution by the General Partner) to the Partners in accordance with the allocation of profits and losses pursuant to Section 5.1(a).

6.2 Cash From Sales; Cash From Refinancing. Subject to any obligations of the Partnership to third parties, the Partnership shall distribute Cash From Sales and Cash From Refinancing to the Partners within 60 days of receipt in the same manner and order as specified in Section 6.1.

6.3 Effect of Distribution. Notwithstanding anything to the contrary contained in this Section 6, the Partnership shall not make any distribution if any Partner at the time of such distribution would be required to return the distribution to the Partnership pursuant to the Act. Any Partner who receives a distribution in violation of this Section 6.3 shall promptly return the distribution to the Partnership.

6.4 Form of Distribution. No Partner shall have any right to receive any Partnership Property other than cash upon a distribution, except as specifically provided in this Agreement. A Partner shall not be compelled to accept a distribution of Partnership Property other than cash in lieu of a proportionate distribution of cash being made to other Partners.

SECTION 7: MANAGEMENT

7.1 Control in General Partner. The General Partner shall have exclusive management and control of the Partnership's business and, subject to Sections 7.2 and 8.1, shall have all of the rights, powers and authority generally conferred by law or necessary, advisable or consistent with accomplishing the Partnership's purpose as set forth in Section 2.4. Without limiting the generality of the foregoing, the General Partner shall have the right, to the extent in furtherance of the purposes of the Partnership as set forth in Section 2.4 and subject to Sections 7.2 and 8.1 and the applicable voting rights of Limited Partners specified elsewhere in this Agreement:

(a) to acquire, hold, sell, lease, exchange or convey real and personal property or any interest therein on the Partnership's behalf, upon such terms as it deems advisable;

(b) to borrow money on the Partnership's behalf, to mortgage or otherwise encumber Partnership Property, upon such terms as it may deem necessary or advisable; provided, however, that a creditor must not have or acquire, at any time as a result of making a loan, any direct or indirect interest in the profit, capital or property of the Partnership other than a security interest in Partnership Property, except to the extent required or permitted by the Loan Agreement and the Transaction Documents (as defined in the Loan Agreement);

(c) to prepay in whole or in part, refinance, increase, modify or extend any agreement, the Loan Agreements, Loan Note(s), Transaction Documents, lease, mortgage, deed of trust or other obligation affecting Partnership Property;

(d) subject to Sections 8.1(b) (vii) and (viii), to delegate duties to and employ from time to time, any Persons (including the General Partner and Subsidiaries or Affiliates of the General Partner and shareholders, directors, officers, employees or agents of any thereof) necessary or advisable for the management and operation of the Partnership's business, including the Operator under the _____ and also including property managers, on-site personnel, insurance brokers, leasing agents, real estate brokers and loan brokers, appraisers, consultants, accountants, attorneys, architects and engineers, on terms and for compensation as are reasonable and customary for similar services;

(e) to pay all Partnership Expenses; and

(f) to negotiate, enter into and execute the Loan Agreement, the Transaction Documents, Loan Note(s), deeds, deeds of trust, contracts, leases, joint venture or partnership agreements, assignments and other instruments and to take any other actions necessary or desirable on the Partnership's behalf in connection with any of the rights of the General Partner set forth in this Section 7.1.

7.2 Limitations on General Partner's Authority. Without the Consent of all Partners, the General Partner shall not have authority to:

(a) do any act in contravention of this Agreement (including, without limitation, do any act referred to in Section 8.1 without the Consent of the Limited Partners specified in Section 8.1);

(b) possess Partnership Property or assign rights in Partnership Property other than for the Partnership's purposes;

(c) borrow from the Partnership;

(d) confess a judgment against the Partnership;

(e) affirmatively represent to any Person that any Limited Partner is a general partner of the Partnership; fail to qualify or maintain the qualification of the Partnership to do business in any jurisdiction in which the failure to do so would subject any Limited Partner to liability as a general partner therein; or perform any act, not requested by a Limited Partner or required or expressly permitted by this Agreement, that would subject any Limited Partner to liability as a general partner in any jurisdiction;

(f) except in accordance with section 10.2.1, admit a Person as an additional or substitute General Partner; or

(g) except in accordance with the terms of this Agreement, admit a Person as an additional Limited Partner or Substitute Limited Partner.

7.3 Devotion of Skill and Time; Specific Duties.

(a) The General Partner shall cause its officers and employees diligently to pursue and to apply their general skills, time and effort to the Partnership's business to the extent reasonably necessary to manage and operate the Partnership and its business in the best interests of all of the Partners and in the exercise of sound business judgment. Nevertheless, the officers and employees of the General Partner shall not be required to devote their full time to Partnership affairs, except to the extent necessary from time to time for the proper performance of its duties hereunder, and may engage in other businesses, including businesses identical or similar to the Partnership's business.

(b) The General Partner shall take all actions that the General Partner reasonably and in good faith deems to be necessary or appropriate for carrying out the purpose of the Partnership in accordance with applicable laws and regulations and for continuing the Partnership's valid existence as a limited partnership under the laws of the State of _____, qualified to do business in _____.

(c) The General Partner shall not commit waste, and shall use diligent efforts to prevent others from committing waste, against Partnership Property, whether or not in the immediate possession or control of the General Partner, and shall not employ, and shall use diligent efforts to prevent others from employing, Partnership Property for purposes other than Partnership purposes.

(d) The General Partner shall in good faith administer and enforce the rights of the Partnership against its Affiliates, including, without limitation, those set forth in the _____.

(e) The General Partner shall give the Limited Partners written notice of the occurrence of a default by any party under any contract pertaining to the Facility if such default continues for a period of 30 days.

7.4 General Partner as Tax Matters Partner.

(a) The General Partner is designated the tax matters partner ("Tax Matters Partner") as provided in Section 6231(a)(7)(A) of the Code and any comparable provision of state or local law. This designation is subject to the following terms and conditions:

(i) The Tax Matters Partner shall timely file all necessary federal, state and local partnership returns for the Partnership and shall furnish the Limited Partners on a timely basis with schedules consistent with the treatment of all items on those returns (including K-1's and their state and local counterparts).

(ii) The Tax Matters Partner shall furnish to the Secretary of the Treasury the name and address of each of the Limited Partners and shall provide timely updates to reflect the admission of additional Limited Partners to the Partnership (and to reflect the withdrawal of Limited Partners from the Partnership) from time to time in accordance with the provisions of this Agreement.

(iii) The Tax Matters Partner shall keep the Limited Partners fully and timely informed of all administrative and judicial proceedings for the adjustment of "partnership items" (as defined in Section 6231(a)(3) of the Code and any comparable provision of state or local law) ("Partnership Item") at the Partnership level and shall, without limitation forward to each Limited Partner any agent's reports and notices of conferences and all other correspondence pertaining to the progress of any audit being conducted by any federal, state or local taxing authority.

(iv) Each of the Partners (including the Tax Matters Partner) agrees that it will not enter into a settlement agreement with the Internal Revenue Service (or any state or local taxing authority) with respect to the determination of any Partnership Item that has the effect of binding another Partner without first obtaining the written consent of such other Partner.

(v) Any Partner who enters into a settlement

agreement with any taxing authority with respect to any Partnership item shall notify the Tax Matters Partner of the agreement and its terms within 30 days from the date of such agreement, and the Tax Matters Partner shall notify the other Partners promptly and in any event of the settlement within 30 days of receipt of notification by the Partner entering into the settlement.

(vi) If notice of an administrative proceeding under Section 6223 of the Code (or any comparable provision of state or local law) is received by a Limited Partner, the Limited Partner shall notify the Tax Matters Partner of the treatment of any Partnership item on the Limited Partner's income tax return which is or may be inconsistent with the treatment of that item on the Partnership return.

(vii) If a notice of a final partnership administrative determination is mailed to the Tax Matters Partner, the Tax Matters Partner shall promptly notify each of the other Partners of said event and provide them with a copy of said notice. The Tax Matters Partner shall not, in its capacity as such, file a petition for a readjustment of any Partnership Item set forth in said notice in any of the courts described in Section 6226 of the Code unless requested to do so by (1) a majority of the Percentage Interests of the Limited Partners having an interest in the outcome (as defined in Section 6226(d) of the Code) or (2) in the event such majority is not obtainable, three quarters of the Limited Partners having an interest in the outcome or (3) in the event three-quarters of the Limited Partners having an interest in the outcome do not agree, the Limited Partner with an interest in the outcome that has the largest Percentage interest of such Partners.

(viii) The Tax Matters Partner shall not extend the statute of limitations for assessment of tax deficiencies against any Partner with respect to adjustments to the Partnership's federal, state or local tax returns without the consent of all Partners.

(b) Upon the admission to the Partnership of a substitute General Partner under the terms of Section 10.2 of this Agreement, such substitute General Partner shall be substituted as the Tax Matters Partner of the Partnership.

7.5 Compensation; Reimbursement; Indemnification.

(a) The General Partner shall not receive any salary or other compensation for services rendered to the Partnership under this Agreement, except as set forth in this Section 7.5(a). If a Terminating Event occurs with respect to the General Partner and all of the Limited Partners elect to continue the Partnership notwithstanding the Terminating Event as provided in Section 11.2, then the Partnership shall pay any successor General Partner such salary and other compensation as may be approved by Majority Vote.

(b) If the Partnership ever pays a salary or other compensation to the General Partner, the amount thereof shall be a Partnership Expense and deducted in computing Profits and Losses under Section 5.

(c) No salary or other compensation shall be paid to any Limited Partner in its role as Limited Partner.

(d) The Partnership shall reimburse the General Partner for Partnership Expenses it pays on the Partnership's behalf not attributable to the willful misconduct, bad faith or negligence of the General Partner or any Affiliate or any of their respective directors, officers, employees or agents.

(e) The Partnership shall indemnify the General Partner against any liability, loss or expense, including, without limitation, reasonable attorneys' fees, litigation costs, settlement amounts and judgments, it may incur by reason of any act by or omission of the General Partner in connection with the management and operation of the Partnership and its business, unless the liability, loss or expense is caused by (i) the willful misconduct, bad faith or negligence of the General Partner or any Affiliate or any of their respective directors, officers, employees or agents, (ii) any other failure of any of the foregoing to act in good faith and in a manner that such Person reasonably believed, under the circumstances then existing, to be in the best interests of the Partnership, or (iii) any failure of the General Partner or any Affiliate to perform or observe any material term, covenant, agreement, condition or provision of this Agreement or any other agreement concerning the Facility to be performed or observed by it. The indemnity contained in this Section 7.5(e) shall be recoverable solely from the assets of the Partnership and shall not be recoverable from the Limited Partners.

7.6 Execution of Partnership Instruments. The General Partner shall execute all deeds, leases, the Loan Agreement, Loan Note(s), the Transaction Documents, mortgages, joint venture or partnership agreements, contracts, certificates, correspondence and any and all other instruments executed on the Partnership's behalf in substantially the following form:

_____ Limited Partnership

By: _____, General Partner

By: _____
(Name of authorized representative)
Its: Title

7.7 Inconsistent Positions. No Partner shall report on its federal income tax return its distributive share of Partnership Profits or Losses or any Partnership Item in an amount or manner that is inconsistent with the Partnership's federal income tax return unless (a) the Partner proposing to take such position notifies the Tax Matters Partner in writing that it plans to do so at least 30 days in advance of filing its return (or such lesser period as may be practical under the circumstances) and (b) such Partner accompanies such notice with an opinion of independent tax counsel to the effect that the position which such Partner proposes to take is more likely to be sustained if challenged in a court of law than the position taken by the Partnership. The Tax Matters Partner shall promptly send a copy of such opinion to each of the other Partners, and such other Partners shall then have the right to take such position without producing such an opinion.

SECTION 8: APPROVAL RIGHTS OF THE LIMITED PARTNERS; MEETINGS

8.1 Approval.

(a) The Limited Partners shall not, and shall have no right to, participate in the control of the Partnership's business. The Limited Partners shall not have the right to vote on any matters except as specifically provided in this Section 8.1 or elsewhere in this Agreement.

(b) Without the prior Consent to the specific act by Majority Vote of the Limited Partners (or the prior Consent to the specific act by all the Partners or the affected Partners, as required by clause (iii) of this Section 8.1(b)), the General Partner shall not have the authority to, nor shall it:

(i) dissolve the Partnership (other than in accordance with this Agreement);

(ii) sell, exchange, lease, mortgage, pledge or otherwise transfer all or any substantial part of the Partnership Property (other than to create a security interest therein as contemplated in connection with the Loan Agreement and the Transaction Documents);

(iii) amend this Agreement (except that (A) an amendment of this clause (iii) or of Section 7.2 shall require the Consent of all the Partners, (B) any amendment that would change any Partner's share of Profits, Losses, tax benefits or distributions shall require the Consent of the affected Partner, and (C) any amendment that would require any Partner to make any additional Contribution to the Partnership shall require the Consent of all the Partners);

(iv) change the nature of the Partnership's business from that described in Section 2.4 or do any act that would make it impossible to carry on the ordinary business of the Partnership including, without limitation, make a determination permanently to cease operation of the Facility;

(v) file any petition for the Partnership under the federal Bankruptcy Act, or seek the protection of any other federal or state bankruptcy or insolvency law or debtor relief statute or consent to or acquiesce in the filing of any such petition or the seeking of any such protection;

(vi) cause or permit the Partnership to incur Indebtedness other than in the ordinary course of its business (except for Obligations incurred pursuant to and as defined in the Loan Agreement and the Transaction Documents) or act as guarantor or surety for the debts of another Person, or mortgage or otherwise encumber Partnership Property;

(vii) cause the Partnership to modify, amend or waive any provision of the _____ (including failure to exercise the option to terminate the Operator for failure to maintain revenues) or the _____.

(viii) cause or permit the Partnership to enter into any contract or other agreement with, or employ or delegate duties to the General Partner or any Affiliate of the General Partner, or any shareholder, director, officer, employee or agent of any thereof; or

(ix) cause the Partnership to prepay in whole or in part, refinance, increase, or otherwise modify, amend or waive any material provision of, or extend, any agreement, note, lease, mortgage, deed of trust or other obligation affecting Partnership Property.

8.2 Consent of General Partner; Effect of Approval. Any matter specified in Section 8.1 that the Limited Partners have Consented to shall be taken only if the General Partner also Consents thereto, except that the General Partner shall exercise the option to terminate the Operator for failure to maintain revenues under the _____ if such failure occurs and the Limited Partners direct a termination. Upon the approval of any Partnership matter as provided in this Section 8.2, the General Partner shall be authorized and directed to conclude the matter so approved, and all Partners, including Partners who may have been opposed to the matter, shall be bound to conclude that matter and to execute any documents and take any other actions in furtherance thereof as the General Partner may deem necessary or desirable.

8.3 Meetings of Partners. Partnership meetings shall be held at the Partnership's principal executive office and shall be held only when called by the General Partner or, for any matter on which the Limited Partners may vote, by Limited Partners representing not more than ten percent of the aggregate Percentage Interests held by Limited Partners.

Not less than ten nor more than sixty days' notice of a meeting shall be given in accordance with the provisions of Section 12.9. Any action that may be taken at a Partnership meeting may be taken without a meeting by written consent. The record date for determining Partners entitled to give written consent to Partnership action without a meeting shall be the day on which the first written consent is given.

8.4 Limitation on Liability. The liability of each Limited Partner shall be limited to the amount of its total Contribution as and when payable under the provisions of this Agreement. Except as required by law or pursuant to Section 4, a Limited Partner shall not have any liability to contribute money to the Partnership, shall not be personally liable for any obligations of the Partnership, and shall not be obligated to make loans to the Partnership.

8.5 Indemnification of Limited Partners. The Partnership shall indemnify each Limited Partner against any liability, loss or expense, including, without limitation, reasonable attorneys' fees, litigation costs, settlement amounts and judgments, it may incur related to the ownership of Partnership Property or the conduct of the Partnership's business other than (a) taxes imposed on or measured by the net income of such Limited Partner and (b) liabilities, losses or expenses (i) caused by (A) the willful misconduct, bad faith or gross negligence of such Limited Partner or its officers, directors, employees or agents, or (B) the failure of such Limited Partner to make a contribution required to be made by it pursuant to Section 4.1 or to comply with Section 8.2, or (ii) arising out of conduct by such Limited Partner (or any officer, director, employee or agent thereof) in contravention of this Agreement that renders such Limited Partner liable as a general partner. The indemnity contained in this Section 8.5 shall be recoverable solely from the assets of the Partnership and shall not be recoverable from any Partner) (including the General Partner).

8.6 No Liability of Officers, etc. Under no circumstances shall any officer, director or employee of any Limited Partner be liable to any other Partner other than for conduct constituting willful misconduct or gross negligence.

SECTION 9: RECORDS, REPORTS AND ACCOUNTS

9.1 Books and Records. The General Partner shall keep adequate books and records, setting forth a true and accurate account of all business transactions arising out of or in connection with the conduct of the Partnership's business, at the Partnership's principal executive office, including each of the following Partnership documents:

(a) A current list of the full name and last known business or residence address of each Partner separately identifying the status of the Partner as a General Partner or a Limited Partner, together with the Contributions and Percentage Interest of each Partner and any amounts each Partner has agreed to contribute in the future.

(b) A filed copy of the Partnership's certificate of limited partnership and all certificates of amendment thereto, together with executed copies of any powers of attorney pursuant to which any certificate has been executed.

(c) Copies of the Partnership's federal, state and local income tax or information returns and reports, if any, for the six most recent fiscal years.

(d) An original copy of this Agreement and all amendments hereto.

(e) Financial statements of the Partnership for the six most recent fiscal years.

(f) The Partnership's books and records for at least the current and past three fiscal years.

9.2 Delivery to Limited Partner. Upon the request of a Limited Partner, the General Partner shall promptly deliver to the requesting Limited Partner, at the Partnership's expense, a copy of the information required to be maintained by paragraphs (a), (b) or (d) of Section 9.1.

9.3 Inspection by Limited Partner. Each Limited Partner has the right, upon reasonable request, (a) to inspect and copy during normal business hours any of the Partnership records required to be maintained pursuant to Section 9.1, and (b) to obtain from the General Partner, promptly after becoming available, a copy of the Partnership's federal, state and local income tax or information returns for each year.

9.4 Reports. The General Partner shall cause to be sent each Partner:

(a) Monthly Statements: within 25 days after the end of each fiscal month of the Partnership, a statement of income and expense for such month and for the fiscal year to date, and a balance sheet substantially in the form of Exhibit B attached hereto; and

(b) Annual Statements: within 45 days after the end of each fiscal year of the Partnership, a copy of: (i) a balance sheet of the Partnership as of the end of that year, and (ii) statements of income and cash flow of the Partnership for that year, setting forth in each case in comparative form the figures for the previous fiscal year (if any) and accompanied by an opinion of the Partnership Accountants stating that such financial statements of the Partnership present fairly the financial

condition of the Partnership and have been prepared in accordance with GAAP (except for changes in application in which such accountants concur); and

9.5 Tax Returns and Elections. The General Partner shall send to each Partner, within 60 days after the end of each taxable year, the information necessary for the Partner to complete its federal, state and local income tax returns. The information shall include a copy of the Partnership's federal, state and local income tax or information returns for the taxable year. Unless all of the Limited Partners shall otherwise agree, the General Partner shall make all income tax elections in the manner that has the effect of maximizing the after-tax return to the Limited Partners (assuming for this purpose that the Limited Partners are fully taxable on a current basis and can utilize all income tax benefits on a current basis).

9.6 Bank and Money Market Accounts. The Partnership shall keep its cash funds in bank or money market accounts in its name at one or more banks or other financial institutions that the General Partner may select: provided, however, that such institution (a) shall be organized under the laws of the United States or any state thereof, and (b) shall have a combined capital, surplus and undivided profits of at least $_____. The funds in any account may be withdrawn on the sole signature of the General Partner. Partnership funds shall not be commingled with funds of any other Person and shall be used only for Partnership purposes.

9.7 Annual Audit. The Partnership Accountants shall be a firm of independent certified public accountants selected by the General Partner and acceptable to the Limited Partner. The Partnership Accountants shall audit each year the Partnership's books and records.

9.8 Notification. The General Partner shall send each Limited Partner a notice of any litigation to which the Partnership is a party.

SECTION 10: DISPOSITION OF PARTNERSHIP INTERESTS

10.1 Generally.

10.1.1 No Changes Except Pursuant to this Section. No Partner shall withdraw from or transfer any interest in the Partnership, and no Person shall become an Assignee or be admitted to the Partnership as a substituted or additional General Partner or as a substituted or additional Limited Partner, except as provided in this Section 10. Any Transfer made in violation of this Section 10 shall be void.

10.1.2 Notice of Terminating Event. Each Partner or its legal representative or successor shall notify the Partnership promptly, but in no event later than 30 days, after the occurrence of a Terminating Event with respect to the Partner.

10.1.3 Confirmation of Transfer of Interest. Each Partner who transfers an interest in the Partnership as permitted by this Section 10 shall provide written confirmation of such Transfer to the General Partner within 30 days after the Transfer or, if earlier, by January 15 of the calendar year following the calendar year in which the Transfer occurred. This written confirmation shall include (a) the names and addresses of the transferor and the transferee, (b) the taxpayer identification number of the transferor and, if known, of the transferee, (c) the date of the Transfer, and (d) the terms and conditions of the Transfer.

10.1.4 Interest Certificates. The Interests shall be evidenced by registered Certificates in the form of Exhibit C hereto (the "Certificates"), numbered from 1 upwards. Each Certificate shall be executed by an authorized officer of the General Partner. No Certificate shall be valid or obligatory for any purpose or entitled to any benefit hereunder unless and until executed in the manner prescribed by this Section 10.1.4.

10.1.5 Certificate Register. Books for the registration and for the transfer of Certificates (the "Certificate Register") shall be kept by the General Partner which is hereby appointed the registrar. On the request of any pledgee or holder of a security interest in any Interest, the General Partner will conspicuously note on the Certificate Register that the Certificate evidencing such Interest is subject to a security interest in favor of such pledgee or secured party; provided, however, such conspicuous note shall be eliminated from the Certificate Register upon the holder of the related Certificate providing the General Partner with a release or termination of the security interest signed by the holder of the security interest reflected in such Certificate Register. Upon surrender for transfer of a Certificate at the principal office of the Partnership, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or the attorney of such registered owner duly authorized in writing, the General Partner shall execute and deliver in the name of the transferee or transferees a new fully registered Certificate or Certificates for like aggregate Interests; provided, however, if the Certificate Register concerning any Certificate which is surrendered for transfer is conspicuously noted as being subject to a security interest, the Certificate Register concerning the new fully registered Certificate or Certificates in the name of the transferee or transferees shall be similarly noted, unless a release or termination of the security interest with respect to the Interest transferred shall have been delivered to the General Partner signed by the holder of the security interest reflected in the Certificate Register. Certificates may be exchanged at the principal office of the Partnership for Certificates of like aggregate Interests bearing numbers not then outstanding. The General Partner shall require the payment, by any Limited Partner or its successor requesting transfer or exchange of Certificates, of any tax, trustee's fee,

legal fees, fee or other governmental charge required to be paid with respect to such transfer.

10.1.6 Lost Certificates. In the event that any Certificate is mutilated, lost, stolen or destroyed, a new Certificate may be executed on behalf of the General Partner; provided that the General Partner shall have received indemnity from the registered owner or pledgee of the registered owner of the Certificate satisfactory to it and provided further, in case of any mutilated Certificate, that such mutilated Certificate shall first be surrendered to the General Partner, and in the case of any lost, stolen or destroyed Certificate, that there shall be first furnished to the General Partner evidence of such loss, theft or destruction satisfactory to the General Partner.

10.1.7 Covenants; Legend.

(a) Each Limited Partner hereby represents, covenants and agrees with the Partnership for the benefit of the Partnership and all Partners that (i) he is not currently making a market in Interests and will not in the future make a market in Interests, (ii) he will not transfer, assign or otherwise convey his Interests on an established securities market, a secondary market (or the substantial equivalent thereof) within the meaning of Code Section 7704(b) (and any regulations, proposed regulations, revenue rulings, or other official pronouncements of the Internal Revenue Service or Treasury Department that may be promulgated or published thereunder), and (iii) in the event such Regulations, revenue rulings, or other pronouncements treat any or all arrangements which facilitate the selling of partnership interests and which are commonly referred to as "matching services" as being a secondary market or substantial equivalent thereof, he will not transfer any Interest through a matching service that is not approved in advance by the Partnership. Each Limited Partner further agrees that he will not transfer any Interest to any Person unless such Person agrees to be bound by this Section 10 and to transfer such Interests only to Persons who agree to be similarly bound. The Partnership shall, from time to time and at the request of a Limited Partner, consider whether to approve a matching service and shall notify all Partners of any matching service that is so approved.

(b) Each Limited Partner hereby agrees that the following legend may be placed upon any counterpart of this Agreement, the Certificates or any other document or instrument evidencing ownership of Interests:

The Partnership Interests represented by this document have not been registered under any securities laws and the transferability of such Interests is restricted. Such Interests may not be sold, assigned or transferred, nor will any assignee, vendee, transferee or endorsee thereof be recognized as having acquired any such Interests by the issuer for any purposes, unless (1) a registration statement under the Securities Act of 1933, as amended, with respect to such Interests shall then be in effect and such transfer has been qualified under all applicable state securities laws, (2) the availability of an exemption from such registration and qualification shall be established to the satisfaction of counsel to the Partnership or (3) such sale, assignment or transfer is made pursuant to the foreclosure of a security interest or pledge granted in connection with the Loan Agreement as defined in the Limited Partnership Agreement of _____ Limited Partnership ("Partnership Agreement").

The Interests represented by this document are subject to further restriction as to their sale, transfer, hypothecation, or assignment as set forth in the Partnership Agreement. Said restriction provides, among other things, no vendee, transferee, assignee, or endorsee of a Limited Partner shall have the right to become a substituted Limited Partner except by compliance with Section 10 thereof.

10.2 General Partner.

10.2.1 Transfers. The General Partner shall not transfer its Partnership interest as General Partner to any Person without the consent of the Limited Partner in its sole discretion.

10.2.2 Terminating Events. Upon the occurrence of a Terminating Event with respect to the General Partner, if the Partners elect to continue the Partnership pursuant to Section 11.2, the terminated General Partner's interest shall be converted to a Limited Partner's interest with the same Percentage Interest and Capital Account; provided, however, that the terminated General Partner shall not be entitled to vote on the admission, compensation or extent of Partnership interest of its successor General Partner and the Partnership interest of the terminated General Partner shall be diluted, on a pro rata basis with all of the other Limited Partners' Partnership interests, to provide compensation or a Partnership interest, or both, to its successor; and provided, further, that if such Terminating Event is the removal of the General Partner for cause pursuant to Section 10.2.5, the Partnership shall be entitled to set off against distributions to which such terminated General Partner might otherwise be entitled under this Agreement all damages suffered by the Partnership (including, without limitation, the reasonable costs and expenses of removal and substitution of the General Partner) arising out of the act or omission of the terminated General Partner (acting in any capacity) or any Subsidiary or Affiliate thereof, with respect to this Agreement or any other agreement relating to the Facility, giving rise to such removal.

10.2.3 Additional General Partner. Except as provided in this Agreement or as the Act may require, no additional General Partner shall be admitted to the Partnership.

10.2.4 Withdrawal. The General Partner shall not resign or withdraw capital from the Partnership.

10.2.5 Removal. The Limited Partners may not remove the General Partner except for cause. For purposes of this Section 10.2.5, "cause" shall mean (a) the commission of any act by the General Partner (or any of its directors, officers, employees or agents purporting to act on the General Partner's behalf in his or her capacity as such) that constitutes willful misconduct, bad faith or gross negligence; or (b) the breach by the General Partner of any material provision of this Agreement and the General Partner's failure to cure such breach within 30 days after notice thereof by a Limited Partner, or, with respect to any breach that is not reasonably capable of cure within 30 days, the General Partner's failure to take steps to cure such breach within such 30-day period and thereafter to prosecute such cure to completion with reasonable diligence.

10.3 Limited Partners.

10.3.1 Transfers. A Limited Partner may transfer its Partnership Interest at any time: (a) subject to the limitations set forth in Section 10.3.3, to any Partner, or (b) subject to the right of first refusal set forth in Section 10.7 and to the limitations set forth in Section 10.3.3, to any Person of its choice, in whole or in part and only in accordance with this Section 10.3.1. If the General Partner receives a notice of assignment effected in compliance with the preceding sentence signed by both the transferring Limited Partner and its Assignee, the Assignee shall become entitled to receive the transferring Limited Partner's share of Profits, Losses and distributions and shall succeed to the transferring Limited Partner's Capital Account as of the end of the day on which the General Partner receives the notice; provided, however, that an Assignee shall become a Substitute Limited Partner only with the General Partner's approval and upon satisfaction of the conditions for substitutions set forth in Section 10.5.

10.3.2 Terminating Events.

(a) Election. Upon the occurrence of a Terminating Event with respect to a Partner (other than the removal of the General Partner for cause pursuant to Section 10.2.5), the Partnership may elect to purchase its Partnership interest by written notice to the terminated Partner's successor or legal representative within 15 days of the Terminating Event, in accordance with the procedures and principles set forth in Section 10.3.2(b).

(b) Purchase of Partnership Interest. If the Partnership elects to purchase the terminated Partner's Partnership interest, the Partnership shall pay the terminated Partner or its successor or legal representative the fair market value of its Partnership interest, determined by agreement between the terminated Partner's successor or legal representative and the Partnership or, if they cannot agree, by an appraisal. In such event, (i) the first two appraisers shall be chosen, respectively, by the terminated Partner's successor or legal representative and the General Partner (or the successor general partner in the event the terminated partner is the General Partner), and (ii) the terminated Partner or its successor (or estate, as the case may be) shall pay one-half of the fees and expenses of the appraisers, and the Partnership shall pay the other half. Payment of the purchase price may, at the Partnership's option, be made by the Partnership's unsecured promissory note, which shall bear interest at the minimum rate required under the federal income tax laws to avoid imputed interest or original issue discount. Principal and interest shall be payable in three equal annual installments commencing on the first anniversary date of the Term Loan Note. Such note shall provide for attorneys' fees in the event of suit, prepayment without penalty and acceleration upon default or dissolution of the Partnership, and the Indebtedness evidenced thereby shall be subordinated.

(c) No Purchase. If the Partnership elects not to purchase the Partnership interest of a terminated Partner, the legal representative or successor of the terminated Partner (other than a trustee in bankruptcy) shall, upon submission to the General Partner of (i) certified evidence of the Terminating Event and the successor's authority and (ii) a copy of this Agreement executed by the successor, become a Substitute Limited Partner in the place of the terminated Partner as of the end of the day on which the General Partner receives the documents required by this Section 10.3.2(c), unless pursuant to Section 10.5 the General Partner shall in its sole discretion withhold its Consent to admission of such Person as a Substitute Limited Partner.

10.3.3 Prohibited Transfers. Notwithstanding anything else contained in this Agreement, no Transfer shall be permitted that (a) is not supported by an opinion of counsel, or other acceptable evidence reasonably satisfactory in form and substance to the Tax Matters Partner, that such transfer will not (i) have adverse federal income tax consequences to the Partnership or any Partner (other than the Terminated Partner) or (ii) result in a violation of the securities laws of the United States of America, including without limitation the Securities Act of 1933, or of the securities laws of any state which may be applicable thereto; (b) would result in any one Person (whether a Partner, including the transferor Partner, or an Assignee) having a Percentage Interest of less than five but more than zero percent; or (3) would result in the violation of any pledge or security interest which has been registered or noted in the Certificate Register.

10.3.4 Withdrawal by Limited Partner. A Limited Partner may not withdraw capital from the Partnership.

10.4 Binding on Successors. Subject to the provisions of this Section 10, the rights and obligations of the Partners under this Agreement shall inure to the benefit of and bind their respective heirs, successors and assigns.

10.5 Conditions to Substitutions. An Assignee shall not be entitled to vote on Partnership matters and shall not have any other rights of a Partner other than the right to Profits, Losses and distributions, unless and until the General Partner Consents to the admission of the Assignee as a Substitute Limited Partner pursuant to this Section 10.5. An Assignee shall become a Substitute Limited Partner and the General Partner hereby consents to such substitution at the time the Assignee (a) pays all Partnership Expenses in connection with its substitution; (b) submits a duly executed instrument of assignment, in a form satisfactory to the General Partner, (i) specifying the Partnership interest assigned to it and (ii) setting forth the assigning Partner's intention that the Assignee succeed to the assigning Partner's Partnership interest; and (c) executes a copy of this Agreement. The General Partner also may require, as a condition to the admission of a Substitute Limited Partner, that the Assignee submit an opinion of counsel, reasonably satisfactory in form and substance to the General Partner, stating that the Assignee's admission as a Substitute Limited Partner will not (x) violate any state or federal securities laws or (y) adversely affect the Partnership's tax status or have any adverse tax consequences as to any Partner. The General Partner, the admission of a Substitute Limited Partner shall be effective as of the close of the day on which all of the conditions specified in this Section 10.5 have been satisfied.

10.6 No Release or Waiver. Neither the provisions of, nor consummation of the transactions contemplated by, this Section 10 shall constitute a release or waiver of any claims or rights which the Partnership or any Partner may have against the Partnership or any of the Partners as a consequence of a breach of this Agreement.

10.7 Right of First Refusal.

(a) Offer. Before any Limited Partner transfers its Partnership interest pursuant to Section 10.3.1(a), that Partner (the "Selling Partner") shall notify the General Partner in writing that the Selling Partner wants to transfer its Partnership interest. The notice shall contain a full and complete designation of the price at and terms on which the Selling Partner is proposing for Transfer of its Partnership interest.

(b) Acceptance. The partnership, within 60 days of receipt of the notice described in Section 10.7(a) (the "Initial Offer Period"), shall have the right to purchase the Selling Partner's partnership interest at the price and on the terms stated in the notice. If the partnership elects not to exercise its right to purchase, the General Partner shall promptly notify the other Partners in writing of the Selling Partner's intent to transfer its Partnership interest and the price and terms of the Transfer. The Partners other than the Selling Partner, subject to Section 10.3.3, shall have the right, exercisable by written notice to the General Partner during an additional period of 30 days (the "Additional Offer Period"), to purchase the Selling Partner's Partnership interest at the price and on the terms stated in the Selling Partner's notice to the General Partner. If the other Partners elect not to exercise their right to purchase, the Selling Partner may transfer its partnership interest for a price and on terms no less favorable to the Selling Partner than those described in the notice for a period of 180 days following the end of the Additional Offer Period. If the Selling Partner does not complete the Transfer of its partnership interest during this period, the provisions of this Section 10.7(b) shall again apply to any later Transfer. If more than one Partner decides to purchase the Selling Partner's Partnership interest, the accepting Partners, subject to Section 10.3.3, shall each purchase shares of the Selling Partner's Partnership interest in proportion to their respective Percentage Interests.

(c) Rights of Buyer. A purchaser of all or any portion of the Selling Partner's partnership interest, other than the Partnership or an existing Partner, shall be an Assignee and shall become a Substitute Limited Partner only with the General Partner's approval and upon satisfaction of the requirements of Section 10.5. If the purchaser is the General Partner, it shall become a Limited Partner to the extent of the Partnership interest it acquires.

SECTION 11: DISSOLUTION AND WINDING UP

11.1 Dissolution. The Partnership shall dissolve upon the first to occur of the following dates and events:

(a) February 2, 2025.

(b) A Majority Vote of all Partners and the Consent of the General Partner to dissolve.

(c) Subject to the provisions of Section 11.2, the occurrence of a Terminating Event with respect to the General Partner or the General Partner ceasing to be the General Partner.

(d) The entry of a decree of judicial dissolution under the Act by a court of competent jurisdiction.

(e) The sale of all or substantially all of the Partnership Property.

11.2 Continuation. Upon the occurrence of a Dissolution pursuant

to clause (c) of Section 11.1, the Limited Partners may elect to continue the Partnership's business and to admit a new General Partner by the unanimous written Consent of the Limited Partners. Expenses relating to the Partnership's continuation shall constitute Partnership Expenses.

11.3 Distributions on Dissolution. Upon the Partnership's dissolution, if the Partnership is not continued pursuant to Section 11.2, then the Partnership's business shall be wound up and the Partnership Property shall be liquidated. Partnership Property and cash of the Partnership in the course of the liquidation shall be applied and distributed in the following order:

(a) Payment to creditors of the Partnership, including Partners and their Subsidiaries and Affiliates, in the order of priority provided by law. In the discretion of the General Partner, reserves may be established to meet any contingent obligations or liabilities and, if and when such contingencies shall cease to exist, any remaining assets in such reserves shall be distributed as provided in this Section 11.3.

(b) Distributed to the Partners in accordance with the positive balances in their Capital Accounts. For purposes of distributions to Partners, positive Capital Account balances shall be determined after taking into account all appropriate Capital Account adjustments for the fiscal year in which the liquidation occurs (other than the adjustments required by the distributions themselves), with any Partnership Property distributed in kind being deemed to have been sold by the Partnership for its fair market value and any Profits or Losses realized or sustained upon dispositions (or deemed dispositions) of Partnership Property by the partnership being allocated in accordance with Section 5. Payment by the Partnership with respect to the balances of the Partner's Capital Accounts shall be made by the end of that fiscal year or, if later, within 90 days after the date of the liquidation. The Limited Partners shall not be required to restore any negative balances in their Capital Accounts.

SECTION 12: MISCELLANEOUS

12.1 Inconsistency with Loan Agreement. Any provision of this Partnership Agreement to the contrary notwithstanding, until all Obligations as defined in the Loan Agreement have been paid in full, neither the General Partner nor the Limited Partner may or shall take any step or exercise any power under this Agreement which would create, with the passage of time and the giving of notice, if required, an Event of Default as defined in the Loan Agreement or any other Transaction Document.

12.2 Headings. The headings used in this Agreement have been inserted for convenience of reference only and in no way shall restrict or otherwise modify any of the terms or provisions hereof.

12.3 Time of Essence. All times and dates in this Agreement shall be of the essence.

12.4 Entire Agreement. This Agreement comprises the entire understanding and agreement among the Partners and supersedes all prior and contemporaneous discussions, negotiations, agreements and communications among any of the Partners, whether oral or written, with respect to the subject matter of this Agreement.

12.5 Amendment. This Agreement may be amended only upon the affirmative vote or Consent of the Partners as provided in Section 8.

12.6 Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of _____ as applied to contracts among residents of _____ wholly to be performed within that State. The parties agree that any dispute arising in connection with this Agreement may be resolved in the state or federal courts located in Oklahoma County, Oklahoma or _____ County, _____, and each party hereby submits to the jurisdiction of those courts.

12.7 Attorneys' Fees. If any Partner seeks to enforce its rights under this Agreement by legal proceedings or otherwise, the non-prevailing party shall pay the prevailing party's costs and expenses, including, without limitation, reasonable attorneys' fees.

12.8 Severability. If any provision of this Agreement is determined to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, to achieve the intent of the parties. In any event, all of the other provisions shall be deemed valid and enforceable to the greatest possible extent.

12.9 Terminology. In this Agreement, the masculine, feminine or neuter gender, and the singular or plural number, shall each include the others whenever the context so indicates.

12.10 Notices. Any notice or other communication required or permitted to be given under this Agreement shall be in writing, and shall be deemed effective upon receipt after mailing by first- class registered or certified mail return receipt requested, postage pre-paid, or upon personal delivery or dispatch by telegram, telex (with confirmed answer back), facsimile transmission or other written telecommunication, addressed to the Partnership at its principal executive office or to the Partners at their respective addresses appearing on the Partnership's books from time to time. The foregoing addresses may be changed by notice given as provided in this Agreement.

12.11 Counterparts. This Agreement may be signed in counterparts, each of which shall be deemed an original but all of which together shall

constitute one and the same agreement.

12.12 Cross-References. All cross-references in this Agreement, unless specifically stated otherwise, refer to provisions of this Agreement.

12.13 Further Assurances. Each Partner shall execute, with acknowledgment or affidavit if required, all documents and writings reasonably necessary or desirable for the formation of the Partnership and the achievement of its purpose. Each Partner hereby represents and warrants that the individual signing this Agreement on its behalf is duly authorized to execute and deliver this Agreement on behalf of such Partner.

12.14 No Partition. No Partner nor any legal representative, successor, heir or assignee of any Partner shall have the right to partition the Partnership Property or any part thereof or interest therein, or to file a complaint or institute any proceeding at law or in equity to partition the Partnership Property or any part thereof or interest therein. Each Partner, for itself and its legal representatives, heirs, successors and assigns, hereby waives any such rights. The Partners intend that during the term of this Agreement, the rights of the Partners and their successors in interest, as among themselves, shall be governed solely by the terms of this Agreement and, to the extent consistent with this Agreement, by the Act.

12.15 Waiver. No waiver of any provision of this Agreement shall be deemed effective unless contained in a writing signed by the party against whom the waiver is sought to be enforced. No failure or delay by any party in exercising any right, power or remedy under this Agreement shall operate as a waiver of any such right, power or remedy, and no waiver of any breach or failure to perform shall be deemed a waiver of any subsequent breach or failure to perform or of any other right arising under this Agreement.

12.16 Not for Benefit of Creditors. The provisions of this Agreement are intended only for the regulation of relations among Partners, putative Partners and the Partnership. This Agreement is not intended for the benefit of non-Partner creditors and does not grant any rights to non-Partner creditors.

12.17 Other States. If the Partnership's business is carried on or conducted in states other than the State of _____, then each Partner shall execute any document that the General Partner may require or request in order that the General Partner may legally qualify the Partnership to transact business in the other states. The General Partner may, from time to time, designate a Partnership office or principal place of business in any other state.

12.18 Withholding. The General Partner shall comply with any income tax withholding obligations that may be imposed from time to time by the Code with respect to distributions to Partners.

12.19 Representations of Limited Partners. The Limited Partner represents to the General Partner that it is an sophisticated investor capable of protecting its interests in this transaction and that it is acquiring its Partnership interest for its own account for investment and not with a view to or for sale in connection with any distribution of such Partnership interest (but subject, nevertheless, to any requirement of law that the disposition of its property remain within its control at all times).

12.20 Exhibits. The following Exhibits are attached hereto and incorporated herein by this reference:

EXHIBIT A Rules Under Treasury Regulations Section 1.704-1(b)

EXHIBIT B Form of Monthly Report

EXHIBIT C Form of Certificate

IN WITNESS WHEREOF, each of the Partners has executed this Agreement as of the date first written above.

GENERAL PARTNER

_____

By:_____
Name:
Title:

LIMITED PARTNER

LSB HOLDINGS, INC.

By:_____
Name:
Title:

EXHIBIT A

RULES UNDER TREASURY REGULATIONS SECTION 1.704-1

Determination of Tax Book Value.

(a) The Tax Book Value of an asset shall be its adjusted basis for federal income tax purposes, except as follows:

(b) The Tax Book Value of an asset contributed by a Partner to the Partnership shall be its fair market value. The Net Book Value of such asset shall be its Tax Book Value net of liabilities secured by the asset to the extent the Partnership is considered to assume or take subject to the liability under Section 752 of the Code, in accordance with the rules set forth in Treasury Regulations Section 1.704-1(b).

(c) The Tax Book Value of each item of Partnership Property shall be adjusted to equal its fair market value, as reasonably determined by the Tax Matters Partner in good faith in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(f), as of the following times: (i) The acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a de minimis Contribution to the Partnership's capital, (ii) the distribution by the Partnership to a Partner of more than a de minimis amount of Partnership Property, (iii) the liquidation of the Partnership within the meaning of Treasury Regulation Section 1.704-1(b)(2)(ii)(g), and (iv) any time that the Tax Matters Partner determines in good faith that such adjustment is needed to fairly reflect the interests of the Partners and is in compliance with Section 704(b) and the Regulations thereunder.

(d) If the Tax Book Value of an item of Partnership Property has been determined or adjusted pursuant to paragraph (b) or (c), it shall thereafter be adjusted in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(g) by the depreciation, depletion, amortization, other cost recovery deductions and gain or loss as computed for book purposes with respect to that asset.

Determination of Profits and Losses.

Profits and Losses for each fiscal year or other period shall be an amount equal to the Partnership's taxable income or loss for that year determined in accordance with Code Section 703(a), including for this purpose all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1), with the following adjustments:

(a) Any income of the Partnership that is exempt from federal income tax shall be added.

(b) Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i) shall be subtracted.

(c) Gain or loss resulting from any disposition of Partnership Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Tax Book Value of the property disposed of.

(d) Depreciation, amortization, and other cost recovery deductions shall be taken into account by reference to the Tax Book Value of an item of Partnership Property, but if the Tax Book Value of an item of Partnership Property differs from its adjusted tax basis at the beginning of the year, the allowable tax deduction with respect to that item shall be deemed to be an amount which bears the same ratio to the Tax Book Value of the item as the deduction computed for tax purposes with respect to the item for that year or period bears to its beginning adjusted tax basis (except that if such property has a zero adjusted basis, the book depreciation, depletion, or amortization may be determined under any reasonable method selected by the General Partner).

Special Rules for Credit and Recapture Allocations.

(a) Any federal tax credit shall be allocated among the Partners, in accordance with their Percentage Interests, as of the date the property giving rise to the credit is placed in service.

(b) If the adjusted tax basis of any property that has been placed in service by the Partnership is increased pursuant to the Code, such increase shall be allocated among the Partners in the same proportions as the tax credit that is recaptured with respect to the property is shared among them.

(c) Any reduction, pursuant to the Code, in the adjusted tax basis (or cost) of Partnership Property shall be allocated among the Partners in the same proportions as the basis (or cost) of the property is allocated under the Code.

General Rules for Maintaining Capital Accounts.

Required increases to Capital Accounts:

1. The amount of money contributed by the Partner to the Partnership.

2. The Net Book Value of any asset contributed by the Partner to the Partnership.

3. Allocations to the Partner of Partnership income and gain (or items thereof), including income and gain exempt from tax and income and gain described in paragraph (2)(iv)(g) of Treasury Regulations Section

1.704-1(b), but giving effect to paragraph (4) (i) of Treasury Regulations Section 1.704-1(b).

Required Decreases in Capital Accounts:

1. The amount of money distributed to the Partner by the Partnership.

2. The Tax Book Value of property distributed to the Partner by the Partnership (net of liabilities securing the distributed property that the Partner is considered to assume or take subject to under Code Section 752).

3. Allocations to the Partner of Partnership expenditures described in Section 705(a)(2)(b).

4. Allocations of Partnership loss and deduction (or items thereof), including items of loss and deduction described in paragraph (2)(iv)(g) of Treasury Regulations Section 1.704-1(b), but excluding items described in 3 above and giving effect to paragraph (4)(i) or (4)(iii) of Treasury Regulations Section 1.704-1(b). Capital accounts must be otherwise adjusted in accordance with additional rules set forth in Treasury Regulations Section 1.704-1(b).

Special Rules for Maintaining Capital Accounts.

1. A Partner who has more than one interest in the Partnership shall have a single capital account that reflects all of the Partner's interests, whether general or limited and regardless of the time and manner in which the interests were acquired.

2. Pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(g)(2), unrealized income or deductions with respect to accounts receivable, accounts payable or other accrued but unpaid items that have an adjusted tax basis that differs from their book value shall be treated under rules and principles analogous to those that apply to book and tax value differences for depreciation, depletion, amortization and gain or loss.

3. In the event the Tax Book Value of Partnership Property is adjusted pursuant to this Exhibit A, the Capital Accounts of all Partners shall be adjusted simultaneously pursuant to the allocation provisions of Section 5 to reflect the aggregate net adjustment as if the Partnership recognized gain or loss equal to the amount of such aggregate net adjustment.

4. If any interest in the Partnership is transferred in accordance with this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

5. If the Tax Matters Partner reasonably determines in its good faith judgment that it is necessary or desirable to modify the manner in which the Capital Accounts are determined or maintained in order to comply with Treasury Regulations Section 1.704-1(b), the Tax Matters Partner shall make the appropriate modification, provided that the modification is not likely to have a material effect on the amount distributable to any Partner upon the dissolution of the Partnership.

EXHIBIT B

FORM OF MONTHLY REPORT
BALANCE SHEET

ASSETS

CURRENT ASSETS
Cash
Accounts Receivable
Prepaid Insurance

TOTAL CURRENT ASSETS

FIXED ASSETS
Cost of Assets
Accum. Depreciation

TOTAL FIXED ASSETS

OTHER ASSETS
Organizational Costs
Acc. Amort. Org. Cost
TOTAL OTHER ASSETS

TOTAL ALL ASSETS

LIABILITIES AND EQUITY

CURRENT LIABILITIES
Accounts Payable

TOTAL CURRENT LIABILITIES

EQUITY
Retained Capital

Distributions
Capital
Net Income (Loss)

TOTAL EQUITY

TOTAL LIABILITIES AND EQUITY

EXHIBIT B

FORM OF MONTHLY REPORT
INCOME STATEMENT

OPERATING REVENUES

_____ Revenue
Interest Income
Misc. Income

TOTAL NET REVENUES

GENERAL OPERATING EXPENSES
Maintenance
Outside Services
Insurance Expense
Accounting Fees
Bank Charges
Depreciation
Amortization Organiz. Costs
Interest
Misc. Expense

TOTAL EXPENSES

NET INCOME (LOSS)

EXHIBIT C

FORM OF CERTIFICATE

THE PARTNERSHIP INTERESTS REPRESENTED BY THIS DOCUMENT HAVE NOT BEEN REGISTERED UNDER ANY SECURITIES LAWS AND THE TRANSFERABILITY OF SUCH INTERESTS IS RESTRICTED. SUCH INTERESTS MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED, NOR WILL ANY ASSIGNEE, VENDEE, TRANSFEREE OR ENDORSEE THEREOF BE RECOGNIZED AS HAVING ACQUIRED ANY SUCH INTERESTS BY THE ISSUER FOR ANY PURPOSES, UNLESS (1) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, WITH RESPECT TO SUCH INTERESTS SHALL THEN BE IN EFFECT AND SUCH TRANSFER HAS BEEN QUALIFIED UNDER ALL APPLICABLE STATE SECURITIES LAWS, (2) THE AVAILABILITY OF AN EXEMPTION FROM SUCH REGISTRATION AND QUALIFICATION SHALL BE ESTABLISHED TO THE SATISFACTION OF COUNSEL TO THE PARTNERSHIP OR (3) SUCH SALE, ASSIGNMENT OR TRANSFER IS MADE PURSUANT TO THE FORECLOSURE OF A PLEDGE OR SECURITY INTEREST GRANTED IN CONNECTION WITH THE LOAN AGREEMENT AS DEFINED IN THE LIMITED PARTNERSHIP AGREEMENT OF _____ LIMITED PARTNERSHIP ("PARTNERSHIP AGREEMENT").

THE INTERESTS REPRESENTED BY THIS DOCUMENT ARE SUBJECT TO FURTHER RESTRICTION AS TO THEIR SALE, TRANSFER, HYPOTHECATION, OR ASSIGNMENT AS SET FORTH IN THE PARTNERSHIP AGREEMENT. SAID RESTRICTION PROVIDES, AMONG OTHER THINGS, NO VENDEE, TRANSFEREE, ASSIGNEE, OR ENDORSEE OF A LIMITED PARTNER SHALL HAVE THE RIGHT TO BECOME A SUBSTITUTED LIMITED PARTNER EXCEPT BY COMPLIANCE WITH SECTION 10 THEREOF.

March 21, 1996

Jack Golsen
1299 Glenbrook Terrace
Oklahoma City, Oklahoma 73116

RE: Employment Agreement and Amendment to Severance Agreement dated January 17, 1989

Dear Jack:

The Board of Directors of LSB Industries, Inc. ("LSB" or "the Company") has considered and recognizes the long standing contribution that you have made to LSB and its subsidiaries as LSB's founder, president and Chairman of the Board. We have considered and reviewed your invaluable contributions to the Company in these various roles and your future value to LSB. In recognition of your contributions and importance to the Company, it is our purpose and goal to encourage you to always make your services available to LSB. To that end, we have met and agree to the following Agreement ("Agreement"). If you accept these terms and agree to the following, please sign and return the enclosed copy of this letter.

WHEREAS the services, knowledge and contributions of Jack E. Golsen are considered of utmost value to LSB; and

WHEREAS, the Board of Directors desires to induce Jack E. Golsen to continue to make his services and knowledge available to LSB.

NOW, THEREFORE, LSB Industries, Inc. hereby agrees to provide the following compensation and benefits to Jack E. Golsen ("Golsen") for the term set forth below:

1. Term. This Agreement shall commence immediately and shall continue for three years ("the Initial Three Year Term"). At the end of the Initial Three Year Term, this Agreement shall automatically extend for an additional three year period (the "Second Three Year Term") unless terminated by either party by the giving of written notice at least one (1) year prior to the termination of the Initial Three Year Term. At the end of the Second Three Year Term, this Agreement shall automatically extend for an additional three year period unless terminated by either party by the giving of written notice at least one (1) year prior to the termination of the Second Three Year Term (the "Third Three Year Term"). The Initial Three Year Term, Second Three Year Term, and Third Three Year Term shall collectively be referred to as the "Term".

2. Position and Duties.

   a. The Company agrees to employ Golsen, and Golsen agrees to such employment, as an Executive Officer of the Company or such other position as is acceptable to Golsen in writing. For purposes of this Agreement, "Board Chairman" or "Chairman of the Executive Committee" shall be considered an Executive Officer. Golsen's authority and duties shall be at least commensurate in all material respects with the most significant of those exercised by Golsen during the 12-month period immediately preceding the date of this Agreement. Golsen's duties and services shall be performed at the location where he was employed by the Company immediately preceding the date of this Agreement or any other office or location satisfactory to Golsen.

   b. Excluding any periods of vacation and sick leave to which Golsen is entitled, Golsen agrees to devote reasonable attention and time to the business and affairs of the Company and, to the extent necessary and consistent with Section 2.a. above, to discharge the responsibilities assigned to him hereunder, to use reasonable efforts to perform faithfully and efficiently such responsibilities. It shall not be a violation of this Agreement for Golsen to (i) serve on corporate, civic or charitable boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach at educational institutes, and (iii) manage personal investments, so long as such activities do not significantly interfere with the performance of Golsen's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that, to the extent that any such activities have been conducted by Golsen prior to the date of this Agreement, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the date of this Agreement shall not thereafter be deemed to interfere with the performance of Golsen's responsibilities to the Company.

3. Compensation and Benefits.

   a. Base Salary. The Company shall pay to Golsen an annual base salary at his 1995 base rate of salary as such may be adjusted from time to time by the Compensation Committee of the Board of Directors of the Company, but such shall never be adjusted to an amount less than Golsen's 1995 base salary ("Annual Base Salary"),

payable in equal bi-weekly installments, less appropriate withholdings and deductions, in accordance with the Company's customary payroll practices.

b. Bonus. In addition to the Golsen's Annual Base Salary, as adjusted, the Company shall pay to Golsen an annual bonus ("Bonus") as may be determined by the Compensation Committee of the Board of Directors of LSB from time to time.

c. Benefits.

(1) Golsen shall be eligible for such employee benefits and participation in employee benefit plans as are generally made available to other employees of the Company, subject to the terms and conditions of such benefits and plans and as such benefits and plans may be changed by the Company from time to time in its sole discretion. Such benefits in existence as of the date hereof are as follows:

(a) Group medical insurance coverage.

(b) Group life insurance coverage.

(2) In addition, Golsen shall be eligible to participate in and be provided the following individual benefits at a minimum:

(a) Stock options as granted from time to time by the Company's Board of Directors or the Stock Option Committee of the Board of Directors.

(b) Death benefit package as set forth in the agreement between Golsen and the Company dated April 1, 1981 and amended March 1, 1993, as hereafter amended, modified or renewed.

(c) Split dollar life insurance in an amount approved by the Compensation Committee of the Board of Directors of LSB, but no less than $3,000,000.

(d) Severance Agreement, dated January 17, 1989, between Golsen and the Company, as amended, modified or renewed and attached hereto (the "Severance Agreement"), except that the Severance Agreement is hereby amended as follows:

i) Subsection 1.2 of the Severance Agreement is hereby amended to read, in its entirety, as follows:

"1.2 The "Change of Control Period" is the period commencing on the date hereof and ending on the third anniversary of such; provided, however, that commencing on the date one year after the date hereof, and on each annual anniversary of such date (the date one year after the date hereof and each annual anniversary of such date, is hereinafter referred to as the "Renewal Date"), the Change of Control Period shall be automatically extended so as to terminate three (3) years from such Renewal Date, unless at least one (1) year prior to the Renewal Date the Company shall give notice that the change of Control Period shall not be so extended."

ii) Subsection 3.2 "Cause" of the Severance Agreement is hereby amended to read, in its entirety, as follows:

"3.2 Cause. The Company may terminate Golsen's employment for "Cause". For purposes of this Agreement, termination of Golsen's employment by the Company for "Cause" shall mean termination for one of the following reasons:

"a. the ultimate conviction (after all appeals have been decided) of Golsen of a felony involving moral turpitude by a federal or state court of competent jurisdiction; or

"b. if Golsen's serious willful gross misconduct or willful gross neglect of his duties as set forth herein has resulted in material damage to the Company and its subsidiaries, taken as a whole; provided that (i) no action or failure to act by Golsen will constitute a reason for termination if Golsen believed in good faith that such action or failure to act was in the Company's or its subsidiaries' best interest, and (ii) failure of Golsen to perform his duties hereunder due to Disability shall not be considered willful gross misconduct or willful gross negligence of duties for any purpose."

iii) The Severance Agreement, as amended by this Section 3c(2)(d), shall remain in full force and effect.

(e) The Board hereby agrees that Golsen may, at his option, purchase any life insurance policies in effect on his life for an amount equal to the net cash value of such insurance. The policy funding the benefit of 3c(2)(b) of this letter shall be excepted from this option.

d. Expenses. The Company shall pay directly, or reimburse Golsen, for any reasonable and necessary expenses and costs incurred by Golsen in connection with or arising out of the performance of Golsen's duties hereunder, provided that such expenses and costs shall be paid or reimbursed subject to such rules, regulations, and policies of the Company as established from time to time by the Company. In the event that Golsen incurs legal fees and expenses to enforce this Agreement, the Company shall reimburse Golsen such fees and expenses in full.

e. Fringe Benefits. Golsen shall be entitled to all fringe benefits, including but not limited to vacation, in accordance with the most favorable plans, practices, programs and policies of the Company during the 12-month period immediately preceding the date of this Agreement, or, if more favorable to Golsen, as in effect at any time thereafter with respect to other key management employees of the Company.

f. Effect of Increases. Any increase in Annual Base Salary, Bonus or any other benefit or perquisite described in this Agreement shall in no way diminish any obligation of the Company under this Agreement.

Nothing in this Agreement shall prevent or limit Golsen's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by LSB or any of its affiliated companies and for which Golsen may qualify, nor shall anything herein limit or otherwise affect such rights as Golsen may have under any stock option or other agreement with LSB or any of its affiliated companies.

4. Termination. During the term of this Agreement, the Company may terminate Golsen's employment only for one of the following reasons:

a. the ultimate conviction (after all appeals have been decided) of Golsen of a felony involving moral turpitude by a federal or state court of competent jurisdiction; or

b. if Golsen's serious willful gross misconduct or willful gross neglect of duties has resulted in material damage to the Company and its subsidiaries taken as a whole; provided that (i) no action or failure to act by Golsen will constitute a reason for termination if Golsen believed in good faith that such action or failure to act was in the Company's or its subsidiaries' best interest and (ii) failure of Golsen to perform his duties hereunder due to a disability shall not be considered willful gross misconduct or willful gross neglect of duties for any purpose; or

c. Golsen's death.

Without in any way limiting any of Golsen's other rights or remedies, at law or in equity, which rights and remedies shall be cumulative, and subject to Section 7 hereof, in the event that Golsen's employment under this Agreement is terminated for any reason:

d. the Company shall pay to Golsen:

(1) in a lump sum cash payment on the date of Golsen's termination of employment, to the extent not therefor paid, the balance of Golsen's Annual Base Salary through the date of termination; and

(2) in the event that Golsen's employment is terminated for any reason, other than under subparagraphs a or b of paragraph 1 of this Section 4 or Disability under Section 5 hereof, the Company shall provide, at the Company's sole cost and expense, to Golsen and/or Golsen's family or estate, in a lump sum cash payment on the date of Golsen's termination of employment, a sum equal to the amount of the Annual Base Salary being paid to Golsen at the time of such termination and the amount of the Bonus paid to Golsen for the last fiscal year prior to such termination in which Golsen received a Bonus times (i) the number of years remaining in the Initial Three Year Term or the Second Three Year Term or the Third Three Year Term, whichever is applicable at the time of termination, or (ii) four (4) if the termination occurs during the last twelve (12) months of the Initial Three Year Term or the Second Three Year Term, whichever is applicable at the time of termination. For this purposes of this subparagraph (2), a partial year shall be considered a full year. In the event that Golsen becomes disabled, the Company agrees to pay him pursuant to Section 5 hereof.

e. In the event that Golsen's employment is terminated for any reason, other than under subparagraphs a or b of paragraph 1 of this Section 4 or Disability under Section 5, the Company shall provide at the Company's sole cost and expense, to Golsen and/or Golsen's family or estate all of the fringe benefits, benefits, and individual benefits described in Section 3 hereof as though Golsen's employment had not been terminated, including, but not limited to, health, disability and life insurance, in accordance with the most favorable plans, practices, programs or policies of the Company during the remainder of the Initial Three Year Term or the Second Three Year Term or the Third Three Year Term, whichever is applicable at the time of such termination (unless such termination occurred during the last twelve (12) months of the Initial Three Year Term or the Second Three Year Term, whichever

is applicable at the time of such termination, then for the remainder of the term in which such termination occurred and for the full extension period that follows such termination. In the event that Golsen becomes disabled, the Company agrees to pay him pursuant to Section 5 hereof.

f. Golsen shall not be deemed to have been terminated by the Company pursuant to the terms of Section 4 hereof unless and until there shall have been delivered to Golsen a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths (3/4ths) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to Golsen and an opportunity for Golsen, together with Golsen's counsel, to be heard before the Board), finding that in the good faith opinion of the Board, Golsen was guilty of conduct set forth in Section 4a or 4b above and specifying the particulars thereof in detail.

5. Disability. If Golsen shall be mentally or physically disabled from properly performing his duties and responsibilities hereunder for a period of twelve consecutive months within any two-year period, all as determined by the Board in good faith and supported by medical evidence, the Company shall pay and provide Golsen any salary bonus or benefits remaining under the Initial Three Year Term of this Agreement or any extension thereof. In addition, in the event of disability, after such payments, the Company shall pay to Golsen annually 60% of his Present Base Salary until his death. This provision shall be deemed to survive the termination of this Agreement and the termination of Golsen's employment under this Agreement.

6. Successors. This Agreement shall inure to the benefit of Golsen and Golsen's heirs and assigns. This Agreement shall inure to the benefit of and be binding upon the Company and its successors (including any purchaser of the assets of the Company). In the event of a Change of Control (as defined in the Severance Agreement) of the Company, any parent company or successor shall, in the case of a successor, by an agreement in form and substance satisfactory to Golsen, expressly assume and agree to perform this Agreement in writing prior to such change in control and, in the case of a parent company, by an agreement in form and substance satisfactory to Golsen, guarantee and agree to cause the performance of this Agreement, in each case, in the same manner and to the same extent as the Company would be required to perform if no Change of Control had taken place.

7. Coordination with other Agreements. In the event that the Severance Agreement and this Agreement are both in effect, the provisions of this Agreement shall apply and be controlling in all respects; except, in the event that there is a Change in Control (as defined in the Severance Agreement) and if (i) within 24 months after the Control Date (as defined in the Severance Agreement), the Company shall terminate Golsen's employment, other than for Cause (as defined in the Severance Agreement) or (ii) within 24 months after the Control Date (as defined in the Severance Agreement), Golsen shall terminate his employment with the Company for Good Reason (as defined in the Severance Agreement), then, in such event, the Severance Agreement shall apply and be controlling in all respects and this Agreement shall terminate. Notwithstanding the foregoing, the Disability provisions of this Agreement shall apply in all cases.

8. Governing Law, Severability. This Agreement shall be governed by the laws of Oklahoma. It constitutes the entire agreement among the parties. Should any provision of this Agreement be unenforceable or prohibited by an applicable law, this Agreement shall be considered divisible as to such provision which shall be inoperative, and the remainder of this Agreement shall be valid and binding as though such provision were not included herein. All amendments hereto shall be in writing and be valid only if executed by both parties.

9. Notice. Any and all notices to be required or permitted to be in writing and shall be delivered to the party to receive the same by U.S. certified mail, return receipt requested, addressed to the following:

Company: LSB Industries, Inc.
P.O. Box 754
Oklahoma City, OK 73101

Golsen: Jack E. Golsen
1299 Glenbrook Terrace
Oklahoma City, OK 73116

or to such other address as a party shall from time to time advise the other party. Any notice given under this Agreement shall be effective, if sent by mail, on the date of placing the same in the United States mail, the date of such delivery.

On behalf of LSB Industries, Inc., the Compensation Committee of the Board of Directors of the Company approved this Agreement on the 21st day of March, 1996, and the Board of Directors of the Company approved this Agreement and the execution, delivery and performance of this Agreement by the Company on the 21st day of March, 1996. This Agreement is executed and effective on this 21st day of March, 1996.

LSB INDUSTRIES, INC.

By: _____

Title: Senior Vice President

I hereby agree to this Agreement effective this _____ day of _____, 1996.

_____
Jack E. Golsen

2\hbgc\jgolsen2.321

L&S AUTOMOTIVE PRODUCTS CO. (LETTERHEAD) EXHIBIT 10.28

January 12, 1996

ZVL-LSA
Slovakia

In connection with purchase orders opened to you for bearings under prior agreements with you, L&S Automotive will be required to purchase only quantities of bearings each year that it can sell in its normal course of business. L&S will, however, use its resources to endeavor to increase the volumes of bearings that you sell through direct sales to OEM customers. Of course, ZVL-LSA must maintain acceptable quality required by the market.

L&S Bearing

By:/s/Jack E. Golsen
Jack E. Golsen, Chairman

Agreed to by ZVL-LSA Slovakia

By:/s/Maria Florkova
Maria Florkova, General Director

L&S AUTOMOTIVE PRODUCTS CO. (LETTERHEAD)

January 12, 1996

ZVL-LSA
Slovakia

In consideration for conversion of the debt owed to L&S Automotive being converted to capital (equity), ZVL-LSA agrees that L&S will not be required by past or present agreements to purchase greater quantities of bearings each year than it can sell in its normal course of business.

Sincerely,

/s/ Jack E. Golsen

Jack E. Golsen
Board Chairman

Agreed to by ZVL-LSA

By:/s/Maria Florkova
Maria Florkova, General Director

PRIMARY EARNINGS PER SHARE COMPUTATION

	1995 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	13,060,566	13,045,912	12,941,097	12,935,117
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	180	-	10	440
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	-	96,692	3,326	-
Purchases of treasury stock; calculated on weighted average basis	(13,950)	(146,176)	(3,826)	(18,536)
	13,046,796	12,996,428	12,940,607	12,917,021
Common Stock equivalents:				
Shares issuable upon exercise of options and warrants (including the weighted average for shares subject to options and warrants granted during the period)	823,140	817,448	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(317,680)	(393,498)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	63,520	-	-
	505,460	487,470	-	-
	13,552,256	13,483,898	12,940,607	12,917,021
Earnings (loss) for primary earnings (loss) per share:				
Net earnings (loss)	$ 1,448,092	$ 1,502,431	$(1,800,236)	$(4,881,860)
Dividends on cumulative preferred stocks	(75,880)	(60,000)	(60,000)	(60,000)
Dividends on Convertible, exchangeable Class C preferred stock (6.5% annually)	(743,437)	(743,437)	(743,437)	(743,437)
Earnings (loss) applicable to common stock	$ 628,775	$ 698,994	$(2,603,673)	$(5,685,297)
Earnings (loss) per share	$ .05	$ .05	$(.20)	$(.44)

PRIMARY EARNINGS PER SHARE COMPUTATION

	Year ended December 31, 1995
Net loss applicable to common stock	$(6,961,201)
Weighted average number of common and common equivalent shares (average of four quarters above)	13,223,445
Loss per share	$(.53)

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	1995 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	13,046,796	12,996,428	12,940,607	12,917,021
Shares issuable upon exercise of options and warrants	823,140	817,448	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(300,737)	(380,135)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	-	63,520	-	-
Common shares issuable upon conversion of convertible note payable	4,000	4,000	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	-	-	-	-
Series 2	-	-	-	-
	13,573,199	13,501,261	12,940,607	12,917,021
Earnings (loss) for fully diluted earnings (loss) per share:				
Net earnings (loss)	$ 1,448,092	$ 1,502,431	$(1,800,236)	$(4,881,860)
Interest on convertible note	180	180	-	-
Dividends on cumulative convertible preferred stocks:				
Series B	(75,880)	(60,000)	(60,000)	(60,000)
Series 2 Class C	(743,437)	(743,437)	(743,437)	(743,437)
Earnings (loss) applicable to common Stock	$ 628,955	$ 699,174	$(2,603,673)	$(5,685,297)
Earnings (loss) per share	$ .05	$ .05	$(.20)	$(.44)

	Year ended December 31, 1995
Net loss applicable to common stock	$(6,960,841)
Weighted average number of common and common equivalent shares (average of four quarters above)	13,233,022
Loss per share	$(.53)

LSB INDUSTRIES, INC.

PRIMARY EARNINGS PER SHARE COMPUTATION

	1994 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for primary earnings per share:				
Weighted average shares:				
Common shares outstanding from beginning of period	13,673,971	13,659,691	13,555,191	13,214,701
Common shares issued on conversion of redeemable preferred stock; calculated on weighted average basis	360	-	180	260
Common shares issued upon exercise of employee or director stock options; calculated on weighted average basis	6,833	24,846	2,549	283
Purchases of treasury stock; calculated on weighted average basis	(20,000)	(29,176)	(102,599)	(118,796)
	13,661,164	13,655,361	13,455,321	13,096,448
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)	934,807	877,794	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on average market price for the period)	(247,510)	(238,754)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	-	-
	752,417	703,800	-	-
	14,413,581	14,359,161	13,455,321	13,096,448
Earnings (loss) for primary earnings (loss) per share:				
Net earnings (loss)	$ 2,203,665	$27,254,968	$ (912,514)	$(4,078,630)
Dividends on cumulative convertible preferred stocks:				
Series B	(76,145)	(60,000)	(60,000)	(60,000)
Series 2 Class C	(747,500)	(747,500)	(745,469)	(738,531)
Earnings (loss) applicable to common stock	$ 1,380,020	$26,447,468	$(1,717,983)	$(4,877,161)
Earnings (loss) per share	$ .10	$1.84	$(.13)	$(.37)

LSB INDUSTRIES, INC. Exhibit 11.1
Page 5 of 6

PRIMARY EARNINGS PER SHARE COMPUTATION

	Year ended December 31, 1994
Net earnings applicable to common stock	$21,232,344
Weighted average number of common and common equivalent shares (average of four quarters above)	13,831,128
Earnings per share	$1.54

LSB INDUSTRIES, INC. Exhibit 11.1
Page 6 of 6

FULLY DILUTED EARNINGS PER SHARE COMPUTATION

	1994 quarter ended			
	March 31	June 30	Sept. 30	Dec. 31
Shares for fully diluted earnings per share:				
Weighted average shares outstanding for primary earnings per share	13,661,164	13,655,361	13,455,321	13,096,448
Shares issuable upon exercise of options and warrants	934,807	877,794	-	-
Assumed repurchase of outstanding shares up to the 20% limitation (based on ending market price for the quarter if greater than the average)	(247,510)	(238,754)	-	-
Common shares issuable on conversion of redeemable preferred stock, excluding shares included above on actual conversion	65,120	64,760	-	-
Common shares issuable upon conversion of convertible note payable	4,000	4,000	-	-
Common shares issuable upon conversion of convertible preferred stock, if dilutive, from date of issue:				
Series B	666,666	666,666	-	-
Series 2	-	3,956,000	-	-
	15,084,247	18,985,827	13,455,321	13,096,448
Earnings (loss) for fully diluted earnings (loss) per share:				
Net earnings (loss)	$ 2,203,665	$27,254,968	$ (912,514)	$(4,078,630)
Interest on convertible note	180	180	-	-

Dividends on cumulative convertible preferred stocks:				
Series B	-	-	(60,000)	(60,000)
Series 2 Class C	(747,500)	-	(745,469)	(738,531)
Earnings (loss) applicable to common Stock	$ 1,456,345	$27,255,148	$(1,717,983)	$(4,877,161)
Earnings (loss) per share	$ .10	$1.44	$(.13)	$(.37)

	Year ended December 31, 1994
Net earnings applicable to common stock	$22,116,349
Weighted average number of common and common equivalent shares (average of four quarters above)	15,155,461
Earnings per share	$1.46

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LSB Industries, Inc. EXHIBIT 22.1
Subsidiary Listing
Revised November 1, 1995

LSB INDUSTRIES, INC.

- Prime Financial Corporation
  - Tower IV Corporation (formerly known as LSB Leasing Corp.)
  - Northwest Financial Corporation
  - Northwest Capital Corporation
  - Northwest Energy Enterprises, Inc.
  - Tower Land Development Corp.
- LSB Holdings, Inc.
  - LSB Nitrogen Corporation (formerly known as LSB Import Corp.)
  - LSB South America Corporation
  - LSB-Europa Limited
    - Climate Mate, Inc.
  - Equipos Climatec S.A. de C.V. (97% stock ownership)
  - LSB Indonesia Corporation (formerly known as LSB Corporation)
  - Summit Machine Tool Inc. Corp.
    - Saffron Corporation
    - Explosives Equipment Corp.
      - Clipmate Corporation (20% held by Waldock and Starrett)
    - Equipos Climatec S.A. de C.V. (1% stock ownership)
  - LSB International Corp.
    - Equipos Climatec S.A. de C.V. (1% stock ownership)
  - L&S Automotive Technologies, Inc. (formerly known as L&S Automotive Products Co.)
  - Climatex, Inc.
  - Total Energy Systems Limited
    - Total Energy Systems (NZ) Ltd.
  - LSB Financial Corp.
    - Equipos Climatec S.A. de C.V. (1% stock ownership)
  - Aerobit Industries, Limited (7.98% held by Horovitz and Landsome)
  - Climate Master International Limited
  - The Environmental Group International Limited
  - ROL-BIT Ltd. (5% held by Horovitz)

CHEMICAL BUSINESS

- LSB Chemical Corp.
  - El Dorado Chemical Company
    - Slurry Explosive Corporation
  - DSN Corporation
  - Universal Tech Corporation

AUTOMOTIVE PRODUCTS BUSINESS

- L&S Bearing Co.
- L&S Automotive Products Co. (formerly known as LSB Bearing Corp.)
  - International Bearings, Inc.
- LSB Extrusion Co.
- Rotex Corporation
- Tribonetics Corporation

INDUSTRIAL PRODUCTS BUSINESS

- Summit Machine Tool Systems, Inc.
- Summit Machine Tool Manufacturing Corp.
- Hercules Energy Mfg. Corporation
  - Morey Machinery Manufacturing Corporation (formerly known as Fertilizer Equipment Corp.) (10% held by Jonathon Morey)

ENVIRONMENTAL BUSINESS

- The Environmental Group, Inc.
- International Environmental Corporation
- Climate Master, Inc.
- CHP Corporation
  - Koax Corp.
- APR Corporation

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Consent of Independent Auditors Exhibit 23.1

We consent to the incorporation by reference in the Registration Statement (Form S-8, No. 33-8302) pertaining to the 1981 and 1986 incentive Stock Option Plans of LSB Industries, Inc. and the Registration Statement (Form S-3, No. 33-69800) and related Prospectus of LSB Industries, Inc. of our report dated February 26, 1996, with respect to the consolidated financial statements and schedule of LSB Industries, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1995.

ERNST & YOUNG LLP

Oklahoma City, Oklahoma
April 9, 1996

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0000060714
LSB INDUSTRIES, INC.
1,000

YEAR	
	DEC-31-1995
	DEC-31-1995
	1,420
	0
	43,975
	2,584
	66,265
	117,344
	152,730
	66,460
	238,176
	53,096
	103,355
	1,476
	149
	48,000
	53,330
238,176	
	267,391
	274,115
	210,328
	210,328
	0
	0
	10,131
	(3,582)
	150
	(3,732)
	0
	0
	0
	(3,732)
	(.53)
	(.53)